

# BRIDGING THE ECONOMIC DIVIDE IN URBAN AREAS OF NAMIBIA

## Townships within the Local Economic Development framework



**ABSTRACT** Two decades after independence the legacy of Apartheid is still clearly visible in Namibia as towns continue to be segregated along ethnic lines. This study takes on to evaluate in how far not only urban populations are divided but also urban economies. In Gobabis, Windhoek, Luderitz and Oshakati the extent of the economic divide was assessed and the economic potential of townships evaluated. The findings show that township economies remain largely isolated. They lack political embeddedness, are mostly unorganised and show little diversity. Township businesses generally have low capacities and lack owners with entrepreneurial drive. In the decentralised government system of Namibia both central government and local authorities need to leverage existing potentials to foster inclusive Local Economic Development. At this the focus must shift from transfer-oriented policies to those that foster sustainable capacity building.

▪ **Master Thesis May 2011**  
Supervisor: Johan Berglund  
Management and Organisation

Johannes Laufs (40130)  
MSc Business and Economics  
Specialisation in Management

## Table of Contents

<b>1. INTRODUCTION .....</b>	<b>1</b>
1.1. Problem background .....	1
1.2. Research questions .....	3
1.3. Definitions and terminology .....	4
<b>2. THEORETICAL FRAMEWORK .....</b>	<b>5</b>
2.1. Urbanization and vigorous cities .....	5
2.2. Agglomeration economies .....	6
2.3. The notion of network gains .....	8
2.4. Local embeddedness .....	10
2.5. Entrepreneurship and productive firms .....	11
2.6. Base of the Pyramid Markets .....	13
2.7. Laissez-faire vs. intervention .....	16
<b>3. LITERATURE REVIEW NAMIBIA .....</b>	<b>17</b>
3.1. National strategy and policy formulation .....	17
3.2. Post-colonial economic empowerment .....	19
3.3. Characteristics of the SMME sector .....	20
3.4. SMME impact on national growth .....	21
3.5. Hindrances to development .....	22
3.6. Support initiatives .....	23
<b>4. METHODOLOGY .....</b>	<b>24</b>
4.1. General approach .....	24
4.2. Case study assessment .....	25
4.3. Survey design and sample .....	26
<b>5. SURVEY RESULTS .....</b>	<b>27</b>
5.1. Aggregated results .....	27
5.1.1. Business types .....	27
5.1.2. Entrepreneurs .....	30
5.1.3. Growth ability .....	30
5.1.4. Role of Local Authority .....	32
5.2. Gobabis: Small town in the East .....	33
5.2.1. Local framework conditions .....	33
5.2.2. Challenges to business development in Epako and Nossobville .....	35

5.2.3.	Economic potentials .....	38
5.3.	Windhoek: Capital city of Namibia .....	39
5.3.1.	Local framework conditions .....	39
5.3.2.	Challenges to business development in Katutura and Khomasdal .....	43
5.3.3.	Economic potentials .....	45
5.4.	Luderitz: Harbour town in the South .....	48
5.4.1.	Local framework conditions .....	48
5.4.2.	Challenges to business development in Benguela and Nautilus.....	50
5.4.3.	Economic potentials .....	53
5.5.	Oshakati: Population centre in the North.....	54
5.5.1.	Local framework conditions .....	54
5.5.2.	Challenges to business development in Oshakati West.....	57
5.5.3.	Economic potentials .....	59
6.	<b>CRITICAL DISCUSSION</b> .....	61
6.1.	Determinants of the divide .....	61
6.2.	Sleeping giants or white elephants? .....	64
6.3.	The nature of township entrepreneurs .....	66
6.4.	Connecting the dots.....	69
7.	<b>IMPLICATIONS FOR GOVERNMENT AUTHORITIES</b> .....	73
7.1.	Central Government .....	73
7.2.	Local Authorities .....	77
8.	<b>CONCLUDING REMARKS</b> .....	82
	<b>LIST OF REFERENCES</b> .....	84
	<b>LIST OF APPENDICES</b> .....	90

## List of Abbreviations

<b>BoP</b>	Base of the Pyramid
<b>CBD</b>	Central Business District
<b>CBO</b>	Community Based Organisation
<b>GIZ</b>	German Corporation for International Development
<b>GRN</b>	Government of the Republic of Namibia
<b>HDN</b>	Historically Deprived Namibian
<b>IS</b>	Informal Settlement
<b>JCC</b>	Joint Consultative Committee
<b>LA</b>	Local Authority
<b>LaRRI</b>	Labour Resource and Research Institute
<b>LED</b>	Local Economic Development
<b>MoF</b>	Ministry of Finance
<b>MRLGHRD</b>	Ministry of Regional and Local Government, Housing and Rural Development
<b>MTI</b>	Ministry of Trade and Industry
<b>NamBIC</b>	Namibia Business and Investment Climate Survey
<b>NCCI</b>	Namibian Chamber of Commerce and Industry
<b>NDC</b>	Namibia Development Corporation
<b>NDP</b>	National Development Planning Framework
<b>NEC</b>	Namibia Enterprise Census
<b>NEPRU</b>	Namibian Economic Policy Research Unit
<b>NISO</b>	Namibia Informal Sector Organization
<b>PEG</b>	Partnership for Economic Growth
<b>RoN</b>	Republic of Namibia
<b>SDFN</b>	Shack Dweller Foundation Namibia
<b>SMEs</b>	Small and medium enterprises
<b>SMMEs</b>	Small micro and medium enterprises
<b>SWAPO</b>	South-West Africa People's Organisation
<b>TS</b>	Township

## Acknowledgements

I want to express sincere thanks to all individuals and organisations that have made this study possible. First of all I thank my tutor Johan Berglund at Stockholm School of Economics for his valuable guidance throughout the study. Further I thank the German Corporation for International Development (GIZ), which has facilitated the field research in Namibia over the period of four months. Special thanks go to Harald Richter, who has guided the process at GIZ in Namibia. Eventually I want to express my gratitude to all experts who have provided valuable information during interviews. These are Eckard Schleberger, Sam Gaiseb, Klaus Schade, Veripi Kandenge, and André Plaatjie. Further I thank the officials who provided information in the surveyed towns, of which I want to name Festus Marenga, Claudius Kaverua and Fidelis Kabozu in particular due to their comprehensive assistance.

# **1. INTRODUCTION**

## **1.1. Problem background**

“We need to do away with structures like Katutura in a capital city like Windhoek as well as elsewhere in a then colonialist and now independent Namibia” Emanuel Muatara, 2011

Taking a global perspective on the Republic of Namibia one encounters a country that classifies as a middle-income country showing political stability and steady progress in economic development. The country arguably ranks among the economically most developed African countries showing GDP figures that repeatedly exceeded target values throughout the last decade as well as increasing export rates of diamonds and other minerals. For the year 2011 a per capita GDP of US\$ 5.559 was forecasted (IMF, 2010).

As promising as the economic growth figures are, as alarming are those of prevailing economic disparities. The Gini-Coefficient of 0.67 indicates that Namibia is one of the most unequal societies worldwide. In fact, 10 percent of the population receive 50 percent of the country's income, whereas 28 percent, mostly black inhabitants, are considered poor. In one aspect the causes of this divide significantly differ from comparable situations in other countries. As commonly argued, the country's history is a main factor for the continuing divide. After 29 years of German colonial rule, Namibia was taken under the administration of South Africa in 1915. In the following decades the South African authorities furthered the ethnic separation that had already been implemented by the German colonial force, as they were in line with their own policy that was to become known as Apartheid. Within the following decades, towns were divided into separate residential areas for whites, blacks and coloureds. Interaction among these groups was strictly regulated and the ruling white minority prohibited economic activity of black and coloureds, who merely served as unskilled labourers. Only in 1988 withdrew South Africa from Namibia, which got its first democratically elected government at independence in 1990.

But also without the legal enforcement thereof, townships continue to exist not only physically but also in terms of ethnic segregation. Only partial integration has taken place since independence. The characteristics of townships today, such as relatively cheap property prices and widespread informal networks, attract the vast majority of those who migrate from rural to urban areas. As a consequence has not only the township population

increased, but also did informal settlements with basic shack accommodation emerge around them in many towns. Due to their combined formal and informal development, townships do not fully compare to what is known as slums in many other countries. All townships feature proper, though basic, housing and services like water, electricity and sanitation are provided. Only the social and economic characteristics, such as widespread unemployment and high crime rates, compare to slums in countries that have not experienced Apartheid. (Aliber et al, 2006) (EC, 2007)

It is commonly argued that Namibia's history is a main factor for the emergence of two economies. On the one hand, there is the formal economy, which in many towns is dominated by medium and large businesses of white owners. On the other hand there is a larger informal economy consisting of unregistered small and micro businesses, most of which have black owners. The exact number of businesses, in absence of a Namibian business census, is unknown. During the two decades of independence the situation for the black population has improved. Now officially having the right to run businesses and engage in jobs other than unskilled labour, a new class of wealthy blacks has emerged. (LaRRI, 2002) Nevertheless, a large and growing informal sector remains. The vast majority of micro and small enterprises struggles to formalize and graduate into non-SMMEs (Arnold et al., 2005). Typically the highest concentration of informal and small-scale businesses is to be found in and around townships, as these areas are less developed and largely inaccessible for bigger investors. Pointing at this divide the European Commission (EC, 2007, p. 14) states that "Namibia represents a typical dualistic economy where abject poverty exists alongside extremes of wealth. [...] The economic and geographical dualism, partly a legacy of the country's Apartheid era, poses one of the biggest challenges to the fight against poverty in Namibia."

In addition to the legacy of the past current population growth figures constitute a major challenge. As several studies display, the country's population grows faster than its economy and especially urban areas face the challenge of rapid inward migration despite a lack of the necessary infrastructure. (Aliber et al., 2006; Hansohm, 2000) According to the last population census (NPC, 2003) already 33 percent of Namibia's population was living in urban areas in 2001 and with a forecasted urbanization rate of 6.4 percent (UN-HABITAT,

2010), the third highest in all of Africa, more than half of Namibia's inhabitants will be living in urban areas by 2030. (EC, 2007; IMF, 2010; World Bank, 2011).

Currently the aims of poverty alleviation and economic growth are pursued largely independent of each other in Namibia. While the former includes the provision of basic services and the upgrading of housing, the latter is targeted on the country's major industries. Despite the benefits of economic growth it is crucial to acknowledge that "economic growth and poverty alleviation are different; the former relates to aggregate value added and the latter to its distribution" (DCED, 2009, p. 30). Whereas past research has largely focused on income disparities and opportunities for Local Economic Development (LED), there is need for a better understanding of the relationship between the two aspects. In particular it must be assessed in how far current population dynamics and urban structures cultivate an unequal distribution of economic opportunities. There is gap in literature concerning the role of townships within the context of Local Economic Development.

## **1.2. Research questions**

In light of the outlined problem background, this study is aimed at evaluating in how far the systematic segregation of the past influences the economy in Namibia today. More specifically, it is to be analysed whether artificially created barriers do not only continue to segregate urban populations but also urban economies. On the level of individual towns the economic integration shall be assessed, focusing on the identification of factors that lead to opportunity asymmetries and so-called poverty penalties. Along this line of thought this study will focus on the following set of questions:

- What are the main characteristics of township economies in Namibia?
- To what extent are townships economically separated from Central Business Districts?
- What are the leverages for more inclusive Local Economic Development?

A comparison of the economy in selected localities is to provide hints at the very factors that facilitate and hinder large parts of the urban populations to partake in the economic growth. It is to be shown in how far henceforward disadvantaged economic sectors show inherent potential that can be leveraged and in how far existing barriers lead to market failures requiring concrete intervention. Building on previously undertaken research, this study

includes a detailed evaluation of the inherent potential of SMMEs in the townships. This is in line with the recommendations of the Namibian Institute for Public Policy Research which highlight that future research should “collect information on entrepreneurial potential and characteristics, such as motivations, business attitudes, risk taking and awareness” (Arnold et al., 2005, p. 59).

### **1.3. Definitions and terminology**

In order to provide a sound understanding of the Namibian context, it is necessary to distinguish between the ethnic backgrounds of the country’s inhabitants. The terminology that has evolved throughout the past century is complex. Within this paper three terms will be used when referring to individuals of different ethnic backgrounds. When referring to individuals of European origin, the term “whites” is used whereas “blacks” encompasses those who are indigenous to Africa. Whenever there is a reference to a group of individuals with both European and African ancestry, the term “coloureds” will be used. This terminology does not account for the far more complex reality in which many exceptions to each category exist, but it reflects the terminology used officially as well as in prevailing literature. (Pendleton, 1996)

“Township”, whenever mentioned in the following, refers to an area of residential concentration that was created during the time of Apartheid in an effort to relocate blacks and coloureds from the town centres. In most cases two separate townships were created at a distance of several kilometres from the actual town centre. As in the official use of the term, townships do not include informal settlements. These areas came into existence after Apartheid and typically are agglomerations of shacks built by rural-urban migrants. Due to their informal characteristic and the fact that they are most often located on undeclared land in immediate proximity to the townships, they are also referred to as peripherization. (UN-HABITAT, 2008)

When referring to individuals that engage in economic activity, the terms entrepreneur and business owner are used interchangeably. This is a simplification insofar as not all business owners qualify as true entrepreneurs. Especially in the context of townships large parts of the local business community are made out by vendors and distributors. Nevertheless this



distinction is not made in order to facilitate an unbiased assessment of the economic potential of townships.

Lastly, the abbreviation SMME is used in reference to small, medium and micro enterprises. It must be noted that in Namibian literature frequently the abbreviation SME is used in regard to small and micro enterprises. This use of the acronym differs from that in international literature where SME stands for small and medium enterprises. As far as this study is concerned, only the abbreviation SMME is meant to include micro enterprises.

## **2. THEORETICAL FRAMEWORK**

### **2.1. Urbanization and vigorous cities**

As introductorily described, in Namibia the challenge of rapid urbanisation meets the legacy of a systematically segregated past. The question remains how, under these circumstances, vigorous cities with competitive economies can emerge on the long-run.

Jacobs (1969) argues that a main factor for the emergence of cities is the development of industries. Embryonic cities grow when firms evolve from being local suppliers to being exporters of goods and services. The more firms specialize the more divisions of labour emerge, attracting inward migrants from surrounding regions. If this growth is to be sustained exports from the urban areas must exceed the level of imports and new products must replace old ones. Predicting the nature of future cities back in 1970, Jacobs elaborates: "The cities will not be smaller, simpler or more specialized than cities of today. Rather they will be more intricate, comprehensive, diversified, and larger than today's, and will have even more complicated jumbles of old and new things than ours do." Importantly she continues to state that the "bureaucratized, simplified cities, so dear to present-day city planners [...] run counter to the processes of city growth and economic development." (Jacobs, 1969, p. 250) According to the Chamberlinian theory, economic diversity is directly correlated with city size. A greater variety of available products and services leads to a better livelihood, which in turn increases the productivity of the community as a whole. Thus growing cities find themselves in a circle of increasing diversity and productivity. (Chamberlin, 1993; UNECA, 2007)

But especially developing countries struggle to foster economic diversity since the economic return to mimicking successful ideas is especially high and too little entrepreneurial activity

takes place (Quigley, 2007). Urbanisation alone is no guarantee for sustainable economic development and improved livelihood. (Fay & Opal, 2000) As Starrett (1974) notes, urbanization can actually put business and residents in disadvantaged positions as competition for space occurs and prices rise. Recent studies have argued that urbanisation in African countries has shown pathological patterns as urbanization rates are extraordinarily high but do not seem to be accompanied by economic growth. Partly this can be explained by the difficulty to correctly measure the informal economy, which usually dominates the economy in informal residential areas. As put forward in the State of the World's Cities Report 2010/2011, informal shantytowns "are actually clusters of economic activities that are linked through both formal and informal networks" (UN-HABITAT, 2008, p. 28).

The same report highlights that economic urban divides are a phenomenon that merits increased attention by researchers and policy makers across the world. A relevant notion is that inequalities are not exclusively linked to differences in income, but also "reflect entrenched patterns of urban development and ownership of physical space" (UN-HABITAT, 2008, p. 82). In cases where parts of the urban population are physically isolated from the central urban area, there is no equal distribution of opportunities. When poor residents are socially and spatially separated from their rich counterparts they are commonly argued to find themselves in a so-called poverty trap (UN-HABITAT, 2008, p. 83). Important implications for governments can be drawn from the observation that spatial divides frequently not only coincide with cultural divides, but often are also of political nature. As is stated in the report, spatial divides can be a by-product of inefficient land and housing markets, ineffective financial mechanisms or poor urban planning. For these reasons, divides often remain regardless of the obstacle to economic development they constitute and the development of vigorous cities is hindered. (UN-HABITAT, 2008)

## **2.2. Agglomeration economies**

The debate on the most efficient framework conditions for business development has evolved over the period of more than a century. One of the theories with most impact on policy making is that of agglomeration economies. Pioneered by A. Marshall (1890) this theory proposes that increased urbanization and the geographical concentration of businesses leads to benefits for society and enterprises. Most importantly, agglomeration

leads to the reduction of three types of transport costs. These are the costs of moving goods, people and ideas.

The reduced costs of moving goods are commonly referred to as input externalities of agglomeration. With increasing concentration of businesses it becomes more attractive for input suppliers to locate in proximity. In a similar manner the cost of labour decreases as firms have access to shared labour pools. Typically clusters attract workers with specialized knowledge and skills, so that it becomes easier for businesses to recruit qualified personnel. Lastly, agglomerations facilitate knowledge spillovers. Referring to the latter Marshall (1890, p. 271) famously cited that the “mysteries of the trade become no mysteries; but are as it were in the air”. He continues stating that “if one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes the source of further new ideas.” These benefits of agglomeration potentially lead to a situation in which the level of innovation increases and economies of scale occur. Society, in turn, benefits from increased diversity and lower prices. Lastly, public and private investment in a certain locality leads to significant improvements in infrastructure, which not only facilitates business development but also improves the quality of life among residents.

Weber (1909) further investigated in which environments agglomerations most easily develop, finding that manufacturing units typically cluster around areas with access to the required inputs. Christaller (1935) and Lösch (1944) subsequently introduced the Central Place Theory outlining that industry aligns itself with existing patterns of residential areas and resources. Also more recently leading economists have discussed the advantages of agglomerations. Porter’s definition of a cluster (1998; 2000) as “a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities” mirrors what Marshall defined as agglomeration economies a century earlier. Porter (2000) further proposes that lower transaction costs not only lead to individual savings of firms, but they are the root of competitive advantages for the cluster as a whole when organised efficiently. Scott (1998) states that many transaction costs are indeed defined by spatial distances and are thus lower in clusters. Fujita et al. (1999) analyse shipping costs in particular and find them to be lower within clusters.

Further proof for the Central Place Theory is provided by Porter (1990), who emphasizes that innovation is enhanced through knowledge flows along the value chain from suppliers to producers and customers. The proximity of these three parties facilitates a better alignment

of production processes with customer needs. Along a similar line of thought, Glaeser & Kerr (2009) argue that companies must trade-off distances where customers and producers are geographically separate. Johansson and Quigley (2005) distinguish between backward linkages and forward linkages in agglomerations. Whereas backward linkages refer to the earlier discussed input externalities between producers and suppliers, forward linkages occur where products and services are delivered to nearby customers. The authors conclude that agglomerations provide incentives for firms with both backward and forward transaction costs to co-locate.

When it comes to knowledge spillovers, economists distinguish between two different hypotheses of the model. (Baptista, 1998; Glaeser et al., 1992) Firstly, knowledge spreads among businesses that operate in the same industry, regardless of whether they are located in larger or smaller agglomerations. However, spillovers can also occur across industries, especially in larger urban areas where industrial diversity is usually higher than in smaller agglomerations. (Jacobs, 1969) Also Quigley (2007) observes that diversity within agglomerations is beneficial as the decisions of imperfectly correlated businesses can function as a form of a natural insurance. Quigley accordingly distinguishes between localization economies, agglomeration within an industry, and urbanization economies, which are agglomerations across industries.

### **2.3. The notion of network gains**

Despite the widespread recognition of agglomeration benefits, literature provides evidence that similar benefits can be achieved without geographical concentration. As Johansson and Quigley (2005, p. 2) state, “networks among economic actors dispersed over space may act as a substitute for agglomerations of actors at a single point, providing some or all of the utility gains and productivity increases derived from agglomeration.” It is argued that in cases where economic, political or technical reasons hinder spatial proximity, external benefits can still be realised. If economic actors link up through agreements on their transactions, the cost thereof decreases. The possible array of linkages reaches from backward linkages with suppliers, to forward linkages with customers and even to linkages with competitors and technology partners. (Altenburg, 2000) Linkages can involve physical networks or intangible economic networks. (Williamson, 1975) Whereas the former exist mostly between larger corporations in form of product assembly networks, the latter consist of transaction agreements between any type of economic actors reducing the costs of

sourcing, negotiation, contracting, legal advice or documentation. The longer the period of time for which the linkage is set up or the more intensively the linkage is meant to be used, the higher the benefits are. The sunk costs of establishing the network function as incentive to make intensive use of it. (Williamson, 1979) When firms belong to the same network of transactions, knowledge diffuses easily, especially when the networks include spillover mechanisms in their designs. One example are franchising agreements, which allow to significantly reduce the costs for all entities involved and facilitate mutual learning processes. (Johansson & Quigley, 2005) As Polenske (2002) argues, the notion of network gains provides firms with the opportunity to make location decision according to the highest advantages, be it either through co-location or spatial separation.

At this the theory of network gains significantly differs from agglomeration theory. Whereas agglomeration only applies to proximity markets that are usually found in urban areas, networks can include economic players dispersed over space and importantly also connect different urban areas.

In the context of entrepreneurship in developing countries, linkages between SMMEs and transnational corporations are of particular importance. Altenburg (2000) elaborates on how small local economic players can engage with larger, especially multinational, corporations. Possible transaction agreements include strategic alliances, joint ventures and licensing agreements. Whereas Direct Foreign Investment (DFI) of transnational organisations can pose a threat to local entrepreneurs, especially those in underdeveloped markets, it can also have positive effects. Investment of transnationals increases competition and introduces more aggressive marketing strategies, forcing existing market players to reorganize and become more efficient. Altenburg further argues that transnationals have a high interest in partnering with smaller local firms. Backward linkages, such as outsourcing to suppliers, can lead to productivity gains and factor-cost advantages (especially when suppliers operate in the informal economy). They can also entail increased flexibility through short term contracts during demand peaks or through the ability to quickly change the mode of production. In her policy research paper at the World Bank Smarzynska (2002) stresses that there is no evidence that DFI alone leads to productivity gains for local firms. Only through the establishment of backward linkages can productivity spillovers occur. For SMMEs these linkages lead to capacity and productivity gains but also to a significant dependence on the economic performance of their partners.

According to Altenburg (2000) three factors are necessary to facilitate linkages between investing transnationals and smaller local firms. Firstly, local firms must have the potential to meet the standards required by the transnationals. Secondly, the strategy of the transnational enterprises must provide space for linkages of the discussed type. Lastly, and arguably most importantly, public policies must be aimed at encouraging the linkages. In developing the opportunities for backward linkages are often limited by low levels of industrialisation. Transnationals consequently tend to engage in long-term relations with few medium enterprises, which offer better reliability than small enterprises. More frequently transnationals establish forward linkages, such distribution networks and after-sales services. This allows incoming enterprises to quickly and efficiently enter new markets with little direct investment. Local firms benefit as forward linkages are frequently linked to services such as training and marketing which the investing company offers in order to maintain a certain level of standards and homogeneity. The concept of franchising is rapidly spreading not only in industrialized but also in developing countries. Other examples include training provided by suppliers of technical equipment who have an interest in developing new markets. (Altenburg, 2000)

#### **2.4. Local embeddedness**

A further theory highlights that the existence of networks and agglomerations alone is no guarantee for sustainable local economic development. As originated by Granovetter (1985; 1992a; 1992b) the concept of local embeddedness is based on the notion that decisions about interaction between economic players are embedded in a wider framework than assumed in neo-classical literature. In its original meaning the concept of local embeddedness states that economic players can be embedded socially. In this sense, social obligations and interests can limit economic rationality, as they are often valued more than pure business interests. This could for example manifest in form of customers that cannot be rejected because they are part of the social environment of the business owner. On the positive side social embeddedness allows economic interaction to be based on patterns of trust, which can replace the need for contractual agreements. Zukin and DiMaggio (1990) further added that embeddedness can as well be of political or cultural nature. Political embeddedness concerns laws, regulations and policies that shape the way economic actors are empowered. Cultural embeddedness, in contrast, refers to the collective understanding of the local community about core values that shape economic activity. In this context

Kennedy (1988) identifies the cultural obligation to employ family members, which is common in African cultures, as a potential constraint on business development. Dicken et al. (1994) discuss the additional parameter of spatial embeddedness, stating that all economic activity takes place within networks, which in turn are embedded spatially. The presence of firms benefits a locality less when they are spatially embedded in networks that stretch across towns, i.e. suppliers and customers are located outside the locality.

The theory of local embeddedness has important implications for local authorities and policy makers. The less locally embedded a firm is, the less benefit it brings to the local community. Decision makers must therefore foster the local embeddedness of firms and whole value chains.

## **2.5. Entrepreneurship and productive firms**

In the context of the above discussed theory, it becomes apparent that economic growth cannot occur without a strong base of local entrepreneurs. But which factors facilitate individuals to start their own ventures instead of seeking employment and which factors determine the likelihood of success? Helmsing<sup>1</sup> identifies three origins of local entrepreneurs. Firstly, personal relations with existing entrepreneurs, especially within families, are seedbed for further entrepreneurship. Secondly, spin-off effects occur when former wage employees seek to become independent. Lastly, a vast number of individuals, who cannot find employment, become entrepreneurs, may it be out of pure necessity or in sight of a particular opportunity. At this point literature distinguishes between so-called opportunity entrepreneurs and necessity entrepreneurs. Only opportunity entrepreneurs, i.e. those that have identified certain market needs, are seen to have significant growth potential as only they would benefit from a growing economy. Necessity entrepreneurs, in contrary, are likely to emerge and vanish counter-cyclical. (Aliber et al., 2006) As the distinction between push and pull factors for entrepreneurship have limited implications for business success, Baumol (2010) distinguishes between replicative and innovative entrepreneurship. Arguably the latter group has most positive impact on economic growth since innovation facilitates the emergence of diverse economic agglomerations and networks. Glaeser and Kerr (2009) analyse the determinants that cause some areas to

---

<sup>1</sup> Helmsing, B. (Professor of Local and Regional Development, ISS Erasmus University Rotterdam), Presentation on Local Economic Development at the LED Pathfinders Conference; Windhoek, Namibia (02.03.2011)

feature more entrepreneurship, especially in manufacturing, than others. Besides the discussed effects of economic agglomeration, they list demographics, natural cost advantages entrepreneurial cultures as contributing factors. Demographics are important as young ventures require certain types of employees. When it comes to the entrepreneurs themselves, it is observed that especially older and better educated individuals tend to pursue self-employment. Natural cost advantages exist when a locality benefits from a natural environment that facilitates certain industries. In the context of cities these advantages are not limited to traditional advantages, such as coastal access, but also include factors like “average manufacturing wages, education levels, population densities, and income shares.” (Glaeser & Kerr, 2009, p. 635) The notion of entrepreneurial cultures, in which existing entrepreneurs inspire large numbers of other individuals to start their own ventures, appears also in other literature, e.g. in the famous studies of Hofstede (2001). Once an entrepreneurial culture has developed, specialised educational institutions, financiers and legal advisors settle in the respective area. (Glaeser & Kerr, 2009) Also the returns to taking risk and failure becomes less stigmatised. (Landier, 2006)

Nevertheless, a conducive environment for entrepreneurship alone is only a precondition for economic growth and development, not a guarantee. Several theorists have analysed the link between entrepreneurship and firm productivity. As commonly argued, labour is one of the most important inputs into a new venture, determining its likelihood to become successful on the long-run. (Combes & Duranton, 2006) The larger the available labour pool, the more efficiently can entrepreneurial ventures match new hires with their needs (Helsley & Strange, 1990) Also innovation, arguably a crucial contributing factor to entrepreneurial success, is strongest in areas where distances between firms are short enough for spillovers to occur. (Rosenthal & Strange, 2003) Taking into consideration the various factors that influence the productivity of firms, Kitson et al. (2004) developed a model depicting six crucial types of capital, namely productive capital, human capital, institutional capital, cultural capital, infrastructure, and creative capital (appendix I). Robbins<sup>2</sup> emphasizes that path dependence is an additional factor as legacies of the past potentially influence entrepreneurial productivity.

---

<sup>2</sup> Robbins, G. (Researcher at University of KwaZulu-Natal, Durban, South Africa) Presentation on Local Economic Development at the LED Pathfinders Conference; Windhoek, Namibia (03.03.2011)



Certain characteristics of a local economy can constitute significant hindrances to firm development and therewith to the overall development of the locality. Helmsing names undifferentiated products and services, high price based competition, price sensitive low-income consumers, poverty sharing, and low levels of investment as main hindrances. These issues have particular significance in for urban areas in developing countries. Where poverty prevails, it is crucial that small local firms are able to link up with larger corporations coming from the outside. Moreover, it must be noted that the rates of entrepreneurship are not reflected in the number of economically active individuals. Karnani (2008, p. 50) infers from empirical evidence that the “majority of the poor lack the skills, vision, creativity and drive of an entrepreneur.” As a consequence these businesses have little potential and often operate in environments with too much competition and meagre earnings. These findings are less surprising than they might seem as the poor are more often than not driven into self-employment by poverty.

## **2.6. Base of the Pyramid Markets**

If entrepreneurship, networks and urban agglomerations are to be fostered, there is need for a better understanding of the underlying markets. Most of the above outlined theories have evolved in Western countries following growing trends of industrialization. Little is known, however, about how accurately these theories can describe the development process in countries that are less developed and show slow or stagnant industrial growth.

Throughout recent decades researchers have taken on the challenge to determine the potential of markets in predominantly poor areas. The notion of Base of the Pyramid (BoP) Markets, pioneered by the works of Prahalad (Prahalad & Hammond, 2002; Prahalad & Hart, 2002; Prahalad C. , 2006) reflects the observation that there are extensive untapped markets among the poorest part of the world’s societies. It is claimed that globally a total of up to US\$ 4 trillion remains untapped due to the constraints that informality and poverty put on entrepreneurs. In Africa alone this number is estimated to be US\$ 429 billion with consumers at the Base of the Pyramid making out 71% of total purchasing power. (Hammond et al., 2007)

Despite their vast potential, Base of the Pyramid Markets generally are inefficient. So-called Base of the Pyramid penalties limit the purchasing power of consumers as these face high

transport costs and have little access to market information. As BoP markets are often found in areas spatially segregated from the Central Business Districts, their infrastructure is commonly underdeveloped. Leading theorists believe that small local firms only inefficiently cater for the needs of the poor and propose that free private-sector competition can transform reduce poverty penalties that result from inefficient distribution systems. (Garforth, 2007) Along with a growing interest in this topic, various studies focus on assessing the lives of the poor and their consumption patterns (Banerjee & Duflo, 2007; Viswanathan & Rosa, 2009; Weidner et al., 2010). Guesalaga and Marshall (2008) find that 76.9 percent of the African population can be defined as BoP consumers. These consumers spend most of their limited income on food and energy, whereas household, health and transport expenses rise only with increasing income.

International firms that target BoP markets frequently follow the market development imperative. This implies product and service innovation, skills training, and the education of customers. (Prahalad C. , 2006) Literature underlines that BoP markets should only be entered in co-operation with local economic players (Farrell, 2004), at which ownership must remain local (Hart & Sharma, 2004). In fact there is an increasing recognition of the potential of collaboration between local, frequently informal, firms and larger, often foreign, corporations. (Prahalad & Hammond, 2002) Such ventures can be based on the principle of co-creation, all parties are involved in concept design, external participation, the catalyst for the venture is external to the BoP market, or patient innovation, where the investor has a long-term orientation being willing to scale without seeking quick returns. (London, 2007) If guided with the right sets of policies, these co-operations can align the profit orientation of external firms with socio-economic benefits of the recipient community. (DCED, 2009) Evidence suggests that there is a growing trend of cross-sector collaboration as not only private firms explore the opportunities, but also non-profit organisations and the development community. (Gardetti, 2007; UNDP, 2008)

BoP business models are seen to have three broad categories: Buying from BoP ventures, distributing through BoP ventures, and selling directly to BoP-consumers. (Nelson, 2007, p. 145) Additionally not only end consumers but also small and micro enterprises are potential customers for multinational corporations (Jenkins & Ishikawa, 2009). More generally low-income markets are often cited to fall into the two categories of BoP-as-consumer ventures

and BoP-as-producer ventures. (London, 2008) Predominant literature suggests that BoP collaboration can only be successful when the new networks are socially embedded, i.e. they “create a web of trusted connections with a diversity of organizations and institutions, generate bottom up development, and understand, leverage, and build on the existing social infrastructure” (London & Hart, 2004, p. 164). In this regard investing firms benefit from the provision of skills trainings and education to their smaller, local partners. It both provides the investing firms with long-term growth prospects and increases their acceptance in the local community. (Jenkins & Ishikawa, 2009)

Nevertheless, increasingly BoP literature is criticised for putting the main focus on entry strategies for multinational firms, leaving out the discussion about how mutual value with local firms can be created. (London, 2008) Also there is little research assessing the constraints that keep local producers from engaging in vital co-operation with incoming investors. According to first studies on this issue, constraints are either productivity constraints (limited access to raw material, financial resources and production resources) or transactional constraints, such as limited market power and security. (London et al., 2010). In light of the various constraints London (2009) initiated a discussion on more efficient impact assessment frameworks, showing how customers, local sellers and the community are affected by BoP ventures. In particular, London (2007) criticises that too little is known about the extent to which the development of low-income markets can alleviate poverty. Along a similar line of thought Karnani (2008) argues that BoP theory is based on wrong assumptions about consumers and states that the “neo-liberal approach looks to the private sector for the solution to the failure of public services.” (Karnani, 2008, p. 52) He suggests that instead of providing low-income consumers with more consumption choice, the real income must be raised by buying from micro and small local enterprises. This argument coincides with the recognition of BoP-as-producer ventures. (Karnani, 2009)

Despite the fact that BoP theory still has a bias towards making markets accessible for large multinationals, the notion of low-income markets has created a great development potential for governments and the development community. As mentioned by Prahalad (2004), the poor are resilient and creative entrepreneurs and market development at the Base of the Pyramid will create “millions of new entrepreneurs at the grass roots level” (Prahalad C. ,

2006, p. 1) Also Altman et al. (2009) see the poor not only as potential consumers but also as future entrepreneurs.

## **2.7. Laissez-faire vs. intervention**

Before the background of urban economies and the related theory, central and local governments must create a conducive environment for business development, carefully balancing the reliance on market dynamics with intervention measures where markets fail. But just how much must policies be designed to intervene without hindering overall economic growth?

In view of the vast informal economies in developing countries, the UN-HABITAT report on the state of the world's cities (2008, p. XIV) notes that it is the responsibility of local authorities to "adjust laws and regulations to lower the costs and increase the benefits for those willing to formalize their businesses". It is further proposed that the authorities should "provide assistance to small enterprises, enabling them to upgrade skills and improve access to both productive resources and market opportunities. Similarly Bruton (1998) proposed that governments must facilitate a learning process instead of protecting infant industries from competition. The discussion of a laissez-faire approach versus intervening political guidance is a longstanding one. Altenburg (2000) argues that restrictions, such as the limitation of Foreign Direct Investment (DFI), frequently have negative consequences for economic development. Especially regulations that require local sourcing, joint ventures and technology-licensing frequently prove to do more harm than good. Nevertheless, DFI alone does not necessarily lead to sustainable growth since knowledge and technology spillovers do not occur automatically. (Lall & Teubal, 1998) Proponents of government intervention argue that the neoclassical assumptions of perfect competition and efficient markets for labour, information and capital are often unrealistic. (Hirschman, 1958; Woodward, 1996) Thus, each government must assess the degree to which market intervention can help to unlock untapped potential of disadvantaged economic players. On a balance it is important not to replace market failure with government failure<sup>3</sup>. In best case support initiatives are undertaken in close co-operation with private-sector organisations in order to increase their efficiency and demand orientation. According to Lall (1995), types of intervention can reach

---

<sup>3</sup> Robbins, G. (Researcher at University of KwaZulu-Natal, Durban, South Africa) Presentation on Local Economic Development at the LED Pathfinders Conference; Windhoek, Namibia (03.03.2011)

from open-door policies with support measures mainly targeting framework conditions to a more selective target and guide-policy, which foresees the direct promotion of promising SMEs. According to Altenburg (2000), policies can target three main areas: the performance improvement of local SMEs, the attraction of DFI, and the facilitation of linkages between local and external economic players.

Lastly, it is important to note that economic policy alone cannot create an enabling environment for business development. Instead it must be implemented within the right framework of urban planning measures. As stated in the UN-HABITAT report, the particular ways “cities are planned, designed and built says much about what is valued there, and planning processes can either help or hinder development of opportunities for all.” (UN-HABITAT, 2008, p. 90) Garforth et al. (2007) have observed that especially governments of countries with a colonial history in the 20<sup>th</sup> history assumed the role of central planner and investor. Notwithstanding, some theorists call for a paradigm shift in development strategies, turning from the creation of an enabling environment to the engagement of international business. It is argued that only few of all small enterprises are based on promising business plans so that the potential effect of enabling environments is limited. Only when local firms engage in mutually beneficial co-operations with external investors can a strong base of local entrepreneurs emerge. (Fitch & Sorenson, 2007) If governments encourage this process markets would become more efficient and small businesses would no longer be restraint by poverty penalties. (Karnani, 2009)

### **3. LITERATURE REVIEW NAMIBIA**

#### **3.1. National strategy and policy formulation**

The presented theory has shown both the potentials and the challenges of Local Economic Development. In particular it has made clear that governments of developing countries have the responsibility to foster industrialisation, entrepreneurial capacity and business-linkages. It is now to be evaluated how efficiently the Government of the Republic of Namibia already promotes these developments in general and in response to urban economic segregation in particular.

In its so-called Vision 2030 the government states its objective to transform “Namibia into an industrialized country of equal opportunities, which is globally competitive, realizing its

maximum growth potential on a sustainable basis, which improved quality of life for all Namibians” (GRN, 2004, p. 65) Whereas the vision remains rather general, it is implemented through five-year National Development Plans (NDPs). These, in turn, are made operational through the annual budgeting process. Currently the Third National Development Plan NDP3 is being implemented and focuses on accelerated economic growth. While NDP2 targeted an increased impact of SMEs on the GDP, NDP3 highlights the importance to “increase access to economic opportunities and resources to previously underserved groups” (GRN, 2008, p. 9) In particular the costs of starting and doing businesses shall be decreased and fair competition be ensured for SMEs. Furthermore, there is a focus on fostering so-called Smart Partnerships between public, private and civil society organisations.

Due to the decentralisation, implemented on basis of the Decentralisation Policy and Enabling Act (Act No. 33 of 2000), responsibility for economic development is shared across three tiers of authorities in Namibia. It lies within the responsibility of the central government to set the general framework conditions like conditions for in- and outgoing investment. The Foreign Investment Code stresses that inbound investment is to be encouraged but must not crowd out local entrepreneurs operating in the SME sector. On national level the Local Economic Development White Paper is the only document providing direction for LED activities. In section 5.3 it specifically outlines the importance of SMEs and the informal sector as drivers of economic growth. It further states that government interventions must not distort the markets but rather create an enabling environment. In this sense competition shall be preserved, entrepreneurship be encouraged and relations between small and large businesses be understood. The paper features a list of concrete actions including the development of markets, the establishment of consumer friendly shopping areas, Small Business Information Units, and interlinkages between small and large businesses.

The Local Authorities Act (Act No. 23 of 1992) ascribes the responsibility for service provision and decisions about land utilization to the local authorities, giving them leverage for Local Economic Development initiatives. The Local Authorities Amendment Act (Act No. 24 of 2000) adds the responsibilities for employment creation and the formulation of development policies and states that economies must be promoted locally. Among local authorities, an increasing tendency to prioritise Local Economic Development can be

observed. A number of authorities has already appointed full-time LED coordinators and drafted adequate strategies. The Namibia Policy and Programmes on Small Business Development policy was adopted in 1997, outlining the regulatory environment for SME development as well as initiatives promoting small business development. (Jauch et al., 2009).

The listed policies and strategy papers are a profound basis for development initiatives. As widely recognised, “market-based approaches and smart development policies are synergistic strategies” (Hammond, 2007, p. 20). The special focus on SMME promotion in Namibia is a crucial measure to unlock the vast potential of the markets in townships and informal settlements, where more than 25 percent of the population lives. (SDFN, 2009)

### **3.2. Post-colonial economic empowerment**

Due to Namibia’s past of extreme suppression that has divided the society not least economically, post-independence policy making has had a special redistributive focus. Article 23(2) of the Namibian constitution provides the parliament with the authority to introduce policy aimed at reducing “social, economic or educational imbalances in the Namibian society arising out of past discriminatory laws or practices”. Further, the 1992 White Paper on Industrial Development calls for increased participation of individuals previously excluded from industrial activity by specifically supporting small-scale activities.

On this basis affirmative action was introduced, aimed at reaching the following objectives: (1) To make institutions representative of the country’s population; (2) to effect a change in institutional cultures which were shaped by racist practices during colonial rule; and (3) to bring about socio-economic redistribution. (Jauch et al. 2009) After early achievements within the civil service the Affirmative Action (Employment) Act of 1998 broadened the scope of affirmative action to include the private sector. However, this policy has shown limited success in distributing economic opportunity and wealth equally. The population group benefiting the most was the relatively small black middle class, especially men, enabling certain individuals to become rich but leaving out a majority of the population. (Jauch et al. 2009) Swedish analyst Henning Melber (2006, p. ii) analysed Black Economic Empowerment in Namibia stating that “Namibia’s BEE so far translates merely into a class-based interest policy to legitimise the (self-)enrichment of a new small black elite.” Due to

the limited success of past initiatives Namibia is currently moving towards a more broad-based Black Economic Empowerment (BBEE) concept. This approach was formalized in the Transformation Social and Economic Empowerment Framework (TESEF), which stipulates 50 percent business ownership and management by historically deprived Namibians (HDNs). (EC, 2007)

Nonetheless, current data suggests that the fight against economic inequalities will not be solved on the short-run. As a study undertaken by the Namibian Central Bureau of Statistics (CBS, 2008) has shown that inequality still exists mostly along racial and ethnic lines. Whereas poverty among the population of German and English origin is virtually non-existent and insignificant among Afrikaans speakers, it is especially alarming among Oshiwambo-speakers of which about 51 percent are poor. Namibia is the only country for which a differentiated Human Development Index was calculated (UNDP, 2004, p. 36). The index clearly shows that native speakers of German, Afrikaans and English are at a level of development that compares to that in developed countries. San speakers follow 174 ranks below, whereas the dominating linguistic group of Oshiwambo-speakers comes inbetween.

### **3.3. Characteristics of the SMME sector**

Following the SME policy of 1997, the Ministry of Trade and Industry introduced the first official definition of small enterprises in Namibia. Accordingly all manufacturing businesses employing less than 10 people and all non-manufacturing businesses with less than 5 employees qualify as small enterprise. In addition, turnover and capital employed must remain below a certain threshold (appendix II). This definition is still widely acknowledged, though variations of it have been proposed over the years. Stork et al. (2004) suggest to disregard financial figures and instead use industry and degree of formality as indicators. The same study highlighted that a large number of Namibian businesses does not meet the requirements of small businesses as according to the MTI definition. Consequently these micro enterprises operate outside the scope of many government support initiatives, if definitions are applied strictly. Though a variety of definitions has been proposed in the past, there is none that has been accepted as the standard for activities on all tiers of government.



Location specific data, i.e. broken down to the level of individual towns, is virtually non-existent in Namibia. Nevertheless, several studies on the SMME sector have been carried out within the two decades since independence. Three baseline surveys, carried out by the MTI (1998; 1999; 2000), have lead to the first comprehensive database on SMMEs in Namibia. Subsequent studies have used these results for estimations of the total number of SMMEs. Stork et al. (2004) calculated a total of 11.971 small manufacturers and 22.432 service providers in Namibia. These enterprises mostly operated in construction, maintenance and carpentry as far as manufacturing is concerned and in the areas of consulting and hospitality when it comes to services. Separate but co-ordinated studies carried out by the Labour and Resource Research Institute (LaRRI) and the Namibia Economic Policy Research Unit (NEPRU) respectively, have further assessed the Namibian SMME sector. Accordingly, 37 percent of all SMMEs were run by women and 93.4 percent by individuals that qualify as previously disadvantaged Namibians. It is further stated that SMMEs are predominantly run by unemployed individuals and those that seek to periodically supplement their income by economic activity. Most formal businesses were typically urban based and to be found in Windhoek. On the contrary, informal businesses were spread throughout Namibia and typically engaged in trading, food, manufacturing and construction. (LaRRI, 2002) (Stork et al., 2004)

### **3.4. SMME impact on national growth**

Whereas the existence of a dualistic economy in Namibia is widely acknowledged, there is discussion about the right strategies to overcome the gap. Some experts argue that the formal economy has growth and employment potentials, the support of which would be more efficient than the costly nurturing of small and micro enterprises. If the framework conditions for labour-intensive industries are improved and strategies found to replace imports with local products, unemployment and therewith also poverty would decrease. It is argued that townships and their informal extensions must not be target of economic development as “people find themselves in zones which have little or no potential, largely because of the designs of colonial powers or the Apartheid state” (Aliber et al., 2006, p.52).

The contrary conviction, which currently seems to prevail within Namibian authorities, is based on the viewpoint that “small and medium-sized enterprises (SMMEs) are smaller versions of formal sector enterprises” (Aliber et al., 2006, p.56). Focussing on capacity

building among small firms is believed to entail a dual benefit. Firstly, it can show a quick impact on employment and poverty. Secondly, as a majority of small-scale businesses are located in townships or are operated by townships dwellers elsewhere, impact is likely to show in the currently most disadvantaged areas. Informal economy interventions should not be aimed at small-scale businesses alone, but especially on the linkages between the two economies that will eventually allow the informal economy to increasingly formalize itself. (Aliber et al., 2006) On the short and medium term, the SMME sector as a whole is expected to “fill the gap between the formal market and the Namibian citizens who seek employment and a regular and sufficient income.” (JCC, 2008)

Two studies analyzing the small business sector in Namibia conclude that the sector is key in employment creation and the stimulation of national growth. (LaRRI, 2002; Stork et al, 2004) Both studies focus on medium and small enterprises without further distinguishing between small and micro enterprises. It is however noted that the sector is dominated by informal commerce in the subsistence sector. The studies argue that the SMME sector has larger employment potential than the large business sector due to its labour intensive nature and its local embeddedness. More specifically, it is forecasted that the SMME sector will provide 16.500 new jobs annually, whereas larger businesses will provide up to 4.000 new jobs each year. Further assessing the impact on economic growth, the studies state that the sector’s contribution to the GDP has grown from 8.04 percent to 11.01 percent between 2002 and 2003. This means that the small business sector has exceeded the average growth of the whole economy during the given period. According to Arnold et al. (2005) the SMME sector contributed already 12,11 percent to the GDP in 2004, while international literature states that this figure can reach up to 70 percent given the right business environment. (DCED, 2009)

### **3.5. Hindrances to development**

Past studies have also focused on the constraints that keep small enterprises from graduating into larger businesses. Hindrances mainly fall into the categories of lacking education and training among entrepreneurs, skills shortages among employees, incomplete market information, competition from larger businesses, and limited access to financial services. (NEPRU, 1998) The debate about competition from larger, international firms is a longstanding one. Whereas competition from South African investors had most impact in the

years after independence, increasingly businesses from China are perceived to outcompete small, local firms. First studies, like that of Niikondo (2009), capture the perception of local firms about Chinese competition, but its actual impact is yet to be assessed.

More recent studies on hindrances to SMME growth list additional findings stating that small enterprises “continue to struggle to acquire the necessary financing, technologies, business know-how, business support, and business linkages” (Shejavali, 2007, p. 2). The Namibian Business and Investment Climate Survey (NamBIC, 2009) highlights that the business climate for small businesses is negatively affected by low demand, the cost of finance, crime and the complicated process of establishing a business. The survey further indicates that interaction between businesses and government authorities is generally low.

### **3.6. Support initiatives**

The government’s effort to promote the relatively weak but crucial SMME sector finds its foundation in the SME policy of 1997 (RoN, 1997). Herein it is declared that the SMEs shall be supported through finance schemes, incentive systems, deregulation, and training as well as through the assistance in market access, technology transfer and purchasing. On a more general level the policy covers three areas of support: (1) Incentives and deregulation; (2) Pro-active programmes; and (3) Institutional support. (JCC, 2008)

Accordingly, a Credit Guarantee Fund was established in 2000, encouraging established banks to reach out to those businesses that cannot provide extensive guarantees. This scheme is claimed to have led to the creation of 3.700 jobs since its implementation. (Shejavali, 2007) In 2009 the first microfinance bank, FIDES Bank Namibia, became licensed in Namibia and is now mainly active in the country’s North with branches in Ongwediva, Oshakati and Oshikango.

The Namibia Chamber of Commerce and Industry (NCCI) functions as an umbrella body for business in Namibia, also being open for formal small businesses. The chamber also co-operates with the Standard Bank of Namibia, targeting small and medium businesses with information campaigns and training programmes. (The Economist Namibia, 2007)

The Ministry of Trade and Industry (MTI) plays a major role in SME development by financing capital projects, such as business facilities (SME Parks, Incubation Centres, Industrial Stalls),

and facilitating trainings for entrepreneurs throughout Namibia. At this the ministry is assisting local authorities, which often still have weak capacities. The MTI has also set up the Joint Consultative Committee as umbrella organisation for SME service providers in Namibia. Strategically the committee's initiatives are oriented towards the identification of existing business clusters and the leverage thereof to strengthen value chains and create spin-off effects. (JCC, 2008)

## **4. METHODOLOGY**

### **4.1. General approach**

The literature review has provided a comprehensive insight into the Namibian context and at the same time revealed that research relevant to this study is scarce. Punctuated research has taken place in the past, but overall co-ordination and continuation is lacking, so that findings are often outdated and in many cases very general.

The methodology of this study was designed in a way to overcome several shortcomings that research in Namibia frequently faces. Firstly, the study is meant to provide sound information broken down to the local level where, due to the decentralised government system of Namibia, decisions are made. Second, recognising the low level of available literature that could potentially complement the findings of this study, a relatively wide array of perspectives was included in the research as well as in considered theory.

The decision was formed to follow the principles of qualitative research as outlined by Gephardt (2004) but combine it with elements of quantitative research. To start with, open interviews were carried out with key experts (appendix III) on historic developments, current efforts in Local Economic Development and more specifically on the situation of townships. Based on the obtained information it was decided to collect primary data through the method of theoretically informed case studies. Case studies were seen as the most efficient tool to reach the aim of this study, as they are known to "emphasize the rich, real-world context in which the phenomena occur" (Eisenhardt & Graebner, 2007, p. 25). As defined by Yin (1994), case studies typically include multiple data sources and result in rich, empirical descriptions of an issue. The persuasive power of case studies has been widely recognised (Siggelkow, 2007) and particularly the combination of multiple cases helps to identify

whether findings are idiosyncratic or have a more general relevance (Eisenhardt, 1991). As the aim of this study was to assess the economic inclusiveness of urban area in Namibia, four separate towns were chosen as case studies. When it came to the selection of towns, the principle of “polar types”, as termed by Eisenhardt and Graebner (2007), was used selecting a set of towns that was as diverse as possible. This approach enabled the comparison of findings so that common and contrasting patterns could be identified.

In particular the towns Gobabis, Windhoek, Luderitz and Oshakati were selected. These towns are distributed across Namibia geographically, which accounts for the significant differences in development of the country’s regions. Gobabis is a small town located in the East on one of the main transport routes. Windhoek, in contrast, is the nation’s capital and undoubtedly also its main economic and industrial hub. Luderitz is one of the country’s most remote towns, being isolated in the far Southwest. Nevertheless, the small town stands out due to its location on the coast and its diamond industry. Oshakati represents the economic hub of Northern Namibia, which is the country’s most densely populated area and is significantly more rural and less developed than the other regions. All selected towns were affected by Apartheid and the former townships are still identifiable.

A standardised survey that was carried out among SMMEs in each locality constitutes the second component of the research. In contrast to other research, this study distinguishes between townships and other urban areas but not between the formal and the informal economy. As Simon and Birch (1992) state, the “formal and informal sectors are not discrete, parallel entities, but overlapping spheres characterized by often complex and unequal interrelationships.” By targeting formal and informal businesses alike the overall role of townships and their importance for Local Economic Development can be assessed.

#### **4.2. Case study assessment**

Within the selected localities, the aim was to assess the economic segregation and determine the characteristics of the local township economy. These findings were to be contrasted with the strategy of the respective local authority. As identified by UNDP (2010) there are three indicators for the evaluation of local authorities: Process indicators (e.g. strategies and capacities), output indicators (externally visible outcomes of initiatives), and perception indicators (the viewpoint of citizens). Along this line of thought, selected officials

at the respective local authority (where applicable the officer for Local Economic Development and the Chief Executive Officer) where interviewed. Open, semi-structured questionnaires (appendix IV) were chosen in order to obtain insights as comprehensive as possible. Interviews were aimed at identifying the institutional capacities and structures in regard to Local Economic Development, inquire about implemented solutions and obtain knowledge about the general attitude towards the topic of economic divides. Perception indicators were obtained as part of the survey among local entrepreneurs. When accessible also representatives of other organisation (e.g. local branches of the Ministry of Trade and Industry or Business Associations) were interviewed to obtain additional information. Where applicable written material, such as economic development strategies, was acquired from the authorities to further the insight into their respective development approaches.

#### **4.3. Survey design and sample**

The survey among local entrepreneurs allows for an evaluation broken down to the local level as well as on an aggregated level across towns. Questionnaires (appendix V) consisted of both open questions and those with multiple answer choices. The questions were designed to cover various aspects of the entrepreneurial ventures and their owners. First, the entrepreneur's perception of the business environment was to be obtained. At this the definition of Stern (2002), who lists the ease of starting a business, the ease of doing business and the level of competition, was used. Further questions aimed assessing linkages between township businesses and other economic players as well as their empowerment through associations and the local authority.

Acknowledging that knowledge is institutionally embedded (Alvarez, 1998), interviews were conducted in an open manner, letting the respondent determine the course of the conversation. The questionnaires were never filled in by the respondents, so that already during the process of the interview an interpretation process took place to some extent. Nevertheless, all interviews were carried out by the author of this study personally in order to facilitate an accurate interpretation of the results. A minimum of 10 minutes was spent with each respondent, but frequently the interviews took 20-30 minutes and issues beyond the scope of the questionnaire were covered. In individual cases respondents did not speak English, but rather Afrikaans or a dialect of Oshiwambo, so that interpreters had to be used. In all cases the interpreters were either family members or employees of the respondents so

that language barriers never hindered the survey. Certain questions did not yield the expected insights as respondents did not have the respective information. One example was the widespread inability to state major expenses, possibly caused by a widespread of bookkeeping skills.

In total 128 business owners were interviewed (appendix VI). Though respondents were selected at random, the survey had an important bias. First, the survey was carried out among those businesses that were most closely affiliated with the townships. In most cases these were small businesses located within the townships, but in certain cases also businesses operated by township dwellers in other urban areas (e.g. at SME Parks). Moreover, efforts were made to obtain a survey sample as diverse as possible so that the distribution of business types in the sample does not accurately reflect their actual distribution in the respective locality. The overall willingness to respond to questions was found to be high, with only two approached entrepreneurs rejecting an interview.

## **5. SURVEY RESULTS**

### **5.1. Aggregated results**

#### **5.1.1. Business types**

As the total number of township businesses is neither known within the towns nor on national level, it is uncertain whether the survey results are representative for all township SMMEs. Nevertheless, the data obtained from 128 interviewed business owners offer an extensive insight into the current situation of the SMME sector in the townships of Namibia. In the following, general findings will be described before the findings are broken down to the level of the individual towns in order to enter a more detailed analysis. (appendix VII)

The most obvious observation is that the vast majority of all small-scale entrepreneurs engage in subsistence activities rather than in manufacturing. Most commonly businesses in the surveyed townships are small grocery shops, restaurants and shebeens (i.e. bars). Most areas also feature high concentrations of small hair salons and tailors. 27 percent of all interviewed businesses, however, engage in manufacturing activities or at least show the potential to do so in the future (e.g. tailors, mechanics, furniture, jewellery, craftwork, stone carving). At this it is important to note that manufacturing businesses were more likely to be

chosen for interviews as they are generally less common. Thus, the percentages can be used to compare the assessed towns but do not reflect the actual distribution of business types.

Tellingly, only a minority of the surveyed businesses does not have access to the basic services of water, electricity and sanitation (access levels are 82, 91, and 84 percent respectively). Those businesses that do not have direct access to these services, did either see no need for them (e.g. a tailor does not need water) or had indirect access on a neighbouring property. This characteristic clearly distinguishes township businesses from those in informal settlements, where business growth is hampered by the lack of these services (e.g. shebeens need fridges, a tailor is more productive with electric sewing machines and a hair salon is better off with tap water). 47 percent of the surveyed businesses were located on formal market spaces (such as Open Markets, SME Parks or Incubation Centres), while the rest operated in facilities which were either owned or rented from private individuals. Frequently business facilities are combinations of developed structures and improvised extensions to these (containers; additional iron roofs and walls; open space). Entrepreneurs chose their current business locations mainly because of centrality (18 percent), because they live on the same property (18 percent), because they applied and were allocated to a market stall (15 percent), or because they saw many customers in the area (14 percent). Other reasons include that no other place was available, affordable rents, the fact that there was no such service in the area, or that entrepreneurs took over existing businesses.

Overall registration levels, and therewith the part of township businesses operating in the formal economy, is low with only 61 percent stating to have registered with the respective local authority. In comparison to this the registration rate with the Ministry of Trade and Industry (MTI) of 45 percent appears rather high as it is less relevant so long as the businesses remain small and do not qualify for taxation. Businesses are almost exclusively run by a single owner (89 percent) with only few being registered partnerships or incorporated companies (4 percent and 7 percent respectively).

When it comes to business representation and strategic partnerships, the general picture is that of a rather unorganised business community. Whereas 18 percent of the businesses stated to have partnered up with another business (though in most cases without binding



agreements), only 9 percent indicated to be member of an organisation or chamber, such as NCCI. Nevertheless, 27 percent of the entrepreneurs saw the general benefit and stated to consider a partner- or membership for the future. Among the remaining business owners the majority was very adamant that partnerships do more harm than good and are therefore not be an option. The low level of networking among businesses is also reflected in the lack of the gains that these networks potentially entail. A meagre 2 percent of all businesses had received a microloan, 3 percent purchase in bulks, 2 percent have regular access to shared transport and none of the businesses had access to shared storage.

Surprisingly, the results indicate no correlation between business type and sustainability. Despite the widespread believe that small and micro businesses frequently have a short lifespan, only 41 percent of the analysed businesses are younger than five years. In turn, 26 percent had operated for five to nine years, 22 percent between ten and fourteen years, 5 percent between fifteen and nineteen years, and 7 percent were twenty years or older at the time of research. The latter group of businesses above twenty years is diverse, including not only manufacturing businesses (e.g. furniture, panel beating, upholstery), but also more simple business models (e.g. small restaurants, meat retail, hair salon, groceries). Also does the location of the business give no indication of its sustainability. Of the older businesses, some operate on public markets, others on private property. These findings suggest that support initiatives must not be selective as the probability of business success cannot be foreseen by looking at a set of business characteristics.

Obtained data of daily revenues suggests that a significant percentage of entrepreneurs are hardly better off than they would be with a low-income job. As most interviewed entrepreneurs do not keep books, only gross estimations of daily turnover could be provided in most cases. Nevertheless, the findings show that 21 percent of businesses have a daily turnover of below N\$ 100. Most businesses, 45 percent, have a turnover of N\$ 101-500 while 12 percent earn between N\$ 501 and N\$ 1000 daily. The remaining 6 percent show daily turnovers of more than N\$ 2000. Again, there is no direct correlation between business type and actual turnover. Within the survey sample, shebeens, manufacturers, mechanics and car washes ranked among the business with the highest income alike.

### **5.1.2. Entrepreneurs**

The majority of business owners are men, 59 percent, and have little prior knowledge related to their business activity. Only 23 percent of the entrepreneurs stated to have prior related job experience and 13 percent gained experience as business owners prior to starting their current venture. Business owners usually live in proximity of their business, with 69 percent living in the township area, 20 percent in an informal settlement and only 6 percent in the so-called town proper. 5 percent of the interviewed business owners indicated to live in a different town or village, however, due to the design of the study the real number can be expected to be higher as in various cases business owners could not be interviewed for the very reason they lived elsewhere and were not present. Though individual cases of entrepreneurs moving from poorer areas to the town centre after starting their business could be observed, the findings indicate that this is no general trend. Most township entrepreneurs indicated that the town centres would be attractive business areas, but they had no intention of also moving there. Judging from their answers about their motivation to start the business, 38 percent of the owners were found to be, at least partially, opportunity entrepreneurs. This means that the majority of individuals were driven into self-employment by the push factors of unemployment and poverty.

On average the businesses employ 1.84 men and 1.30 women, whereas 27 percent do not have employees at all. Not surprisingly, the highest employment numbers are found among businesses with either labour intensive services (e.g. car wash, mechanic, tailor) or high numbers of customers (e.g. shebeens). 76 percent of all employees receive a fixed monthly salary, whereas 24 percent get paid on commission basis.

### **5.1.3. Growth ability**

Concerning their initial business inception, 73 percent of the entrepreneurs stated to have experienced difficulties, with initial funding clearly leading the list (41 percent), being followed by difficulties to establish a customer base (21 percent), and customer management (3 percent). Other, though far less frequently stated, start-up challenges are competition, finding business property, or bureaucracy and regulations. In the past, 29 percent of the entrepreneurs have experienced concrete expansion of business space, either by expanding their business facilities or by moving into a bigger facility. 27 percent have

invested in new equipment such as tools and machines since start-up, whereas the remaining 45 percent of the businesses have remained unchanged.

The size of current business facilities does not necessarily correspond with perceived needs of the entrepreneurs as 57 percent stated that current capacities are too low. Being asked about future growth prospects, a minority of 16 percent believed growth, e.g. expansion of space or increased product diversity, to be easy. Further 25 percent saw growth prospects as ok whereas the remaining 59 percent expected significant obstacles. As main hindrances the lack of funds (23 percent), too few customers (14 percent), high expenses (8 percent), access to business space (8 percent), lack of the necessary equipment (5 percent), and high competition (5 percent) were named.

Interestingly the survey results suggest that optimism about future growth is positively correlated with town size. Whereas 82 percent in Gobabis and 60 percent in Luderitz think of future business growth as difficult, only 30 percent do so in Windhoek. Oshakati is an exemption as it shows a mixed picture. Whereas 77 percent find growth difficult at the same time a comparably high number (17 percent) finds it to be easy.

Despite these common obstacles to growth, almost all entrepreneurs stated the general willingness to expand their current business operations. 28 percent said to experience high demand, whereas most found the number of customers to be normal (41 percent), or low (30 percent). Interestingly customers do not only come from the immediate surroundings of the township businesses. Whereas 80 percent see customers coming from informal settlements and 91 percent from the township areas, 70 of all businesses have customers coming from the town centres also. 23 percent of businesses have customers coming from other towns and rural areas, though this number varies among the different surveyed towns.

A main factor influencing the growth ability certainly is the competitive landscape. As introductorily described, small and micro enterprises face the challenge of investments by larger international corporations. Nevertheless, the findings show that only 35 percent perceive larger enterprises as main competition, whereas 65 percent see surrounding small businesses as competition. These findings vary across the surveyed towns as these feature different levels of economic integration and growth. Being asked about the level of competition in the immediate surrounding on the one hand and that by businesses further

away (such as in the town centre) on the other, the aggregate results show a balanced picture. 41 percent perceive high competition in their surrounding, whereas 28 stated it to be low. Similarly 34 percent experienced high competition from remote businesses, while 34 percent thought of it as low. Again, a comparison of these numbers across the different towns leads to more telling results.

Transport ways to and from suppliers constitute one of the biggest challenges for profitability. Only 13 percent of the businesses get their supplies in their immediate surroundings, i.e. the township. Instead 48 percent need to travel to the town centres, mostly by taxi, regularly. 47 percent indicated to even get their supplies from locations further away, such as from the capital city Windhoek or neighbouring South Africa. These trips are costly and due to the prevailing poverty of the customers businesses are unlikely to recapture these expenses through higher prices.

#### **5.1.4. Role of Local Authority**

Regular interaction between individual businesses and the respective local authority is as good as non-existent. While 58 percent of the owners indicated they had never been in contact with their town's authority (apart from the registration process and payment of bills), only 6 percent said to have regular contact. 5 percent had contact once, 25 percent occasionally and 6 percent on demand. Not seldom those entrepreneurs stating to communicate with the town council, said to do so because they either had personal relations with council personnel or because council staff were customers (e.g. at car washes). The reason for this low level of interaction is two-sided. On the one hand, the local authorities do not approach individual entrepreneurs and also do not hold frequent open meetings which entrepreneurs could attend. When asked whether they had received support or information of any kind, only 9 percent answered positively. On the other hand, the vast majority also did not take the initiative to approach their local authority, with only 22 percent stating to have done so in the past. Frequently stated reasons for this were a lack of information (What is it that the Local Authority can do for me?), or a lack of trust (They would not listen; nothing would change even when I asked). As a consequence the general view of the local authorities is predominantly negative. When asked about their relation with the local authority, 16 percent found it to be helpful, 30 percent to be ok, but the majority of 55 percent to be insufficient.

## **5.2. Gobabis: Small town in the East**

### **5.2.1. Local framework conditions**

Gobabis is a town in the East of Namibia, approximately 200km away from the capital Windhoek. The town lies directly on the Trans-Kalahari Highway, running from Namibia's coast through Windhoek, into Botswana and then South Africa. According to the 2001 Population Census (NPC, 2003), Gobabis had 13.856 inhabitants. Spatial maps of Gobabis (appendix VIII) clearly show the remainders of Apartheid town planning and its systematic division of communal spaces according to skin colour. The "town proper", as it is often called, has evolved around the main road. Whereas a number of bigger businesses, such as retailers and service providers, are located on this road, residential areas stretch out to the South and an industrial area lies in the North. This part of the town used to be designated to the white population during Apartheid.

To the North-East of the city centre, at an aerial distance of about two kilometres, lies Epako, the township originally dedicated to the black population. Nossobville, South of Epako, is the former township for coloureds and somewhat smaller than Epako in size and number of inhabitants. Given that little physical development has taken place in the space between these three centres of residential concentration, the town is still clearly separated in geographical terms. Currently the local authority struggles to bridge the geographical gap due to various reasons. First of all, Apartheid town planners have intentionally constructed certain barriers. These are a golf club occupying the space between Nossobville Township and the city centre as well as a sports complex keeping Epako Township from growing to the South-West. Furthermore, the informal settlements of Gobabis are currently located to the North and the West of Epako. These areas are unlikely to become fully formalized or resettled on the short-run so that they constitute an additional challenge to inclusive town planning.

### **Strategic focus of economic development**

Gobabis Municipality has clearly noted the town's segregated nature as a main challenge to Local Economic Development. The so-called "Gobabis Local Economic Development Policy Strategy" (Hailulu, 2003) describes how past developments have caused Gobabis to become a "fragmented community". The paper further acknowledges the "deep divisions and conflicting interests which tend to pull in opposite directions and seriously undermine

development opportunities” (p.3). It is stated that there are “two economies – a formal one confronting challenges of ‘outside’ competition, and an informal one showing relative growth and characterized by poor capacity in every sense” (p.3).

The paper clearly outlines that economic development must be approached involving a wide range of community representatives and “through the full participation of all sectors” (p.6). It is more specifically stated to be “imperative that Gobabis Municipality pursues a dual focus of both stimulating economic growth and increasing access to previously disadvantaged communities” (p.4). In this sense a bottom-up approach shall respond to the “failure of markets and national government policies to provide what is required, particularly in underdeveloped areas and areas undergoing structural adjustment” (p.6).

As the above quotes indicate, Gobabis Municipality acknowledges its responsibility to overcome the existing economic segregation through development initiatives that are directly targeted at disadvantaged areas, namely townships and informal settlements. It continues to state that LED “promotes linkages between developed and under-developed areas” (p.7). SMME development is named as priority over large enterprise support, since small companies are “the largest source of employment for many Namibian communities and are the source of most new jobs worldwide” (p. 12).

Programs and initiatives proposed in the strategy paper include information campaigns, the establishment of business incubation centres, the facilitation of outsourcing opportunities for larger businesses, as well as the improvement of public tender processes. Overall, the authority aims at balancing the attraction of outside investment with the protection of the local economy. Currently the municipality employs one full-time Local Economic Development Coordinator, who directly reports to the municipality’s CEO.

### **Evaluation of current LED initiatives**

The most visible initiative in Gobabis is clearly the establishment of two SME parks one of which is located in Epako Township (Blue Market) and the other of which is located in the town centre (Yellow Market). These parks consist of a series of small to medium size rooms providing space for the business activities of local entrepreneurs. The provision of basic services such as water and electricity varies from room to room, but is provided on a shared basis for the whole markets as are sanitation facilities. The establishment of these parks was

financed by the Ministry of Trade and Industry (MTI), whereas the management is carried out by the Namibia Development Corporation (NDC). Both markets currently run at full capacity, housing about 40 entrepreneurs with businesses of different sizes and types each.

Gobabis also features an Open Market, the Benjamin Kanguotui Taxi Rank Market, located at the outskirts of the current town centre. In contrast to the SME Parks, this market does not provide fully serviced rooms but free shelter in form of simple walls and roofs. This market was established in an effort to provide space for those traders that had henceforward offered their services and products under trees and at roadsides. The development plan of the market foresees several phases, of which currently the first one has been implemented. Unlike the SME Parks, the Open Market is supervised by the municipality, which has planned and carried out its development. At its present state the market cannot be considered successful, with only five out of approximately twenty-five spaces occupied. The reason for the lacking success is twofold. On the one hand, trade continues to occur outside the market, mostly on the roadsides which are more attractive vending locations for the traders. This informal trade is both acknowledged and tolerated by the municipality at present. On the other hand, traders complain about the disadvantageous location of the market. Being situated at the very outskirts of the town, not on the main road, it enjoys very low visibility.

Besides providing subsidized shelter, MTI facilitates skills training for selected individuals free of charge. Most such trainings are conducted in Windhoek and can range from bookkeeping principles to hair cutting skills. The current selection of participants is largely spontaneous and lacking clear guidelines. There is neither an overview of the exact training needs, nor organized information about the availability of trainings. Approval for trainings is given centrally by the MTI, so that the municipality is largely uninvolved.

### **5.2.2. Challenges to business development in Epako and Nossobville**

#### **Underdeveloped markets**

Within the described framework a relatively small SME community has developed in Gobabis. The vast majority of all businesses that are run by township dwellers are part of the tertiary industries. 32 percent of the interviewed entrepreneurs are retailers (milk, meat, general groceries and auto spares), 39 percent offer services (e.g. printing, cell phone repair, shoe repair, transport, mechanics) and 18 percent offer gastronomic services (restaurant,

shebeen, nightclub). Only 11 percent of the businesses can be argued to be part of the secondary industries having ventured into manufacturing or at least showing the potential to become manufacturing businesses (fashion design and leather products). The comparison with other Namibian towns, especially Windhoek as outlined later, shows that the township markets of Gobabis are still largely underdeveloped and little industrialisation takes place. Despite the fact that a significant part of the local population lives in Epako, only basic products and services are offered there. Nossobville features an even smaller business community. Besides one grocery shop, several shebeens and one nightclub, no other businesses are to be found there. At present inhabitants of the townships purchase a major amount of products and services in the town centre so that most likely more money flows out of the townships than into them. At present, township businesses experience only a small stream of customers coming from the town centre or outside. Though, 54 percent of the entrepreneurs indicated to have customers coming from town, this group of customers are rather the exception.

Another indication for the underdevelopment of markets is the high number of opportunity entrepreneurs. Out of all towns, Gobabis has the highest rate of opportunity entrepreneurs (54 percent). Typical statements are: “There was no restaurant in the area”; “No such service was available”; “It was a need of the community”; “I saw the opportunity to create employment”; “There is good profit from milk”. At their current level of development, the markets within the townships of Gobabis feature a unique competitive landscape. To this date no bigger corporation has invested in the townships, allowing existing micro and small enterprises to prosper on markets that are elsewhere dominated by larger corporations. Half of all surveyed entrepreneurs did not perceive the overall competition to be intense while again half of them experienced high demand for their products and services.

### **Remoteness**

The obtained figures further indicate that the remoteness of the townships puts their entrepreneurs in disadvantaged positions. As figure 2 shows, none of the businesses in Gobabis procures its supplies directly in the township. Instead, 38 percent purchase supplies in the town centre of Gobabis, 12 percent at surrounding farms and 35 percent have to organize their own transport to Windhoek. For travel purposes most entrepreneurs rely on



public transport in form of cabs and minibuses incurring costs that can hardly be transferred to the customers due to their limited purchasing power.

### **Limited capacity of buildings**

It is noteworthy that few entrepreneurs stated finding business space as hindrance to starting their business (4%). Whereas this might appear as a contrast to recent national studies, such as NamBIC (2010), it can be interpreted as a sign of success of the aforementioned SME Parks. And yet the existing facilities run at full capacity so that market entry for new entrepreneurs might be significantly harder. When being asked about obstacle to future growth, twice as many entrepreneurs mentioned business space (8%). Thus it becomes apparent that the spaces currently provided are suitable to micro and small enterprises, but less so for those that aspire to grow further.

### **Lack of representation**

Where poverty and spatial divides challenge businesses, representation is the more crucial. However, none of the small and micro businesses in the townships of Gobabis is organized in business associations, making it complex and costly for the municipality to identify and deal with common problems. There has been a recent inquiry for lists of township businesses revealing their type and size of operation. However, at the time of research the compilation of these lists was hindered by unclear responsibilities within the township and weak enforcement from the side of the municipality.

Business associations that operate on national level, such as NISO, are not present in Gobabis. Only the Indigenous Peoples' Business Forum (IPBF, 2010) schedules occasional meetings for its members, during which common challenges are discussed. The existence of an economic divide becomes most apparent through the current situation Gobabis faces in regard to business chambers. To this date, the Namibian Chamber of Commerce and Industry (NCCI) does not have any members in Gobabis, despite extensive efforts to develop its local branch. Evidently the strong presence of an already existing chamber, the so-called Sakekamer, is the main cause for NCCI's struggle. As the name suggests Sakekamer originally is a chamber of businesses owned by entrepreneurs with an Afrikaner background (i.e. white Namibians). The co-existence of two chambers is unlikely due to the relatively small number of businesses in Gobabis. Therefore, exclusively those businesses run by white owners and located within the so-called town proper benefit from chamber representation today. This

situation constitutes a high imbalance of power causing the continuation of an economic segregation.

### **5.2.3. Economic potentials**

#### **Business graduation**

The observed economic dynamics in Gobabis and its townships indicate that the already implemented development initiatives, in particular the SME Parks, have been reasonably successful. In fact, there is evidence that the establishment of these facilities has not only provided business space, but has moreover helped individual entrepreneurs to escape poverty. All of the 21 interviewed entrepreneurs that have their business in one of the townships also reside there. Of the 7 entrepreneurs that were interviewed at the SME Park in town, however, 3 stated that they had also moved to town after establishing their business there. Though this number is too small to prove a direct correlation, it suggests that a subsidized SME Park in town can function as an efficient bridge between the largely separated urban areas. As a common pattern emerges that individuals live in one of the informal settlements when they start their first business. Some then move to the formal township as soon as their business has reached a certain size. Sufficient profit and savings given, individual entrepreneurs can eventually afford the rent at the SME Park in town and in certain cases also live there. Nevertheless, this pattern is not common among all entrepreneurs. Frequently individuals remain at their residence, in the informal settlements or the townships, regardless of their success as entrepreneurs.

#### **Bringing the town to the townships**

Townships have characteristics that are attractive for outside investment. Epako and Nossobville show a high density of population, a steady influx of new immigrants and low mobility of individuals. Thus, any investor providing low-cost products and services directly in the townships would experience high demand. However, the size of both townships, and especially that of Nossobville, is limited. The land inbetween the two townships, within easy reach of the whole township population has most potential for successful business development. If this area was to be developed strategically, it could lead to a situation in which the two townships could, over time, grow closer together and eventually also become less separated from the town proper. The Trans-Kalahari Highway, currently lying between the two townships, makes this land especially attractive. If businesses were to be established

directly at the highway (as is already the case in the town centre), advantage could be taken of the high number of passers-through, such as tourists and cargo vehicles. Current township businesses indicated that the highest profit margin was obtained when passers-by or town dwellers came to the townships. This is most frequently the case on weekends or after hours, when the formal businesses in town do not provide their services and potential customers are sent to the otherwise rather invisible townships. A development towards the central highway could change the current situation, providing township businesses with more visibility to outsiders and town dwellers.

### **5.3. Windhoek: Capital city of Namibia**

#### **5.3.1. Local framework conditions**

“Windhoek is Namibia’s capital city and the country’s major urban centre it is also a place of great contrast and diversity.” (CoW, 2002) Being the capital city, Windhoek has always played a special role in the development of Namibia as a country. Both the German and later the South African colonial administration were based here. Whereas the city was home to white settlers and a black working class during Apartheid, it has developed into the multicultural hub of Namibia in the time after Apartheid. Nevertheless, despite enormous changes throughout the past two decades, also in Windhoek the legacy of Apartheid is still evident. The city’s Central Business District (CBD) runs along several main roads from North to South featuring both office space and the central commercial area. At an aerial distance of about 5 kilometres to the North-East lies the centre of Katutura, the city’s main township originally designated to black migrant workers. Khomasdal, the former township for coloureds, is located inbetween, also in the North-East. Though the city today shows increased integration with several of the residential areas featuring vast ethnic diversity, also in Windhoek physical barriers keep the town centre separated from the township. As Pendleton (1996, p. 55) writes, “the Western Bypass, constructed during the early 1980s, effectively guaranteed that Katutura would never become part of northwest Windhoek.” Similarly, there is a double-lane divided roadway inbetween the townships of Katutura and Khomasdal. (appendix IX)

Despite these characteristics of spatial segregation, especially Katutura has experienced significant growth. To this day uncounted numbers of migrants arrive in Windhoek daily of which the vast majority settles in informal shanty housing around Katutura. In 1996 the City

of Windhoek estimated that Windhoek's population would double from 200.000 to 400.000 inhabitants by 2010. (CoW, 1996) It was further forecasted that Katutura would absorb most inward migration but limited capacities would lead to a situation in which shanty housing make out 50 percent of all urban housing. (CoW, 1996). Migration figures from the period of 1990 to 2000 confirm this, showing that two-thirds of the total migration to Windhoek has been to Katutura. As a consequence more than half of Windhoek's population, which itself is around ten times bigger than any other urban area in Namibia, now lives in Katutura. (Frayne, 2007) This growth is significant, considering that the original townships consisted of only 4.000 rental houses in 1968 (Pendleton, 1996).

### **Strategic focus of economic development**

In accordance to the size of Windhoek and its townships, the municipality also has more complex institutional structures. The Department of Economic Development & Tourism has several subdivisions, of which two deal with the support of micro, small and medium enterprises. The section of Micro-Entrepreneurial Development has a focus on those businesses offering basic services or retail products whereas the section of SME Development and Promotion mainly targets small manufacturing businesses such as those at the Industrial Stalls and the Business Incubation Centre. The two sections have eight and eleven staff members respectively. Business support takes place in close collaboration between the two subdivisions of the department.

Strategically the efforts to develop the local economy of Windhoek are based on the Local Economic Development Strategy paper. The current strategy has been drafted for the period of 2010 to 2015 (CoW, 2011). In this paper it is stated that all development initiatives in Windhoek must be aligned with Namibia's Vision 2030. More specifically, the municipality states that it is imperative to "identify unique economic challenges and development opportunities that exist" (CoW, 2011, p. 2). Interestingly, at no point in the paper the Apartheid history of the city or its consequences are mentioned. Instead, Katutura is listed among other suburbs such as Klein Windhoek, Eros and Wanaheda as areas of increased economic activity. Among the listed goals are the reduction of poverty and the promotion of economic empowerment. As a means to achieve this goal the municipality states its objective to focus on opportunities for SMME development. Specifically the paper states that "apart from establishment support, SMEs must also be supported in terms of the provisions of market information, export opportunities, training initiatives and so on" (CoW,

2011, p. 7). It further mentions that a specific SME Strategy, giving policy directive towards small-scale and informal trade in Windhoek, is currently being finalised. Several shortcomings within the field of LED, such as the absence of an up-to-date SME database and the lack of a collaborative platform between SMEs and established larger businesses are mentioned. A strong characteristic of the strategy is its inclusion of concrete projects that are to be implemented during the given period of time. The following eleven projects are specifically targeted at SMEs: Provision of a regulatory environment for SMMEs; Streamline small business support; Increasing access to finance; Improving access to markets; Business infrastructures (e.g. markets and industrial stalls); Integration of the informal sector; Provision of access to training; Access to technology; Monitor SMME development through a monitoring and evaluation system; Improve the operation and success of the current SME Incubation centre; Develop a system to link SMMEs with established businesses.

Overall the LED strategy paper of the City of Windhoek is promising. It shows that local authorities indeed have the adequate mandate to implement a wide range of initiatives for local economic development. Interestingly there is a strong focus on SMME support, but townships are at no point mentioned specifically. Though it can be assumed that a vast majority of all SMMEs are located within Katutura and its surrounding shanty locations, this focus reflects that the City of Windhoek pursues an inclusive strategy, targeting all small business equally regardless of their individual location.

### **Evaluation of current LED initiatives**

The sheer size of Windhoek's township economies is reflected in the number of subsidized business facilities that the municipality currently runs. There are a total of sixteen finished market facilities in the broader Katutura and Khomasdal areas including the informal settlements. Two additional facilities (vendor stalls and rooms) are provided within the CBD of Windhoek at subsidized rental rates. Besides, the municipality rents out space in four industrial stalls to small-scale manufacturers and mechanics as well as in one business incubation centre (a complete list of business facilities is provided as appendix X) Also private investors have built markets, such as the Horseshoe Market, providing room for micro and small enterprises.

Whereas it is not within the scope of this study to evaluate all the individual markets, the survey sample of forty entrepreneurs includes businesses from seven facilities, namely

Soweto Market, Oshetu Community Market, Onghendambala Market, Khomasdal Market, Horseshoe Market, Katutura Industrial Stalls, and the SME Incubation Centre.

The provided facilities vary in layout and size, but most market facilities have in common that serviced rooms or open stalls are provided to tenants. The municipality currently experiences high demand for its facilities, which is no surprise in the light of the vast number of businesses that are operated under difficult conditions on private properties. Several of the business facilities are characterised by a low diversity of businesses. The privately run Horseshoe Market, which is located in proximity to the Oshetu Community Market, predominantly houses entrepreneurs in tailoring, electronics repair and restaurants. As The Namibian writes, the boom of the fashion market has led to an increase in the number of hair salons, so that on Horse Shoe Market, Soweto Market and Oshetu Community Market alone there are nearly 100 hair salons. (The Namibian, 2009)

Other facilities, such as Soweto Market or the SME Incubation centre feature a higher diversity of businesses. Here, also IT services, transport firms, parcel services, cosmetics or business consultants can be found. Though Soweto Market is less frequented by customers, it enjoys a central location, which one interviewed entrepreneur calls “the CBD of Katutura”. Khomasdal features a less vibrant business community than Katutura.

Whereas business activity on private property is very common and also accepted by the authorities, certain business types provide a threat to their immediate environment. In this sense, informally operated car washes potentially cause damage to roads when no proper drainage systems are in place. As a response, the City of Windhoek is currently undertaking efforts to create a centrally located facility to accommodate car washes. Mechanics, welders, tire repairers and spray painters are usually allocated space in one of the industrial stalls. However, their current number is far higher than that of available space, so that backyard businesses are still very common. (Haukongo, 2011)

When it comes to training for small-scale entrepreneurs, facilitation is shared between Windhoek Municipality, the Khomas Regional Council and MTI. The municipality currently aims to expand the services offered at the SBIC Oshetu IT centre which provides access to information technology for small entrepreneurs. Generally, training needs are assessed through a questionnaire that is handed out to every new business. At the industrial stalls and

the incubation centre, trainings are conducted in co-operation with the German Corporation for International Development (GIZ) aiming at capacity building.

### **5.3.2. Challenges to business development in Katutura and Khomasdal**

#### **The competitive landscape**

The advanced development of Katutura and Khomasdal as areas of economic activity comes at a price. Large scale enterprises, mostly retailers and wholesalers, have not failed to see the huge investment potentials in the continuously growing townships. These businesses clearly dominate the market for Fast Moving Consumer Goods (FMCG) and to a large extent import their supplies from South Africa. This situation leads to a unique competitive landscape in the townships. In contrast to townships in other towns, the number of small-scale grocery retailers in Katutura and Khomasdal is very low. Most such retailers are found at a distance from the bigger retailers and only serve their immediate neighbourhood.

The fact that despite the presence of large corporations in the township, only 33 percent of the entrepreneurs identified large corporations as their main competitors can be interpreted as follows. The small township businesses have specialised and operate on niche markets, not selling the same products as the large firms. Tailors focus on traditional dresses, because modern textile products are imported from South Africa, and shops sell cooked food instead of groceries. Though Katutura shows characteristics of being an economy in itself, a dependency on the CBD of Windhoek still shows. More entrepreneurs experience high competition from businesses in the city centre (43 percent) than from businesses in their surrounding (38 percent). Despite the ability of small businesses to specialise and operate on largely independent markets, the arrival of large corporations does have an impact on the business community. As Kandenge (2011) states, “there is no longer space for self-made millionaires in Katutura, like there used to be before larger enterprises moved in”. But not only direct investments by retailers and wholesalers in the townships affect the business community. Also the issue of retailers that import their goods and offer them at cheap rates, came up during the interviews. In this regard cheap furniture from South Africa, textile from China and cell phone material from India was mentioned. One concerned entrepreneur reflected on the difficulties for SMEs saying: “For the small man it is zero comma zero. For the big man it is everything.”

### **Resource availability**

Due to the high diversity of entrepreneurial businesses in the townships of Windhoek, another challenge becomes apparent. Several interviewed entrepreneurs, who have established themselves in niche-markets, complained about the difficulty to obtain the necessary resources for their business activities. One illustrative example is an entrepreneur operating on Khomasdal market, producing confectionaries. Whereas she experiences high demand for her products, she drives down to South Africa several times a year in order to buy packaging material that is not available in Namibia. In a similar fashion the interviewed jeweller at Oshetu Community Market and a pool table supplier at Soweto Market purchase their supplies, which are gold and pool table supplies respectively, in South Africa. Also an entrepreneur who runs fashion shops in the townships of Windhoek and Gobabis stated that fashion products are not available at competitive prices in Namibia. These cases show how Namibia's low level of industrialisation, one of the main challenges to economic growth as identified in Vision 2030 (GRN, 2004), sets a restraint on entrepreneurial activity. Whereas the high level of development in Windhoek's townships encourages entrepreneurs to enter niche-markets, it is often the lack of readily available resources that hinders their growth. It is these niche-markets, however, that the country needs to develop in order to achieve a state of development at which fewer products are imported and more value is added within the country borders.

### **Municipal planning and restrictions**

Another restraint to SMME development comes from the local authority itself. Despite the high number of provided business facilities such as SME Parks and Open Markets, the SMME community as a whole is not involved in the planning processes. Tenants of several markets complained about the inefficient design of their facilities and expressed they had little hope for change. Along this line of thought an entrepreneur at Khomasdal Market stated that some of the market stalls had insufficient shelter from rain and wind. "We have told them [the municipality] many times, but they don't seem to care. If nothing changes, I will go myself and donate a roof for those poor people." More significantly, the interviewed entrepreneurs at the same market unanimously complained about municipal restrictions that would significantly hinder their businesses. Examples are the prohibition to put up banners with advertisements, to give theory lessons at a driving school in the open, or to install security bars at windows. As banal as these restrictions sound as severely can they hamper business



growth. In an analogy one entrepreneur stated: “The facilities they have provided are great. But it is like building a cage for a bird and then not feeding it.”

7 percent of the interviewed entrepreneurs in Windhoek named municipal requirements as main problem during start-up and 3 percent stated red tape to be main hindrances to further growth. These numbers might appear to be low, however they represent answers to open questions without predefined answer-choices. For the given entrepreneurs the hindering role of the municipality was therewith truly more urgent than, for example, capital needs. Despite this, the local authority appears to have a far better outreach than the other assessed towns. Only 40 percent of the entrepreneurs stated to never have interacted with the municipality (the average across all towns is 58 percent).

### **5.3.3. Economic potentials**

#### **The emergence of an entrepreneurial culture**

With Windhoek being the central business hub of Namibia, the situation in the city's townships inevitably differs from that in other localities. High numbers of migrants with economic ambitions come to Windhoek every day; and most of them come to Katutura. The findings show that a significant number of entrepreneurs in Windhoek's townships are experienced. 28 percent have relevant work experience (i.e. they worked in the same field they now operate their own business in) and 20 percent had run at least one business prior to their current venture (twice as many as in the other towns). The relative high level of experience can be seen to have two main causes. First of all, Windhoek features the most vibrant and diverse business environment in Namibia and thus attracts those who have skills but do not see economic opportunities elsewhere. Second, the economy within Katutura is diverse enough for employees to see opportunities that are more attractive than employment. As entrepreneurs they are not limited to running one business only. In fact, there is a high prevalence of entrepreneurs who run several businesses at the same time. Property owners on Eveline Street, for example, often not only run a shebeen, but also a hair salon and a car wash.

More still than the level of entrepreneurial activity is the diversity of businesses an indicator for the emergence of a entrepreneurial culture. Whereas barber shops, car washes, cell phone repairs, shebeens, and restaurants represent rather simple forms of entrepreneurship, also more sophisticated business models can be found. Examples are businesses in transport, logistics, mechanics, spray painting, furniture, jewellery, leather

fashion, or confectionaries. Further the presence of an entrepreneur running a driving school and one with a SME consultancy, clearly indicate that Katutura cannot be regarded as a separate and stagnating area of residential concentration. This level of development is a clear contrast to other towns in which the township economy is largely limited to the retail of products that entrepreneurs buy at wholesalers in the CBDs. The growth of Katutura as area of economic concentration was clearly enabled through the end of Apartheid. As Pendleton (1996, p. 41) states, only 40 businesses were to be found in Katutura in 1970. Town planners have acknowledged the emerging role of Katutura early on. In 1996 a hierarchy of areas that were anticipated to become major retail centres in Windhoek was defined. Whereas the city centre ranked as highest order retail centre, Katutura came in second place classifying as second order retail centre. (Windhoek Municipality, 1996)

### **Economic inclusion**

Windhoek's townships, in particular Katutura, differ from those of other towns in one crucial way: They are economically more included in the overall city economy. The survey results show that township businesses do not only have customers coming from the informal settlements (85 percent) and the townships (98 percent), but also from the city centre (83 percent). The latter value is higher than in all other towns, where townships are smaller and offer less diversity of products and services to potential customers.

Though Katutura is not excluded from the purchase patterns of city residents, economic inclusion is yet to show in form of co-operation between township businesses and larger firms in the CBD. Though 28 percent, and therewith more than in the other towns, of the business owners indicated to have a partnership with another business, these were primarily limited to partnerships with other small businesses. In this regard the municipality's undertaking to develop a system to link SMMEs with established businesses, as stated in the economic strategy paper, is a promising initiative.

### **Levels of formality**

The above mentioned outreach of Windhoek Municipality is also reflected in a high level of formality among the township business community. In fact, 65 percent all businesses were registered with the local authority and 63 percent with the MTI. 25 percent of the interviewed business owners, more than in any other town, additionally indicated to have registered for taxation. Interestingly the level of registration was not lower among

businesses operated on private property than among businesses on formal markets, where registration is often a requirement. This high level of registration constitutes an economic potential since registered businesses can be targeted more efficiently by the municipality and other actors than the opaque sum of informal businesses.

Moreover, with registration businesses fulfil the minimum requirement for services from private institutions such as banks. In Katutura and Khomasdal the percentage of entrepreneurs stating to save business profits in a bank account is at 90 percent and therewith at a very high level.

### **Unsaturated markets**

While other Namibian towns struggle to define attractive town profiles, Windhoek already has it. It is the country's capital, its economic hub and the culturally most diverse urban area. Regardless of the actual framework conditions, the promise of a better life and employment alone will always continue to attract migrants in the foreseeable future. As population increases also the economic potential of untapped markets does. The widespread presence of entrepreneurs running up to four different types of businesses at the same time indicates that entry barriers are low whereas demand is high. Significant is also the number of business owners indicating a high ability to grow in the near future. One out of four business owners rated future growth as easy and it was stated that "nothing is difficult", "we like competition, it pushes us" and "growth is easy, you just have to be proactive." With only 30 percent of the entrepreneurs rating growth as difficult (Gobabis 82 percent, Luderitz 60 percent, Oshakati 77 percent), the level of entrepreneurial optimism is comparably high. Past development of the businesses confirms the owner's perception. Every third business had grown in terms of space and capacity since its inception. This is an important trend since increased capacity in many cases also leads to higher employment numbers. From these findings it can be concluded that Katutura's markets are far from saturated.

### **The manufacturing hub**

Particularly high growth and employment potential lies within Windhoek's characteristic as leading manufacturing hub. After independence in 1992 data suggested that Windhoek alone accounted for 51 percent of the country's manufacturing activity. (NEPRU, 1996, p. 11) The high concentration of manufacturing businesses is not exclusive to the city centre only. Though their exact quantity is not determined the number of manufacturers operating both

inside the four Industrial Stalls and on private properties, is high. While large numbers of manufacturing businesses are mechanics, welders and spray painters, others businesses operate in lucrative niches such as leather fashion, jerseys and jewellery. In some cases surveyed manufacturing businesses were located in the township but had customers coming from the city centre exclusively (e.g. manufacturing of furniture).

### **Clusters**

The township economy of Katutura is developed enough for small business clusters to have emerged. Eveline Street is dominated by shebeens and car washes and is reputedly Katutura's most vibrant area for activity in the evenings. The Oshetu Community Market (formerly known as Single Quarters Market) and its surroundings are the centre of meat cutting and retail. As there are various small restaurants and meat stalls, this market is also one of the most known areas in Katutura among visitors. The survey findings further suggest that whole value chains are spatially embedded in Katutura. A significantly high number of surveyed entrepreneurs, 38 percent, indicated to buy most of their material and supplies within the townships. The respective percentages in the other towns are much lower: Gobabis 7 percent, Luderitz and Oshakati zero percent.

## **5.4. Luderitz: Harbour town in the South**

### **5.4.1. Local framework conditions**

Luderitz differs from the other surveyed in various aspects. First of all the town is located at the sea, featuring one of the two commercial ports of Namibia. Second, Luderitz occupies largely dry land that borders the Namib Desert so that hardly any farming and cattle herding activities are possible. With 13.295 inhabitants (NPC, 2003) the town was comparable in size to Gobabis in 2001, though numbers of up to 25.000 inhabitants have been stated during interviews explained through inward migration of labourers working in the diamond and fishing industries. The town is further defined through its unique remoteness to other urban areas. Whereas the next town is at a distance of 4,5 hours by car, Windhoek lies at a distance of 9 hours and the North that is home to many migrants is 18,5 hours away.

Main economic activity takes place in the town centre at the waterfront, along a short stretch of coastline where fishing enterprises are located and in the diamond mining area starting several kilometres in the Southeast of Luderitz.

Also in Luderitz systematic spatial segregation has taken place during the time of Apartheid, but its legacy is somewhat less obvious to outsiders than in Gobabis and Windhoek. (appendix XI) Benguela, the former black township, is located directly east of the small town centre and has grown so close to the actual town that even residents can no longer make out the exact borders. Nautilus, the former coloured township lies in the North of Luderitz and is within easy reach, though it is spatially separated to some extent. Whereas the townships hardly differ from other suburbs in terms of their location, they are visibly less developed in terms of infrastructure and architecture than the very organised and clean town centre. Surprisingly Luderitz offers clear signs of spatial segregation despite the relatively good integration of the townships. At a distance of several kilometres to the Northeast lies an isolated new residential area, called Agate Park, which was developed by the National Housing Enterprise (NHE) during recent years. Even further behind, in midst of inhospitable rocky hills, lies the informal settlement Area 7, so far away from the actual town that it is difficult to reach without vehicle. Also in and around the two townships informal and new formal housing has been set up as the town expanded.

### **Strategic focus of economic development**

Of all assessed towns, Luderitz arguably has the weakest approach to Local Economic Development. For reasons that remained unspecified even during interviews at the town council, the position of the economic developer is vacant since three years. Also the council has not put any LED strategy or action plan into writing so that it is unlikely that any targeted initiatives are initiated in the near future. Inquiries about the state of economic development in the town were referred to the acting tourism officer, who runs the local tourism office at the waterfront. Given these circumstances it is questionable whether the council has adequate capacities to foster Local Economic Development initiatives. Partially the lack of a drive towards recognising economic development as a priority on the council agenda can be explained by the presence of the Waterfront Development Company. This parastatal organisation is subordinate to the Ministry of Finance (MoF) and was established to foster the aim of turning Luderitz into one of the most important commercial centres of Namibia. The Waterfront Development Company is currently building several facilities with business space that is rented out to local firms. The most prominent of these projects is a shopping mall at the waterfront that hosts several small shops of which most are run by township dwellers.

### **Evaluation of current LED initiatives**

Besides the commercially operated business facilities of the Waterfront Development Company, a number of local entrepreneurs occupy business facilities at the town's SME Park that is located inbetween the town centre and Nautilus. Its location is arguably not the most favourable for businesses that rely on a high visibility to potential customers (such as hair salons or take-aways), but businesses with more distinguished products and services (currently mechanics, funeral services, copy centres) can benefit from the affordable business space.

In contrast to the situation in the other towns, small-scale entrepreneurs in Luderitz can currently not benefit from skills trainings. On the one hand, training facilitation through MTI is planned but has not yet been implemented. On the other hand, on the side of the town council it was stated that the business community itself does not understand the need for trainings, which hampers the implementation process. Furthermore, there are currently no Public Private Partnerships in which small local firms participate, though tender processes were stated to be open to all firms.

#### **5.4.2. Challenges to business development in Benguela and Nautilus**

##### **Lack of entrepreneurial drive**

All interviewed town representatives surprisingly agreed on one main challenge for business development among townships entrepreneurs: an insufficient understanding of markets and business processes. In an interview the town's CEO voiced concern about the "copy & paste mentality" of local entrepreneurs. She further said that "at the end of the day taxis are many and the cake is small". In other interviews it was stated that the local community had a limited entrepreneurial mentality and instead a majority of business owners would come from other areas such as Windhoek or the North ("People in the South are more static"). The survey findings support this impression, though the actual percentage of outside-entrepreneurs seems to be lower than perceived. 10 percent of the entrepreneurs, more than in most other towns, stated to have lived elsewhere prior to start-up, which is a high number in light of the remoteness of Luderitz. Whereas an entrepreneurial mindset is one possible explanation for the high number of incoming entrepreneurs, another just as probable explanation is the fact that Luderitz attracts high numbers of migrant workers. These workers, once in Luderitz, might see business opportunities and market needs inspired by their experience from the regions they come from.

In light of these findings skills and awareness trainings are the more important. These trainings can potentially help individuals to better understand local markets and learn the principles of business development. “It is all about awareness” was a statement that was repeatedly made during interviews. The survey shows that Luderitz, with 20 percent, has the lowest level of opportunity entrepreneurs. In fact 67 percent of all entrepreneurs indicated to have started a business simply in order to make a living. The resulting business landscape shows a low level of diversity and direct competition among similar businesses.

### **Economic divides**

More visibly than in other towns, the economy in Luderitz is divided into two categories. Several large-scale enterprises, mainly in mining, fishing and tourism, dominate the economy, whereas a larger community of small-scale businesses is located in and around the townships, lacking the capability to scale-up their business models or innovate. Most interestingly the situation in Luderitz shows that it is not always the former townships that are the most disadvantaged areas. Instead also newly developed residential areas, such as Agate Park, and isolated informal settlements can suffer from similar circumstances. In Luderitz the question remains why these areas have not been better integrated into the town. Though plans exist to further develop the whole town, including the empty space that currently separates Agate Park and Area 7 from the other urban areas, it seems unlikely that this is an undertaking to be achieved on the short-run.

The competitive landscape as reflected in the survey findings confirms that Luderitz has the most segregated economy of all assessed towns. 83 percent of the business owners stated to only compete with other small businesses and competition from businesses in town is predominantly rated as low (60 percent). In an interview with town council officials it was argued that little competition took place between small and large enterprises as they do not offer the same products. Whereas large ventures are mainly found in the tourism sector, small township businesses are not represented in this industry. Also the level of business linkages is lower in Luderitz than in the other towns. Only 10 percent of the interviewed business owners indicated to have a business partnership of some kind.

Concerning business representation, the situation in Luderitz mirrors that of Gobabis. There is an established chamber, called Luderitz Chamber of Commerce and Industry (LCCI), but current lists show that the chamber is still clearly dominated by white firms. As the chamber has recently increased its efforts to reach out to a broader business community the situation

could improve in the near future. Among businesses in the survey sample, an above average percentage of 13 percent is already represented by a business association of some kind.

### **Dependence on regional economy**

A characteristic of the economy that crucially distinguishes Luderitz from other towns is its dependence on the regional and global economy. During interviews it was stated that the economy is mainly constituted of the tourism, fishing and mining industries. During recent years the town was severely affected by the global economic crisis. As diamond prices went down, around 800 of initially 1000 employees in the mining industry were stated to have been retrenched. Overall, the town population that to a large extent consists of migrant workers went down from an estimated level of 25.000 to 20.000 people. While the global crisis directly affected large businesses, indirectly also small businesses suffered, as potential consumers migrated out of town. Especially in the townships, where most migrant workers live, the perceived demand went down. With only 23 percent of all businesses stating to have high numbers of customers, townships businesses in Luderitz experience below average demand.

Another trend that could be observed during the survey, though not captured in figures, is the phenomenon that entrepreneurs frequently not only operate a business but also have a full-time job, mostly at Namport or in the fishing industry. Considering the low number of opportunity entrepreneurs, this can be interpreted as a measure of entrepreneurs to be on the safe side even during times of economic recession and low demand. It also shows that businesses frequently do not yield profit margins high enough to secure sufficient income for their owners.

### **Dependence on outside suppliers**

The observation that the community, or rather collective, of small-scale entrepreneurs in Luderitz is isolated from main economic activity is further manifested in the characteristic of current value chains. The survey results show that none of the businesses has suppliers in the township itself. While only 20 percent (the average among all towns being 48 percent) purchase their products and supplies in town, staggering 83 percent have suppliers outside Luderitz. 33 percent of all entrepreneurs purchase supplies in Keetmanshoop, which is the closest but yet remote town, 40 percent in Windhoek and 13 percent in the North of Namibia. Frequently supplies come from several of these locations. A positive observation is



that of a relatively high level of supply organisation. In 75 percent of the cases in which a business purchases supplies outside Luderitz, these are delivered. Nevertheless, the high distances lead to increased costs regardless of whether supplies are delivered or not.

### **5.4.3. Economic potentials**

#### **Spatial inclusion**

As aforementioned, the townships in Luderitz are spatially more integrated into the overall town than it is the case in other towns. Whereas this does not apply to all township areas, it nevertheless is a potential leverage of business development. As not even residents can tell where exactly the former black township borders the town proper, township businesses are more visible to the whole town population. Currently township businesses experience an average level, 68 percent, of customers coming from the town centre. If Luderitz grows further towards the North, as is currently foreseen by the town planners, the townships are the first areas that will benefit of the increased inclusion. The more integrated townships are into the overall town, the more inclusive will also the overall economy be, as more big enterprises will locate in and around the townships potentially increasing the level of co-operation and knowledge sharing.

#### **Three big industries**

The three major industries are not only challenge but also potential for the development of the SMME sector in general and township businesses in particular. At present these industries consist of large enterprises exclusively. Yet, if only increased collaboration and outsourcing can be encouraged, small ventures could become part in their value chains. Small-scale entrepreneurs could offer services that make the operations for larger businesses both cheaper and more flexible. Especially in light of the dependence on global economic cycles, large businesses could benefit from engaging small businesses with short-term or seasonal contracts. Nevertheless, as discussed above, current business owners in the townships have little entrepreneurial drive and commonly lack the capacities they needed to link up with larger enterprises. In this context market dynamics alone are unlikely to suffice and the local authority could play a facilitating role in bringing the different economic players closer together, encouraging strategic partnerships and increasing institutional capacities through trainings.

Also in a different, though strategically less important, way is the presence of three big industries beneficial for small local businesses. Whereas businesses across Namibia usually experience a sudden surge in demand at the end of the month, when most companies pay their employees, in Luderitz companies state to experience a peak in demand every weekend. This phenomenon is explained by the fact that several large employers in Luderitz have different fixed payment dates throughout the month.

### **Leverage of the local authority**

The lack of trust is a main hindrance to fruitful interaction between businesses and local authorities in all assessed towns. Also in Luderitz 33 percent of business owners regard their relation with the town council as insufficient and only 10 percent state to find it helpful. Nevertheless, at the same time frequently entrepreneurs stated to have high hopes in the newly elected town council that seemed to have a better approach than the old one. This new sense of trust is a huge leverage for the local authority as long as it remains. If the town council of Luderitz recognises this potential, increases its efforts to communicate with and understand its business community, initiatives have a relatively high potential to have positive effects. The fact that far more businesses are registered with the local authority in Luderitz than in any of the other towns (80 percent as compared to 21 percent in Gobabis and a cross-town average of 61 percent) should further facilitate effective interaction.

## **5.5. Oshakati: Population centre in the North**

### **5.5.1. Local framework conditions**

Oshakati is an important addition to this study as the town is one of the most important economic hubs at the same time the largest urban area of northern Namibia. The most crucial difference between the North and the rest of Namibia is the constellation of its inhabitants. The North has always been home to a major part of the Namibian population but at the same time is the area least affected by colonisation. Knutsen (2003, p. 563) explains that whereas “the white homeland covered the mineral-rich central plateau and was incorporated into South Africa, none of the black homelands were economically viable.”

Nonetheless Apartheid did also affect Oshakati. The town is located in the centre of Northern Namibia and stretches out along one main road. (appendix XII) As the North is Namibia’s most densely populated area, various urban and rural areas are close to Oshakati,

such as directly neighbouring Ongwediva to the Southeast and Okahao to the West. The town itself was divided into a township for the black population in Oshakati West and a white area in Oshakati East. Spatially these two areas are separated by a river though both parts lie next to each other on the main road. Due to the latter reason the division is hardly visible today and is mainly manifested through differences in road infrastructure and architecture. New residential areas, formal as well as informal, are not exclusive to the area around the township. Oshakati has expanded to the East along the main road and to the North of it, not least because reoccurring floods forced the large parts of the town population to resettle.

Businesses are predominantly located along the main road, larger enterprises and small informal businesses alike, so that a Central Business District hardly exists. Few small businesses are to be found on private property within the township, while a large number of vendors sells at the Open Market situated opposite the township on the main road. Mandume Ndefayo Avenue, located in the former township, constitutes a second high street for business activity. A small industrial cluster has developed in the North-western part of Oshakati, where also the facilities of several international companies are to be found. The Oshakati Structure Plan (Urban Dynamics, 2001) estimates Oshakati to become the economic capital of Northern Namibia by 2016 due to its central location.

### **Strategic focus of economic development**

Currently the Municipality of Oshakati employs one full-time officer for Local Economic Development. This position is not yet backed by an according strategy paper and no clear guidelines of how to target the local business community have been formulated as of yet. However, the municipality is currently preparing for a baseline study that is supposed to capture both the size and characteristics of the SMME sector. Once this data is available, strategy formulation can take place with a sound insight into the current economic situation. Being asked about development priorities, municipality representatives stated long-term security from floods as these had a devastating impact not only on residents but also on businesses and the economy as a whole. Further, the municipality does not see a need to allocate resources to Local Economic Development in addition to its current LED officer. Whereas it was argued that further capacity would only distort the focus of LED activities, during interviews it emerged that also the current position is not clearly centred on economic development only as various issues of daily council operations are dealt with.

### **Evaluation of current LED initiatives**

The current approach towards nurturing the local business community mainly consists of the development of a new Open Market which is to be finalised in three years time, then replacing the existing one. Currently the Open Market provides most basic shelter (open but roofed space) for tailors and vendors. As the number of vendors is far higher than that of available spots, the majority of vendors has set up improvised shelter all around the market facilities turning it into a large and lively though unorganised area of trade. The new Open Market is targeted at bringing more organisation into the trade so that basic requirements of hygiene and security can be met. Whereas it is further argued that a more organised market would improve the town's image, opponents of the initiative criticise that the new Open Market will have a less advantageous location, which is not on the main road but some one hundred metres off. Recognising this challenge, the municipality is planning to relocate not only the vendors, but also the main stands for public transport and long-distance busses to the new location. An issue that is yet in need of a solution is the funding of the project. Its total costs sum up to N\$ 68 million, an amount which exceeds the total annual budget of Oshakati Municipality. Though a transfer of N\$ 7 million has been made by the central government, a significant gap in funding remains. At present the municipality does not consider the involvement of private investors, in order not to increase the pressure for profitability on the project.

While no indication for training facilitation could be found, Oshakati is the only among all assessed towns in which a significant number of entrepreneurs has access to support services such as microloans. 10 percent of all businesses included in the survey indicated to be organised in a group that receives credit from the microfinance bank Fides. Further, occasional meetings of the business community take place, though the general perception of their usefulness was found to be low. As far as chamber representation is concerned, the town faces a unique situation. While the Northern branch of NCCI was traditionally seen to be a black chamber, white business owners frequently preferred membership at the Windhoek branch of the chamber. (Knutsen, 2003) This separation of white and black businesses is similar to the situation in Gobabis and yet different in the sense that white businesses have a clear outward orientation and are not organised locally.

### **5.5.2. Challenges to business development in Oshakati West**

#### **Low business diversity**

Oshakati, being the main residential area in the North of Namibia, has a large community of businesses. Also the diversity, ranging from simple grocery shops to a florist or upholstery, is relatively high. Nevertheless, the findings suggest that entrepreneurs in Oshakati use market opportunities less efficiently than entrepreneurs in other towns. Firstly, almost exclusively (93 percent, the average being 73 percent) entrepreneurs in Oshakati experience difficulties during start-up. More detailed enquiries show that the main challenges for new entrepreneurs are more uniform than those in other towns. 50 percent state to have had difficulties gathering the necessary funds and 30 percent struggled to build the necessary customer base. Both these percentages are higher than the cross-town average. A possible explanation for the high level of difficulties can be drawn from the fact that the percentage of opportunity entrepreneurs in Gobabis (23 percent) is far below average. In fact basic business models like those of restaurants and tailors are widespread (10 percent and 23 percent respectively). Resultantly small businesses in Oshakati face tougher competition than businesses elsewhere. A minimal fraction of 3 percent of all interviewed business owners indicated to have high numbers of customers, while 53 percent experienced low numbers. Both these percentages are at the extreme ends of the spectrum compared to the other assessed towns. These findings in combination lead to the conclusion that entrepreneurs in Oshakati on an aggregate level have understanding of market dynamics that is below average. The push factor of poverty is stronger here than elsewhere and individuals frequently resort to those types of ventures with the lowest entry barriers. The resulting high level of competition in turn hampers growth, so that 77 percent of all entrepreneurs state to find it difficult to expand their current business activities. Due to the size of Oshakati, nevertheless, diversity within the business community can be found so that there is potential for beneficial knowledge spillovers and enabling partnerships.

#### **Low trust in local authority**

When it comes to encouraging innovative entrepreneurship and further diversification of the business community, the local authority can play a central role. However, Oshakati Municipality faces a central challenge: Of all surveyed towns, it enjoys the lowest level of trust by its business community. In fact, 70 percent of the business owners stated to find their current relation with the municipality insufficient. More specifically the entrepreneurs

held the municipality responsible for their dissatisfaction, making statements like the following: "I am not trusting the town council, they steal business ideas when I make a proposal"; "They are selfish. They hide information from us"; "The people in the authority need training, otherwise they cannot help us"; "We want to sell without harassment".

When being asked about their relation to the town council, large number of business owners further complained about the lack of information. Examples of lacking knowledge include information about the application process for the new Open Market, about how to register a business and what exactly the role of the municipality is concerning business development. These findings are not unique to Oshakati, but rather a common challenge for all towns. Yet, business owners in Oshakati seem to be more critical than their counterparts in other towns, providing their local authority with a crucial challenge that needs to be overcome.

### **Availability of supplies**

None of the surveyed businesses in Oshakati has its suppliers in the township. This in itself is not a challenge, since business activity in Oshakati takes place along the main road on which not only the former white area but also the township is located. Whereas 77 percent of the businesses state to get their supplies in Oshakati, almost half of all businesses (47 percent) are also dependent on outside suppliers. Partly (23 percent) this concerns suppliers in proximity, such as in neighbouring towns, so that transport distances remain short. The more important finding is that 20 percent of the businesses regularly receive supplies from Windhoek, of which more than half (13 percent) involves own transportation instead of delivery. 10 percent of all businesses face an even more crucial constraint on the availability of supplies, as they use their own transport to get supplies in remote South Africa.

### **Business facilities**

In contrast to the other towns under assessment, Oshakati Municipality provides only few business facilities to its inhabitants. As the Open Market is the only publicly run facility, there currently is no SME Park or Incubation Centre despite the large number of businesses. This is a challenge insofar as the Open Market currently only provides space for vendors and tailors, but not for individuals with more sophisticated business models. At this the municipality misses out on the opportunity to provide more targeted support for those businesses with high growth and employment potential. Accordingly businesses in Oshakati show a below average satisfaction with their current capacities and are less optimistic about future

growth. 20 percent of all interviewed business owners in Oshakati named their current business location and its capacity as the main challenge to future growth. No other constraint was named as often (though a low number of customers follows closely behind at 17 percent) and in none of the other towns was business space a major issue.

### **5.5.3. Economic potentials**

#### **Spatial inclusion of the town**

Due to its spatial characteristics, Oshakati can foster inclusive economic growth with less effort than other towns. The somewhat weaker legacy of Apartheid has not caused the economy to be segregated into several spatial clusters, as it is the case in Windhoek or Gobabis. Instead economic divisions exist along the lines of income inequalities, with the poorer part of the population having difficulties to establish sustainable businesses without external support. Main economic activity takes place along two main roads and business concentration is especially high in the area of the Open Market that is located in close proximity of the former black township. Businesses stated to not see any difference between competition in the immediate surrounding (Oshakati West) and that from other areas in the town (Oshakati East). Indeed, it proved difficult to formulate this question during interviews, since residents seem to no longer see their town as divided into two sides. This constitutes a great leverage for economic planners in Oshakati since support initiatives are more likely to benefit the community as a whole instead of leading to further disparity.

#### **Concentration of residential areas**

An additional leverage for business development is the high population density of northern Namibia. With several urban and rural areas in close proximity, it is no surprise that Oshakati does not have an isolated economy. In fact, 17 percent of the interviewed entrepreneurs migrated to Oshakati in order to start the business and 20 percent still live outside Oshakati. 53 percent of all businesses state to have customers coming from outside Oshakati (as compared to an insignificant number of outside customers in Windhoek, none in Luderitz and only farmers in Gobabis). As discussed above, also in terms of supplies businesses are not limited to the town they operate in. The fact that the economy, including township businesses, of Oshakati is linked to that of several towns and villages in the surrounding hints at an increased potential for knowledge sharing and network gains. The local authorities can benefit from further exploring these linkages and jointly promoting them.

### **Number of female entrepreneurs**

Oshakati, of all analysed towns, holds the by far highest percentage of female business owners (60 percent whereas the average is 41 percent). This can be explained by the high number of tailors and restaurants, which predominantly are run by women. It can further be assumed that many of the women have come from rural areas, where they started by selling the produce of their own farmland. Rural men, in turn, seem to migrate to locations that are more industrialised and offer more manual jobs, as is the case in Windhoek where only 33 percent of business owners are female.

Although the high rate of female entrepreneurs is not a result of municipal efforts, it provides the municipality with a leverage. As women count as formerly disadvantaged in Namibia, there is a variety of support services from public and private-sector institutions available to them. Namibia's national policies explicitly state that efforts shall be made to increase the number of women that are economically active. It is now up to Oshakati Municipality to function as facilitator between its female entrepreneurs and external organisations which aim at supporting this group.

### **Legal type and registration**

Interestingly, the selected sample of businesses in Oshakati features the highest percentage of closed corporations (cc) among all towns, namely 20 percent. Considering the observation that a large percentage of township businesses are based on simple business concepts as described earlier, this shows a division even within the township economy. Whereas some ventures have grown into profitable businesses, the large majority operates on low-income markets with high competition. Nevertheless, the high level of registered companies does benefit Oshakati as a whole as not only taxes are paid, but also new economic players are attracted through the presence of potential customers, partners and suppliers. In essence the existence of closed corporations is a first sign of an emerging economic agglomeration.

### **Business linkages**

Along with Windhoek, Oshakati sticks out for having the highest number of interlinked township businesses. Whereas 17 percent of the entrepreneurs have partnered up with other businesses, 20 percent are represented in a business association or group. As in Windhoek, the higher number of linkages can most likely be ascribed to the existence of



diverse businesses (diverse businesses exist though the overall diversity was found to be low). One concrete example is a florist which has partnered up with an event management venture. Furthermore, the centrality of Oshakati and the town's size make it an attractive target for organisations such as NCCI.

## **6. CRITICAL DISCUSSION**

### **6.1. Determinants of the divide**

Without doubt the traces of the past are still visible in all four assessed towns. Not only in the smaller towns of Gobabis and Luderitz, but also in the economic hubs of Windhoek and Oshakati, is the legacy of Apartheid manifested in form of social and economic divides. Yet, some urban areas have experienced increased integration while others can be said to have stagnated at best. In the following it is discussed which factors determine the extent to which present day urban areas in Namibia are segregated economically.

The most obvious factor of all is the vigour of Apartheid planners. How thoroughly the systematic segregation was implemented, differs among the urban areas of Namibia. The towns of Gobabis and Windhoek represent the most extreme cases, where townships were built at a significant distances from the actual town centres and physical barriers continue to obstruct integration. Luderitz offers a more modest picture, as townships were built close enough to the town centre to merge with them over time, at least spatially. Least severe is the situation in the Northern hub of Oshakati where white influence was significantly lower than in other regions.

Town size is a second determinant influencing the economic divides. The larger an urban area is, the more likely it is to develop clusters as described in agglomeration theory. Due to their respective centrality, Windhoek and Oshakati have always attracted large numbers of migrants and entrepreneurs of which most settled in and around the townships. With the growing size of the townships also the diversity of their businesses communities has increased. The findings have made very evident that the smaller a township, the more outward oriented are the value chains of its businesses. Whereas in Gobabis and Luderitz all township entrepreneurs depend on the supplies of larger external suppliers, in Windhoek and Oshakati increasingly value chains are spatially embedded in and around the townships.

When they reach a certain size, township markets also become attractive areas for direct investment of large corporations, as the case of Windhoek has shown. Entrepreneurs are more optimistic about future growth the bigger their respective town is. This is a clear indication for agglomeration and network benefits. The different picture in Oshakati, where growth is either viewed as difficult or as easy can be explained by the relatively low level of development in Northern Namibia and the high potential that is inherent in the regions markets (due to the proximity to Angola and the high population density).

Where spatial divides exclude the township communities from partaking in general economic opportunities, contractual networks offer a supplement as described in the theory of network gains. In this sense the level of co-operation between firms in the town and those in the townships is another determinant of the economic divide. In all assessed towns co-operation of this kind was found to be factually non-existent with few, larger enterprises being the only beneficiaries best. In most cases township businesses lack the capacity that they would need to engage in mutually beneficial partnerships.

As an additional determinant the distribution of power can be identified. Naturally, with only two decades having passed since independence, most urban economies are still dominated by established white businesses. Hence it crucial for small townships start-ups to be well organised and represented in order to not be denied economic opportunities. Again the situation is most severe in Gobabis and Luderitz, where a majority of white businesses dominates the local business chamber and the small-scale operations of most black entrepreneurs are largely without representation. This imbalance of power has hitherto hampered every effort to bridge the divide between the established white business community and the emerging class of black entrepreneurs. Though also in Windhoek the majority of businesses are not represented in any chamber or association, the city is the stronghold of organisations such as NCCI and NISO (Namibian Informal Sector Organisation) empowering many businesses.

Public perception is arguably one of the most crucial obstacles to township integration not only socially but also in an economic sense. With the exemption of Oshakati, in all towns a tendency to view the townships as separate, less attractive, urban areas, could be observed. Largely, townships are stigmatised as areas of chronic underdevelopment and high crime

rates. Consequently town residents see little reason to spend time in the townships, let alone going there for consumption purposes. As long as no efforts are undertaken to change the image of townships and central places are not made attractive to non-residents, local businesses will have little chance to prosper.

The prospects for the formerly disadvantaged townships to become an integral part of the overall town do not least depend on political embeddedness. Not in all of the evaluated towns were the local authorities determined to overcome the challenges of the past. Whereas in Gobabis the “historical bias” was stated in the economic development strategy, it seemed to find little acknowledgement in actual initiatives. Also in most other towns the local authorities at best seemed to foster the growth of small enterprises in general without a special focus on townships. An exception constitutes Windhoek, where the municipality operates offices on one of the market facilities in Katutura. This kind of integration, a sign of political embeddedness, is absolutely crucial if the henceforward separated urban areas are to grow together eventually.

Entrepreneurial culture with all its aspects is a further determinant for the division between townships and urban centres. As long as business owners in townships lack the necessary vision, skills and drive typical for entrepreneurs, they will remain unable to meet the requirements of potential business partners in established industries. Besides personal capabilities, also institutionalised deficiencies, such as the exclusion from banking services, as well as the lack of adequate business space further limits entrepreneurial capacity.

Lastly it is necessary to acknowledge poverty as a general determinant of inner-city divides. As long as poverty prevails in townships and their surroundings will their economies remain to be separated from those of richer urban areas. The low purchasing power of customers will always hamper business growth and innovation in the townships. Poverty also entails deficiencies such as lower levels of education and information asymmetries, which are further obstacles to business success. Only if a critical level of employment within the township can be reached and customers from other urban areas be attracted, sufficient capital will start to circulate within the township improving the livelihood of its inhabitants and the capacities of its businesses.

## **6.2. Sleeping giants or white elephants?**

That townships continue to be separated from town centres in economic terms is very evident. As a response the central government as well as local authorities invest significant amounts of money in capital projects such as Open Markets and SME Parks in order to support entrepreneurship and build bridges for those who cannot overcome the market entry barriers. But are these investments justified with economic prospects or are they merely based on a social motivation? If the government subsidizes a business community that has no prospect to become independent and sustainable on the long-run, it is creating white elephants and township economies will collapse as soon as the government makes an attempt to retreat. If, however, townships represent vast untapped Base of the Pyramid markets and its residents merely need start-up assistance to overcome entry barriers and poverty penalties, then indeed the government could be waking sleeping giants and townships could become the Central Business Districts of the future. Hence, before further initiatives are launched, each town must define the role of its townships in the overall economic context. Whereas in certain cases townships have the potential to turn into the main motor of local economic growth, in other cases they are merely residential suburbs.

First, it is absolutely crucial to acknowledge that townships and their extensions represent the main residential areas of towns all over Namibia. Already half of the urban population lives in and around the underdeveloped townships today and the evidence of current migration dynamics suggests that this imbalance is going to become more drastic year by year. Windhoek is the most telling example with more than half of the city's 400.000 inhabitants living in and around the townships today. This enormous amount of people, despite their low-income, has demand for certain consumption products and services. In this sense the townships of Namibia can be regarded as Base-of-the-Pyramid markets, which have remained largely untapped. If government authorities are not successful in integrating the hitherto stagnating township economies into the overall urban economic context, this is likely to have unforeseen social consequences. Currently towns across Namibia show little significant economic development and it is a fair assumption that townships populations grow faster than employment opportunities emerge. Thus urban unemployment is on the increase, driving rich and poor suburbs further apart. Only if the townships themselves become part of the wider urban economic environment, can market efficiency be improved and sufficient employment opportunities be created.

Today's townships are far from featuring vibrant economies for several reasons. The diversity of business types is rather low, little value is added while the focus is on retail, and the business community as a whole is lacking organisation. Nevertheless, townships have several characteristics of vibrant economic agglomerations. They have large labour pools, distances are short and knowledge is shared easily through both formal and informal networks. The time since independence and therewith the time for an entrepreneurial culture to emerge has been short, nevertheless entrepreneurs will continue to learn how to cater for the needs of the township communities and once they have reached a critical level of capacity they will be crucial partners for external investors. Support by Local Authorities and other development stakeholders is fundamental to overcome current capacity deficiencies. The more businesses graduate from incubation centres, the more diverse will the township economy become and increasingly whole value chains will settle in proximity. The spatial embeddedness of value chains is absolutely crucial if township businesses are to escape from their role as distributors and niche players. Theory further suggests that townships economies inevitably will grow over time. As according to the outlined Central Place Theory, on the long-run agglomerations of businesses will evolve where there are most people. In light of the current urbanization dynamics this is within the townships and not the original town centres.

One of the most crucial leverages for township development is social embeddedness. As the survey has shown township entrepreneurs have a high tendency to remain in the township regardless of their economic success. For the poor township life is not only affordable due to low property prices, but also because of the vast social network through which individuals are connected and share the burden of poverty. This phenomenon alone does not leave government authorities with any alternative to township development. At the same time the social ties constitute a potential. The better off township entrepreneurs are the more will also the township as a whole benefit.

In summary, there is concrete evidence that township economies are by no means white elephants but rather sleeping giants which, once woken, will have the potential to change the appearance of whole cities. Not only are townships already today the most central places of social life, but also is there an emerging class of entrepreneurs that contrary to their predecessors have a sound educational background and skills. The more diverse the township economies will grow, the more will current Central Business Districts loose out as

the demand for skilled labour will increase in the townships. Town planners must recognise this development as the negligence to also spatially include townships into the overall town environment would lead to the competition of two separate, though unequal, agglomerations of businesses. For economic planners the facilitation of business linkages between emerging players on township markets and established firms in the CBDs must have top priority as these potentially lead to network gains on both sides.

The question remains whether the current situation requires townships to be targeted separately with targeted policies and designated capacities within the respective Local Authority. On the one hand there are arguments opposing market intervention and targeted subsidies. On the other hand, it is argued that any “analysis of the development of Namibia cannot be divorced from the country’s painful history of colonialism and Apartheid” (EC, 2007, p. 3). This argument is grounded on one crucial aspect: Even if politics does not distinguish between townships and town centres, markets do. Townships and their surroundings are by far the poorest and least developed areas in towns across Namibia. Therefore the cost of living is considerably low as relatively cheap land can be found and informal networks provide the necessary goods for survival. As these conditions will continue to attract the poorest parts of the population, township markets are likely to stay dominated by subsistence activity if no targeted efforts are undertaken to stimulate a more diverse economic development. Market dynamics will readily embrace the segregation of the past when economic activity was limited to CBDs and townships merely severed as pools for unskilled labour. The current determinants of the economic divides are obstacles to pure market-based solutions. As targeted as segregation measures were, as targeted must be the efforts to unite the two distinct urban areas and their economies.

### **6.3. The nature of township entrepreneurs**

In the above discussion it was assumed that townships increasingly develop a culture of entrepreneurship and individuals benefit from better educational backgrounds and skills. In order to back these assumptions, a discussion of the survey findings is necessary. What is the true nature of township entrepreneurs?

As the survey has shown, 38 percent of the surveyed business owners qualify as opportunity entrepreneurs. These results stand in drastic contrast to global entrepreneurship figures, which state that 65 percent off all business founders worldwide are opportunity

entrepreneurs. (Acs et al, 2005) Nonetheless, the level of opportunity entrepreneurship alone does not reveal actual development potentials. Also necessity entrepreneurs can apply efficient business processes and become successful on both the short and the long-run. Therefore a closer assessment of entrepreneurial capabilities is necessary.

In many regards township entrepreneurs indeed lack the drive and vision that are prerequisites for success. Typically township entrepreneurs are driven by the push factor of poverty. Unemployment in townships is high and frequently jobs do not offer salaries high enough to support a whole family. Thus most entrepreneurs start without prior knowledge about business processes but instead rely on their observation of other businesses in their surroundings. As the pressure is high and the sources of inspiration scarce, there is little innovation and businesses are likely to experience high competition from begin with. Thus, besides the general difficulty of financing the start-up, attracting a stable customer base is the biggest challenge. Entrepreneurs improvise when they do not have access to subsidised business facilities. They start on their own property or in the front yard of neighbours, setting up basic shacks or operating in containers. Equipment is most basic and often in poor condition. The latter leads to one of the most important hindrances to development: Most township businesses are unbankable. The vast majority of all township entrepreneurs has no access to loans since the businesses do not meet the requirement of standard bank services. In most cases they neither hold title deeds for the property they operate on, nor have they the required amount of savings and operating capital. This situation points at a clear need for increased availability of banking services for the poor like those offered by Fides.

Most entrepreneurs never consider to gain forces with business partners or to become a member of a chamber or association. Both the information about regarding possibilities is lacking and entrepreneurs have seen little evidence of related benefits. Due to a lack of bookkeeping skills, most entrepreneurs cannot keep track of their turnover and expenses, so that they experience low profits without being able to identify leverages for improvement.

Nonetheless, despite extensive deficiencies township entrepreneurs typically have characteristics that can prove to be powerful leverages for development. Most entrepreneurial vision and drive are to be found among those individuals that voluntarily exchange their occupation for self-employment. These spillovers not only bring along the necessary skills, but also have knowledge about business processes and in most cases have a

clear vision for the future development of their venture. Frequently these entrepreneurs maintain relations to their former employers and can also benefit from contacts with suppliers and customers.

During the interviews it further became evident that large numbers of entrepreneurs are fully aware of their importance for the local community. Frequently they stated to not only aim at generating an income for themselves, but above all help the community and create employment. This awareness certainly has cultural roots and is related to the cohesiveness of Namibian families. Tight social networks as this can foster the development of an entrepreneurial culture if targeted efficiently by support organisations. In Namibia it is still common that businesses die with their owner (Knutsen, 2003), but if incentives can be created for entrepreneurs to impart their knowledge with family members in time, this trend could be reversed. Also in respect to banking services social cohesion comprises a lever. Where physical guarantees for loans cannot be provided, financial service providers can rely on the forces of social embeddedness. While microfinance bank in Asia rely on village networks, their counterparts arguably find more leverage in family networks. Through contractual agreements family members of microloan receivers can be held responsible for their default.

Acknowledging the stark differences between business owners, it becomes evident that not all can be regarded as true entrepreneurs. As Hart (2003, p. 5) argues, business ownership does not equal entrepreneurship which rather is the “process of starting and continuing to expand new businesses.” As important as this distinction is, as complex it is to apply in reality. There are no criteria that allow a clear distinction of entrepreneurs and non-entrepreneurs when businesses are still relatively young. Authorities therefore must not be selective in their support but instead target the business community as a whole.

In respect to the design of support initiatives townships entrepreneurs themselves can provide vital assistance. They are an important source of knowledge about local economic dynamics and community needs. Many of them have worked their way up in the local community and have profound knowledge of the vast informal networks, such as rural-urban linkages, that help the poor to survive. This knowledge is valuable not only for external



investors but also for economic planners who can achieve better results when involving their business community in the implementation of development strategies.

#### **6.4. Connecting the dots**

It has been argued that township economies have an inherent potential to turn into agglomeration economies with vast networks, in which significant value is added. At the same time the assessment of four different Namibian towns has shown that currently most townships are far from unfolding this potential as their economies are highly volatile and markets underdeveloped. What does it take to connect the dots and leverage existing potentials?

A limitation for development can be derived from the discussed determinants of economic divides. Most of these determinants, especially town size, public perception and poverty, do not provide direct leverages for central and local authorities. Whereas these determinants are likely to hamper economic integration also in the future, other determinants provide better leverages. Political embeddedness, the distribution of power, networks, and entrepreneurial capacity are characteristics of urban areas that can be directly influenced by the involved stakeholders.

In the decentralised political landscape of Namibia, local authorities have an extensive mandate to foster the development of the locality they represent. The tools at hand range from Public Private Partnerships, to capital projects, training facilitation, research initiatives, and even income generating business activities. Authorities that use limited budgets as pretext for not engaging in diverse development activities miss out on the opportunity to benefit from vital urban economies in the future. In many cases local authorities can limit their role to that of facilitators so that costs remain at a minimum. Towns authorities must realise that they are the most important, in many cases the only, linkage between the various development stakeholders, such as Community Based Organisations, NGOs, business associations, chambers, the donor community and not least the local business community itself. The success of all development efforts, even research undertakings like this study, depends on the willingness of the local authorities to co-operate and function as communication platform when necessary. If the priorities of the local authorities are not aligned with the need of the respective communities, development is unlikely to take place.

If towns are to foster inclusive economic development, they must recognise the integration of townships as key priority. Only if townships and their business communities are politically embedded do development efforts justice to the vast potential that townships dynamics have. Currently political embeddedness is shallow. Authorities show little presence in townships (Windhoek is an exception) and overall communication is at low levels. In most observed cases only those business owners stated to have good relations with the local authority who maintained personal relations with authority officials. This indicates that township entrepreneurs are rather socially than politically embedded and the authorities do not fully live up to their mandate. Furthermore, local small firms have limited opportunity to participate in government tenders, which require VAT and Social Security registration as well as the keeping of books. Also the indirect participation of unregistered sub-contractors is prohibited so that the vast majority of township businesses does not qualify.

As the business communities in townships usually consist of uncounted micro and small enterprises, they cannot be addressed efficiently by authorities. Hence, business representation is essential. The cases of Gobabis and Luderitz have shown that power among businesses is distributed most disproportionately. Few large enterprises are part of well-established networks (such as NCCI or local chambers) whereas the vast majority of businesses operates independently and without representation. That Sakekamer and NCCI merge in Gobabis is just as important as the inclusion of small black entrepreneurs in the LCCI of Luderitz. As long as power is not shared equally among the henceforward largely separated business community, an adequate provision of equity and access is hindered. Knutsen (2003, p. 579) has analysed this phenomenon in Namibia and comes to the conclusion that “black-white interaction at this level is the exception rather than the rule” mainly because black and white entrepreneurs are embedded in separate social networks. Where the established business chambers are stuck in the integration process, CBOs and independent business associations such as NISO come in. The latter organisation focuses on informal sector representation in Namibia and gives a common voice to the otherwise hardly addressable sum of small-scale vendors and entrepreneurs. In how far the newly established NISO can expand outside of its stronghold Windhoek depends on the willingness of other local authorities to co-operate.

If business linkages are to be fostered, the attitude of small-scale entrepreneurs is to be targeted at first. As the survey has shown only a minority of all businesses is engaged in business partnerships and frequently entrepreneurs stated partnerships would only lead to complications and a loss of control. In order to change this perception, it is necessary to illustrate the potential benefits of such linkages and provide information of how to establish linkages that prevent small businesses from being exploited by larger partners.

Jointly, business associations and the local authorities have an interest in fostering business linkages between firms that hitherto have operated on separate markets. Small-scale entrepreneurs on township markets have a need for more input and output linkages. The survey results have shown that current supply chains are seldom local and often involve costly transport routes. Commonly businesses serve merely as distributors of products they purchase at standard retail rates from large wholesalers so that no value is added within townships. Support initiatives must be aligned along value chains so that these eventually become more locally embedded. The survey results provide a clear overview of products that are not available in a locality, e.g. supplies of hair salons which are available exclusively in Windhoek, so that business associations can think about ways to make these goods more accessible. The locality as a whole has an interest in fostering local supply chains, as currently vast sums of money flow out of the localities when supplies are bought elsewhere. This capital outflow reflects a neglected opportunity for Local Economic Development.

The most important variable in the equation are the township entrepreneurs. As described in the previous section the average township entrepreneur struggles with many characteristics that are prerequisite for success. It is therefore crucial that authorities, in collaboration with other stakeholders, foster entrepreneurial capacity. The development of a local community of entrepreneurs will lead to an increase local embeddedness of capital (as compared to the attraction of outside investment). A special focus must be on capacity building among ventures in manufacturing, as these businesses are resource-based and add value that stays within the local community. The current situation, with few large enterprises dominating the urban economies, township entrepreneurs are frequently discouraged to come up with creative business models and products. Also the increased international competition from South Africa and China keeps entrepreneurs from entering certain markets. It is therefore crucial that government on all levels evaluates which markets local

firms can serve and in which industries Direct Foreign Investment is beneficial. The market for textile is an example of local firms being driven out of the markets (most tailors operate in the niche market of traditional dresses) by large firms which import cheaper goods from abroad. In light of the generally low level of industrialisation in Namibia it is evident that local firms cannot face the challenge of this massive competition on unequal terms. Where government invites DFI it must simultaneously define policies that encourage knowledge spillovers and co-operation so that on the long-run the capacity of local firms increases. The concept of Local Economic Development in essence means relying on local resources, not least on local human resources.

The survey has further shown what many experts in the field have long known: The lack of finance is the main hindrance for most small-scale entrepreneurs in the townships of Namibia. Whereas this calls for financial services that are better customised for the poor in combination with financial literacy campaigns, it is necessary to further distinguish. Not in all cases where entrepreneurs state to have insufficient funds, are subsidies and loans the right solutions. Often the provision of equipment and facilities can be a far more efficient solution. A significant number of the surveyed entrepreneurs indicated to experience great demand for their products but complained that their current equipment would not allow expansion. In this regard support organisations and local authority can jointly think about ways to provide entrepreneurs with tools and machines, either through lending or by providing loans, as this would have an immediate effect on productivity. Also the establishment of joint manufacturing facilities with adequate equipment can be considered.

The overall aim of all initiatives must be to foster some degree of industrialisation and increase economic diversity within the townships. The central discrepancy between the current situation in most townships and the vision of inclusive urban economies is innovation. Currently being dominated by a replication mentality, township economies are in need of innovation that turn their economies into essential parts of the overall urban economies. Metaphorically township businesses are located on the tip of massive icebergs, markets which are vast in size but largely underdeveloped and untapped. Through product and service innovation local entrepreneurs, who know the market needs best, can stimulate hitherto undiscovered needs of their customers. Innovation is also a crucial prerequisite for the inclusion of township businesses in the value chains of established larger firms.

There is strong evidence that Open Markets and SME Parks as they are currently run do little to increase overall entrepreneurial capacity. Overall, authorities must move away from pure public investments in development and embrace private-sector investment. As long as poverty penalties and artificially created obstacles to development are diminished, market dynamics will lead to the emergence of vital economies where there is most potential. As outlined this potential is no longer limited to CBDs but increasingly to be found in townships.

## **7. IMPLICATIONS FOR GOVERNMENT AUTHORITIES**

### **7.1. Central Government**

The Government of the Republic of Namibia, just as any government, must be aware that it has the capability to create a framework within urban economies can flourish but just as well can inefficient, unresponsive or overly interventionist measures severely stifle entrepreneurial dynamism, especially among the poor population. (Stern, 2002)

In 2010 the Ministry of Regional and Local Development, Housing and Rural Development (MRLGHRD) introduced the Local Economic Development Agency as central co-ordinator and facilitator of LED initiatives. The strengths of this new agency lies within its centrality. Whereas the responsibility to create knowledge and implement development projects remains at the local level, LEDA constitutes an important bridge between local authorities and the ministry. Most crucially the central agency can set standards and guidelines for Local Economic Development on the national level, helping local authorities to streamline their efforts making them affordable despite limited budgets. Also potentials for cross-town collaboration can be identified by the agency, fostering knowledge sharing and inter-town business linkages. Should the efforts of the newly established agency prove successful in increasing the capacities on the local level, further decentralisation in form of regional LED agencies can be considered in the future. Overall the aim of the agency must be the promotion of what Hansohm (2000, p. 181) calls a “private-sector-led growth strategy, assisted by a lean and efficient public sector, creating and maintaining human skills and infrastructure.” Despite decentralisation the central government in Namibia has certain responsibilities and leverages in regard to the development of inclusive urban economies.

## **Setting the agenda**

Current economic strategies and policies formulated on national level at no point identify townships as particular target area. Whereas formerly disadvantaged individuals just as well as small-scale businesses find special attention on the political agenda, townships as a whole do not. Without question there are good arguments to not over-politicise the topic of townships. Firstly, the issue is sensitive and has potential for social tensions. Also all initiatives targeting townships exclusively run danger of being ineffective as the linkages to areas of main economic activity are neglected. Lastly, such initiatives would leave out most urban areas in northern Namibia, where either no townships are to be found or segregation is less severe.

Despite the relevance of these considerations, there is a lesson to be learnt from the fact that twenty years after independence towns continue to be segregated not least economically and little improvement is visible: townships are artificially created obstacles to economic growth and market dynamics alone will not lead to complete economic integration. The government must realise that a focus on formerly disadvantaged individuals or SMMEs only inefficiently addresses sustainable growth in townships, where most of them are to be found. Only if all discussed determinants of economic segregation are targeted simultaneously can the potential of townships be unlocked. Central government must therefore create incentives for the lower tiers of government to prioritise the inclusion of its townships, not only socially but also spatially and economically. An important leverage are capital projects such as market facilities. The central government, which often comes in as sponsor, can take influence by a preferential attention to those projects that are likely to foster urban integration. A good example is the new Open Market in Oshakati which is likely to increase organisation and tidiness of the town but can be argued to relocate the town's traders to a less advantageous location. Further the government can urge local authorities to create better knowledge of the local situation through research. The first Namibian business census is a good step into the right direction if the data is used also on the local level.

## **Defining the guidelines**

The review of Namibian policy and strategy papers has shown that there is no generally accepted definition of the SMME sector. In absence of such a definition initiatives are less efficient and individual research findings are more difficult to compare. It is the responsibility of central government entities to not only introduce adequate definitions but

also encourage their use on all tiers of government. Current definitions of the sector either neglect the existence of micro enterprises or fail to acknowledge the fact that most such businesses have extremely low turnovers and frequently have no employees.

As the research has further revealed that LED strategies are very diverse if they exist at all, efficiency can be increased through clearer guidelines for how to write such strategies. These guidelines can evolve from a benchmark among existing strategy papers as certain towns (e.g. Windhoek) already have comprehensive strategies in place. The comparison of the outlined theory with the survey findings has several concrete implications for LED strategies. Firstly, it is important that they are based on data about the local urban economy acknowledging major challenges such as economic divides where relevant. Second, initiatives must increasingly target the creation of local value chains and business networks. Lastly, it is important that the role of all relevant stakeholders is defined within the strategy and an approach to increase efficient collaboration is outlined.

### **Increasing vertical integration**

The research findings have also made evident that there is a lack integration of central and local government authorities. Training of business owners, for example, is facilitated through MTI, bypassing the respective local authorities. Thus, none of the assessed local authorities has a clear picture of the skills level and training needs of their business community. At this increased integration and collaboration can potentially increase efficiency and avoid redundancies. That ministries make little use of their connection to local authorities is also reflected in MTI registration levels, which are lower the further away a town is from Windhoek. This could easily be changed by coupling the process of ministry registration to that of registration with the respective local authorities. As long as the outreach of the central government depends on spatial distances, all national support initiatives are severely distorted. An efficient tool to increase both scope and outreach of central initiatives are parastatals such as the Waterfront Development Company in Luderitz. These for-profit ventures do not only avoid the capacity limitations of the public sector, but also make sure that initiatives are not of pure social nature but leverage economic potentials.

### **Empowerment instead of transfer**

After two decades of Black Economic Empowerment which can be said to have had limited positive impact at best, it is necessary to shift from transfer-policy to actual empowerment. Sustainable change cannot be imposed in form of simple power transfers but instead must be initiated at the grassroots level. Within the township there is a need for true entrepreneurs which not only have the ambition but also the skills to transform their communities. Besides knowledge of general business processes, potential entrepreneurs require training in risk-management, innovation and the basics of networking. In order to create an entrepreneurial culture it is important to identify successful ventures, which can serve as role models and share their institutional knowledge.

### **Leveraging potentials**

One of the most important responsibilities of the central government is to ensure fair competition. Whereas there are good arguments for attracting foreign investment and against the protection of infant industries, the government must identify those markets which can be served by local firms. If local businesses have the capacity to provide certain products and services, international competition from countries with higher levels of industrialisation must be regulated. Within the townships tailors are one such example. If the government relies on the free market economy and allows international investors to crowd out smaller local firms it misses out on the opportunity to develop a local industry on the long run. Wherever international firms are a beneficial addition to local industries, such as supermarkets from South Africa, the central government can foster their linkage with smaller local suppliers and encourage local sourcing. It is important, however, that these linkages are voluntary and not required by policy as such measures create demand on the local level that is not sustainable.

### **Building an LED network**

With the establishment of a Local Economic Development Agency the central government has not yet guaranteed the efficient co-ordination of LED activities. Through the agency a vital LED network can be created which involves all stakeholders in ongoing interaction. Instead of merely supporting individual initiatives on the local level and capacity building of authorities in general, a communication platform can be created on which users exchange information directly. Such communication could have the form of an online networking page



to which LED officers, the central government and business associations get access. When maintenance of the page remains with the central agency but users can publish own contributions, best practices can be shared and common obstacles be identified efficiently. On local level such a platform could help to overcome the restraints of limited resources and bring together the stakeholders of LED, not least those interested in fostering more inclusive urban economies.

### **Process innovation**

There are no limitations to possible LED solutions. Since both human and financial capacities are limited on the local level, process innovation is more likely to emerge centrally where the LED Agency can benchmark the approaches of different towns. It is beyond the scope of this paper to elaborate on concrete ideas, but the following questions can stimulate the debate.

What role can modern technology play? Communication between local businesses and their authorities has proven to be inefficient or non-existent. This is surprising in times where all individuals, including small-scale entrepreneurs and vendors, are connected through mobile communication technology. Knowledge and information can easily be disseminated through text messages in cases where face-to-face communication is too costly. Through this channel local authorities can invite business owners to meetings, inform about regulations and by-laws or invite feedback.

How can business organisation be increased? The known approaches include chambers and community based organisations. A concept that has never been tried in Namibian urban areas is that of co-operatives. Co-operatives allow groups to achieve targets that are beyond the scope of individual efforts. Co-operatives reduce economic entry barriers, diminish individual risk and combine diverse competences. For local authorities they can be efficient alternatives to own investment if the members of a co-operative jointly invest in business facilities or machinery and equipment. Co-operatives clearly differ from business associations as they have a for-profit orientation and usually do not combine entrepreneurs of different economic sectors.

### **7.2. Local Authorities**

When it comes to the integration of townships, local authorities have the by far best leverage to achieve long-term improvement. Local authorities must think along the lines of

three indicators: process indicators, output indicators and perception indicators. Only success in all three categories will allow the authorities to foster sustainable development on the long-run. In this sense a good process (e.g. sound strategies and adequate capacities) needs a follow and regular revisions to guarantee that desired outcomes are achieved. Also outputs must not be judged without taking the perception of the target group into account. In the following it will be outlined which steps towards more inclusive urban economies lie within the responsibility of local authorities.

### **Developing the political will**

First and foremost change will not be achieved without the adequate political will. Local authorities must acknowledge the economic divides that exist within their localities. Of the assessed towns Gobabis provided the most outspoken recognition of the existing economic divides. In the town's LED strategy both nature and causes of economic divides are discussed and potential solutions proposed. Nevertheless the case of Gobabis has also shown that comprehensive strategies are not automatically matched with the adequate capacities and the will to implement. Each local authority must become fully aware of existing divides and make increased integration a priority.

### **Creating adequate knowledge**

The first step towards achieving real and sustainable improvements is the creation of knowledge about local business communities and possible divides. As the research revealed, none of the assessed local authorities could provide data about the characteristics of its local township economy. Only the baseline study currently being prepared in Oshakati, aimed at capturing both size and characteristics of the local SMME sector, represents a best practice. With this data at hand the town can initiate targeted development measures, responding to the most pressing needs of the local business community.

It is often argued that research initiatives are hindered by limited budgets. However, local authorities can think about more innovative approaches towards data collection. If local residents (such as students), which hold extensive knowledge of the respective location, can be provided with basic training in data collection, surveys can be carried out at the lowest possible costs without quality losses. Quality is indeed likely to be higher, since trained local

researchers are less likely to encounter language barriers and enjoy higher trust by the local community.

### **Aligning the strategies and creating capacity**

Once sufficient information about the characteristics of the local business community is available, local authorities are well advised to draft or revise their strategies for Local Economic Development. Of the surveyed towns only Gobabis and Windhoek could rely on a written strategy, while the strategy paper seemed to be relevant for day-to-day activities only in Windhoek. It is important that the strategy identifies urban areas with economic potential and clearly defines the role of townships, which arguably are the most dynamic of all urban areas. Depending on the identified needs and the adequate strategy, towns must create sufficient capacity for the implementation of development measures. The research has shown that these capacities differ significantly among the assessed towns. It is decisive that the appointment of LED officers is grounded on a comprehensive mandate. As interviews in Gobabis and Oshakati revealed, frequently appointed LED officers are occupied with day-to-day operations of their respective councils and can only insufficiently address the issues that fall into their official mandate.

### **Bringing together the stakeholders**

The most critical of all deficiencies identified through the research is the failure of local authorities to recognise their central place in the network of development stakeholders. Stakeholders include the local business community (including both the township businesses and the typically more established businesses in the CBDs), Community Based Organisations, Non Governmental Organisations, business associations, and the international donor community. The single most important step towards development is increased interaction and communication. The study has shown that township entrepreneurs hardly have any knowledge about the role and intention of their local authority as communication is almost completely absent. Regular Public Private Dialogues (PPDs) are relatively easy to introduce and do not entail large costs. These meetings ensure that local authorities stay updated about current developments and ensure that obstacles to growth are identified early on. These meetings are also important to improve the relation between local authorities and business communities since these relationships are often coined by high levels of distrust. In order to create demand for PPDs the town must have the adequate resources to follow up

on identified issues. As long as the authorities respond adequately and problems can be resolved, the local business community will be willing to share information and make sacrifices for the sake of development.

Business associations and chambers are among the most important development stakeholders. They help to organise the local business communities and can filter the concerns of individual business owners so that only the most crucial challenges reach the local authorities. Therefore it is crucial that local authorities increasingly invite these organisations to establish themselves in their locality. Whereas NCCI has already initiated its expansion to most urban areas in Namibia, the Namibian Informal Sector Organisation (NISO) is relatively new and has a low outreach. Nevertheless, in the context of township development the latter organisation is of special importance as a majority of township businesses are informal and not targeted by chambers. Currently NISO lacks the capacity to expand but if towns are willing to collaborate, provide adequate facilities and possibly also funds, they will be able to benefit from an empowered business community on the long run.

### **Removing obstacles to growth**

Also town authorities themselves can constitute significant obstacles to economic development and integration. The research has shown that government authorities seek to establish a high level of cleanliness and order in their localities. At the same time concrete evidence was collected that showed how overregulation stifles business development. This was most obvious in the cases of the over-regulated Khomasdal Market in Windhoek and the relocation of Oshakati Open Market. While hygiene and workplace security are important for entrepreneurs and customers alike, local authorities must find the right balance between the enforcement of regulations and the provision of conducive business environments. Are resources well spent when vendors receive training in hygiene and safety issues, whereas large parts of the population do not have the means to become economically active at all? The benefits of such trainings can certainly not be denied, but authorities must evaluate their long-term benefits more carefully. Especially when it comes to the identified urge to create the image of clean and orderly towns, it is evident that authorities overlook the negative consequences. Whereas Khomasdal Market certainly meets all standards of health and safety, it is also a stagnating market that is unattractive for customers and disastrous for tenants seeking to develop their businesses.

As one of the most severe obstacle to integration spatial divides were identified. Why does twenty years after independence a golf club continue to separate the townships of Gobabis from the town centre? Why are all public institutions located in the town centre of Windhoek and not in Katutura where most of the urban population lives? As provocative as these questions are as urgent is the need to discuss them at local level.

### **Developing markets**

It is within the mandate of local authorities to develop markets that show inefficiencies. On the one hand the necessary infrastructure must be provided to make townships attractive for outside investors. Towns can learn from the experience of Windhoek, where international corporations have invested without completely crowding out the local community of small-scale entrepreneurs.

Furthermore, towns must think about concepts that make townships accessible for outside customers. Township economies will remain isolated as long as no public spaces are created that are accessible with private vehicles and invite visitors from all urban areas to spend time there. When market facilities are built they must not be established as isolated entities hermetically shielded from their surroundings. Instead there is need for concepts to better include them into their respective environment and making them more accessible. Public space must not least be understood as spaces for information exchange and social interaction. Markets will develop when both outside investors and customers are attracted.

### **Avoiding discriminatory approaches**

It is important that local authorities do not follow selective development approaches. As has been shown, there is no business characteristic that allows implications about economic success. Market facilities must be available to hair salons and manufacturers alike, though the latter group might be assumed to create more value for the local community. This is because it could well be that the hair salon becomes the area's largest employer while the manufacturer operates inefficiently and closes down. Instead of following discriminatory selection processes for market facilities, Incubation Centres can be designed in ways that only attract certain types of businesses. If they are not located centrally and tenants are required to engage in training of individuals during the time of their tenancy, these facilities are unattractive to simple retailers and service providers.

In regard to Public Private Partnerships towns are well advised consider the inclusion of small township businesses which frequently operate informally. Not least PPPs can help small firms to increase their capacities and become formalised.

### **Increasing entrepreneurial capacity**

The assessment of several Open Markets and SME Parks has shown that the tenants of these facilities frequently have simple business concepts. Examples include retailers, hair salons and tailors. These businesses are important as they satisfy local market demands and provide income to their owners and employees. Nevertheless theory suggests that a more diverse and innovative business community is key to sustainable economic development. Therefore Incubation Centres are clearly the best tools for long-term improvement. Businesses that graduate from these facilities typically have higher capacities and are more likely to function as linkages between townships and town centres. The products and services they offer are more competitive and their owners more often than not qualify as true entrepreneurs. Whereas many Open Markets and SME Parks have been built in Namibian towns, Incubation Centres are few. More attention must be drawn to these facilities which are catalysers of sustainable economic growth whereas market facilities are merely tools for poverty reduction.

## **8. CONCLUDING REMARKS**

This study has identified the causes of continuing economic divides in urban areas of Namibia. It has further been outlined that townships are those urban areas that are most dynamic and show the highest rates of population growth. If these areas remain to have a shallow political embeddedness, if power is not shared more equally between the clearly separated black and white business communities, if business linkages are not fostered, and if entrepreneurial capacity does not increase, current market forces will continue to drive urban areas further apart economically. Local Authorities can no longer rely on overall economic growth, they must also consider the distribution of this growth in order to not disadvantage large parts of their urban populations. Adequately Emanuel Muatara, the Regional Secretary of the SWAPO Party Elder's Council states: "We need one city, one town and one people" (Muatara, 2011).

This study has furthermore shown that there is a need for more knowledge creation on the local level. Current literature focuses on the national level not providing sufficient information where decisions are actually made. Further research needs to be carried out, focussing on strategies to increase capacity and entrepreneurial spirit among SMMEs as well as on incentive systems for business linkages between small and larger enterprises.

## LIST OF REFERENCES

- Acs, Z. J., Arenius, P., Hay, M., & Minniti, M. (2005). *Global Entrepreneurship Monitor 2004 - Executive Report*. Babson Park (MA): Babson College.
- Aliber, M., Kirstin, M., Maharajh, R., Nhlapo-Hlope, J., & Nkoane, O. (2006). Overcoming underdevelopment in South Africa's second economy. *Development Southern Africa*, 23 (1), 45-61.
- Altenburg, T. (2000). *"Linkages and Spillovers between Transnational Corporations and Small and Medium-sized Enterprises in Developing Countries: Opportunities and Best Policies"*. UNCTAD, TNC-SME Linkages for Development: Issues-Experiences-Best. New York and Geneva: United Nations.
- Altman, D. G., Rego, L., & Ross, P. (2009). Expanding Opportunity at the Base of the Pyramid. *People & Strategy*, 32 (2), pp. 46-51.
- Alvarez, J. L. (1998). The Sociological Tradition and the Spread and Institutionalization of Knowledge for Action. In J. L. Alvarez, *The Diffusion and Consumption of Business Knowledge* (pp. 13-57). London: MacMillan.
- Arnold, K., Grossmann, M., Mwatotele, J., Stork, C., & Tobias, P. (2005). *Development and Impact Assessment 2004. Unlocking the growth potential: the role of financial services, business linkages and business support services for SME development in Namibia*. Windhoek: Institute for Public Policy Research (IPPR).
- Banerjee, A. V., & Duflo, E. (2007). The Economic Lives of the Poor. *Journal of Economic Perspectives*, 21 (1), pp. 141-167.
- Baptista, R. (1998). Clusters, innovation and growth: a survey of the literature. In P. Swann, M. Prevezer, & D. Stout, *The Dynamics of Industrial Clustering* (pp. 13-52). Oxford: Oxford University Press.
- Baumol, W. J. (2010). *The microtheory of innovative entrepreneurship*. Princeton: Princeton University Press.
- Bruton, H. J. (1998). A reconsideration of import substitution. *Journal of Economics Literature*, 36 (2), pp. 903-909.
- CBS. (2008). *A Review of Poverty and Inequality in Namibia*. Windhoek: Central Bureau of Statistics.
- Chamberlin, E. (1993). *The theory of monopolistic competition*. Cambridge (MA): Harvard University Press.
- Christaller, W. (1935). *Die Zentralen Orte in Sueddeutschland*. Jena (Germany): G. Fischer.
- Combes, P., & Duranton, G. (2006). Labour Pooling, Labour Poaching, and Spatial Clustering. *Regional Science and Urban Economics*, 36 (1), pp. 1-28.
- CoW. (1996). *1995 Residents Survey Report. Three Volumes*. Windhoek: City of Windhoek.
- CoW. (2002). *Local Economic Development Strategy 2002-2006, Windhoek: 'The Working City', PUBLIC GUIDE: A guide for local residents and organizations*. Windhoek: City of Windhoek.
- CoW. (2011). *The City of Windhoek Local Economic Development Strategy 2010-2015*. Windhoek: City of Windhoek.
- CoW. (1996). *The Windhoek Structure Plan*. Windhoek: City of Windhoek.
- DCED. (2009). *Business Environment Reforms and the Informal Economy - Discussion Paper*. Donor Committee for Enterprise Development.
- Dicken, P., Forsgren, F., & Malmberg, A. (1994). The local embeddedness of transnational corporations. In A. Amin, & N. Thrift, *Globalization, Institutions and Regional Development in Europe* (pp. 23-46). Oxford University Press.



- EC. (2007). *Republic of Namibia - European Community - Country Strategy Paper and National Indicative Programme for the period 2008-2013*. Lisbon: European Commission.
- Eisenhardt, K. M. (1991). Better stories and better constructs: The case for rigor and comparative logic. *Academy of Management Review* , 16, pp. 620-627.
- Eisenhardt, K. M., & Graebner, M. E. (2007). Theory building from cases: opportunities and challenges. *Academy of Management Journal* , 1, pp. 25-32.
- Farrell, D. (2004, Number 3). The hidden dangers of the informal economy. *The McKinsey Quarterly* .
- Fay, M., & Opal, C. (2000). *Urbanization without Growth: A Not-So-Uncommon Phenomenon*. Washington, D.C.: World Bank Policy Research Working Paper #2412.
- Fitch, B., & Sorenson, L. (2007). The case for Accelerating Profit-Making at the Base of the Pyramid: What Could and Should the Donor Community be Seeking to Do, and What Results Should be Expected. *Journal of International Development* , 19, pp. 781–792.
- Frayne, B. (2007). Migration and the changing social economy of Windhoek, Namibia. *Development Southern Africa* , 24 (1), 91-108.
- Fujita, M., Krugman, P., & Venables, A. (1999). *The Spatial Economy: Cities, Regions and International Trade*. Cambridge (MA): MIT Press.
- Gardetti, M. À. (2007). A Base-of-the-Pyramid Approach in Argentina Preliminary Findings from a BOP Learning Lab. *Greener Management International* , 51 (1), pp. 65-78.
- Garforth, C., Phillips, C., & Bhatia-Panthaki, S. (2007). The Private Sector, Poverty Reduction and International Development. *Journal of International Development* , 19 (1), pp. 723–734.
- Gephart, R. P. (2004). Qualitative research and the Academy of Management Journal. *Academy of Management Journal* , 47 (1), pp. 454-462.
- Glaeser, E. L., & Kerr, W. R. (2009). Local Industrial Conditions and Entrepreneurship: How Much of the Spatial Distribution Can We Explain? *Journal of Economics & Management Strategy* , 3, pp. 623–663.
- Glaeser, E., Kallal, H., Scheinkman, J., & Schleifer, A. (1992). Growth in cities. *Journal of Political Economy* , 100, pp. 1126-1152.
- Granovetter, M. (1992a). Economic action and social structure. In M. Granovetter, & R. Swedberg, *The Sociology of Economic Life* (pp. 53-81). Boulder (CO): Westview.
- Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology* , 91 (1), pp. 481-510.
- Granovetter, M. (1992b). Economic institutions as social constructions : A framework for analysis. *Acta Sociologica* , 35 (1), pp. 3-11.
- GRN. (2004). *Republic of Namibia - Vision 2030 - Prosperity, Harmony, Peace and Political Stability - Policy Framework for Long-Term National Development*. Windhoek: Governemnt of the Republic of Namibia, Office of the President.
- GRN. (2008). *Third National Development Plan (NDP3) - Volume I Executive Summary*. Windhoek: Governemnt of the Republic of Namibia.
- Guesalaga, R., & Marshall, P. (2008). Purchasing power at the bottom of the pyramid: differences across geographic regions and income tiers. *Journal of Consumer Marketing* , 7 (1), pp. 413–418.
- Hailulu, V. (2003). *Gobabis - The economic hub of the East - Local Economic Development Policy Strategy*. Gobabis (Namibia): Gobabis Municipality.
- Hammond, A. L., Kramer, W. J., Katz, R. S., Tran, J. T., & Walker, C. (2007). *The Next 4 Billion, Market Size and Business Strategy at the Base of the Pyramid*. Washington D.C.: World Resources institute .

- Hansohm, D. (2000). Alternative Paths of Development in Namibia. In B. Fuller, & I. Prommer, *Population–Development–Environment in Namibia - Background Readings* (pp. 165-183). Laxenburg (Austria): International Institute for Applied Systems Analysis.
- Hart, D. M. (2003). Entrepreneurship policy: what it is and where it came from. In D. M. Hart, *The emergence of entrepreneurship policy: governance, start-ups and growth in the U.S. knowledge economy*. Cambridge: Cambridge University Press.
- Hart, S. L., & Sharma, S. (2004). Engaging fringe stakeholders for competitive imagination. *Academy of Management Executive*, 18 (1), pp. 7-18.
- Haukongo, S. (2011, March 11). Interview township economy Windhoek. (J. Laufs, Interviewer)
- Helsley, R., & Strange, W. (1990). Matching and Agglomeration Economics in a System of Cities. *Regional Science and Urban Economics*, 20 (1), pp. 189-212.
- Hirschman, A. O. (1958). *The Strategy of Economic Development*. New Haven: Yale University Press.
- Hofstede, G. (2001). *Culture and Organizations*. London: Harper Collins.
- IMF. (2010). *Namibia: 2010 Article IV Consultation—Staff Report; Staff Supplement; Public - Information Notice on the Executive Board Discussion*. Washington, D.C.: IMF.
- Jacobs, J. (1969). *The Economy of Cities*. New York: Random House.
- Jauch, H., Edwards, L., & Cupido, B. (2009). *A Rich Country with Poor People - Inequality in Namibia*. Windhoek: Labour Resource and Research Institute.
- JCC. (2008). *Strategy Paper on SME Training and Business Support in Namibia*. Windhoek: Joint Consultative Committee (JCC).
- Jenkins, B., & Ishikawa, E. (2009). *"Business Linkages: Enabling Access to Markets at the Base of the Pyramid." Report of a Roundtable Dialogue March 3-5, 2009, Jaipur, India*. Washington D.C.: International Finance Corporation, International Business Leaders Forum, and the CSR Initiative at the Harvard Kennedy School.
- Johansson, B., & Quigley, J. M. (2005). Agglomeration and networks in spatial economies. *Papers in Regional Science*, 83 (1), pp. 165-176.
- Kandenge, V. (2011, February). Interview on the activities of NISO. (J. Laufs, Interviewer)
- Karnani, A. (2008). Help, don't romanticize the poor. *Business Strategy Review*, 19 (2), pp. 48-53.
- Karnani, A. (2009). Misfortune at the Bottom of the Pyramid. *Greener Management International*, 51 (1), pp. 99-110.
- Kennedy, P. (1988). *African Capitalism: the struggle for ascendancy*. Cambridge: Cambridge University Press.
- Kitson, M., Martin, R., & Tyler, P. (2004). Regional competitiveness: an elusive yet key concept? *Regional Studies*, 38 (9), pp. 991-999.
- Knutsen, H. M. (2003). Black entrepreneurs, local embeddedness and regional economic development in Northern Namibia. (C. U. Press, Ed.) *Journal of Modern African Studies*, 41 (4), pp. 555-586.
- Lall, S. (1995). Industrial Strategy and Policies on Foreign Direct Investment in East Asia. *Transnational Corporations*, 4 (3), pp. 1-26.
- Lall, S., & Teubal, M. (1998). 'Market stimulating' technology policies in developing countries: a framework with examples from East Asia. *World Development*, 26 (8), pp. 1369–1385.
- Landier, A. (2006). *Entrepreneurship and the Stigma of Failure, Working Paper*. Toulouse: Toulouse School of Economics.

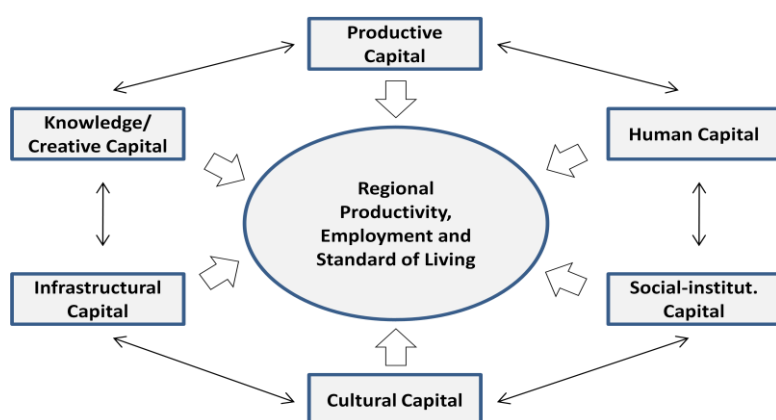
- LaRRI. (2002). *The Small and Micro Enterprise (SME) Sector in Namibia: Conditions of Employment and Income*. Windhoek: The Labour Resource and Research Institute (LaRRI).
- London, T. (2007). *A Base-of-the-Pyramid Perspective on Poverty Alleviation - Working Paper*. William Davidson Institute, University of Michigan.
- London, T. (2009). Making Better Investments at the Base of the Pyramid. *Harvard Business Review* , 87 (5), pp. 106-113.
- London, T. (2008). *The Base of the Pyramid Perspective: A new approach to poverty alleviation*. In G. T. Solomon (Ed.). Academy of Management Best Paper Proceedings.
- London, T., & Hart, S. L. (2004). Reinventing strategies for emerging markets: Beyond the transnational model. . *Journal of International Business Studies* , 35 (5), pp. 350-370.
- London, T., Anupindi, R., & Sheth, S. (2010). Creating Mutual Value with Base of the Pyramid Producers. *Journal of Business Research* , 63 (6), pp. 582-594.
- Lösch, A. (1944). *Die Raumliche Ordnung der Wirtschaft*. Translated by W.H. Woglom. 1954. *The Economics of Location*. Jena (Germany): Fischer.
- Marshall, A. (1890). *Principles of Economics*. London: Macmillan.
- Melber, H. (2006). *Breeding Fat Cats: Affirmative Action, Black Economic Empowerment and Namibia's post-colonial elite formation*. Uppsala: Danish Institute for International Studies.
- MTI. (1997). *Policy and Programme on Small Business*. Windhoek: Ministry of Trade and Industry.
- MTI. (1999). *The 1999 Small Business Baseline Survey. Vol. 2: Erongo and Otjozondjupa*. Windhoek: Ministry of Trade and Industry.
- MTI. (1998). *The Small Business Baseline Survey, Vol.1: Oshana, Oshana and Oshikoto Regions*. Windhoek: Ministry of Trade and Industry.
- MTI. (2000). *The Small Business Baseline Survey. Vol.3: Khomas Region, Ministry of Trade*. Windhoek: Ministry of Trade and Industry.
- Muatara, E. (2011, February 2). And the Katutura people suffer. *New Era* .
- NamBIC. (2009). *Namibian Business and Investment Climate Survey*. Windhoek: Namibia Chamber of Commerce and Industry (NCCI) and Namibian Manufacturers Association (NMA).
- Nelson, J. (2007). *Building Linkages for Competitive and Responsible Entrepreneurship. Corporate Social Responsibility (CSR) Initiative Report No. 8*. Cambridge (MA): United Nations Industrial Development Organization (UNIDO) and Harvard College.
- NEPRU. (1998). *Small Business Background Directory (Draft)*. Windhoek: Namibia Economic Policy Research Unit.
- NEPRU. (1996). *The Windhoek Economic Development Center*. Windhoek: Namibian Economic Policy Research Unit.
- Niikondo, A. (2009). *Perceptions on the Impact of Chinese Businesses in Namibia: A case Study of the Retail and Construction Sector in Windhoek*. Windhoek: Polytechnic of Namibia.
- NPC. (2003). *Final Report Namibia Population Census 2001*. Retrieved March 16, 2011, from National Planning Commission:  
[http://www.npc.gov.na/publications/census\\_data/Final\\_Report\\_Namibia.pdf](http://www.npc.gov.na/publications/census_data/Final_Report_Namibia.pdf)
- Pendleton, W. C. (1996). *Katutura - A place where we stay - Life in a post-aprtheid township in Namibia*. Athens: Ohio University Monographs in international studies Africa series, No. 65.
- Polenske, K. R. (2002). *Clustering In Space Versus Dispersing Over Space: Agglomeration Versus Dispersal Economies*. Report presented at the Innovation, Entrepreneurship, Regional Development,

- and Public Policy in the Emerging Digital Economy Symposium*. Trollhätten, Sweden: Universities of Trollhätten/Uddevalla.
- Porter, M. (2000). Location, Competition, and Economic Development: Local Clusters in a Global Economy. *Economic Development Quarterly*, 1, pp. 15-34.
- Porter, M. (1998). *On Competition* (Vol. 76). Boston: Harvard Business Review.
- Porter, M. (1990). *The Competitive Advantage of Nations*. New York: The Free Press.
- Prahalad, C. K. (2004). *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*. Philadelphia (PA): Wharton School Publishing.
- Prahalad, C. K., & Hammond, A. (2002). Serving the world's poor, profitably. *Harvard Business Review*, 80 (9), 48-57.
- Prahalad, C. K., & Hart, S. (2002). The Fortune at the Bottom of the Pyramid. *Strategy+Business*, 26 (1), pp. 54-67.
- Prahalad, C. (2006). *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*. Upper Saddle River (New Jersey): Pearson.
- Quigley, J. M. (2007). *Urbanization, Agglomeration and Economic Development*. Berkely: University of California.
- RoN. (1997). *Namibia: Policy and Programme on Small Business Development, White Paper, January*. Windhoek: Republic of Namibia.
- Rosenthal, S. S., & Strange, W. C. (2003). Geography, Industrial Organization, and Agglomeration. *Review of Economics and Statistics*, 85 (2), pp. 377-393.
- Scott, A. J. (1998). *Regions and the World Economy: The Coming Shape of Global Production, Competition, and Political Order*. Oxford: Oxford University Press.
- SDFN. (2009). *Community Land Information Program (Clip) - Profile Of Informal Settlements In Namibia - March 2009*. Windhoek: The Shack Dwellers Federation of Namibia.
- Shejavali, N. (2007). *SMEs in Namibia*. Windhoek: Joint Consultative Committee (JCC).
- Siggelkow, N. (2007). Persuasion with case studies. *Academy of Management Journal*, 50 (1), pp. 20-24.
- Simon, D., & Birch, S. L. (1992). Formalizing the Informal Sector in a Changing South Africa: Small-Scale Manufacturing on the Witwatersrand. *World Development*, 20 (7), pp. 1029-1045.
- Smarzynska, B. K. (2002). *Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages - Worldbank Policy Research Working Paper 2923*. Washington D.C.: Worldbank.
- Starrett, D. A. (1974). Principles of Optimal Location in a Large Homogeneous Area. *Journal of Economic Theory*, 9 (4), 418-448.
- Stern, N. (2002). *A strategy for development*. Washington D.C.: Worldbank.
- Stork, C., Matomola, M., & Louw, M. (2004). *Small Business Impact Assessment 2003 - NEPRU research report no. 26*. Windhoek: Namibian Economic Policy Research Unit.
- The Economist Namibia. (2007, September 21). Windfall for SMEs development and sustainability. *The Economist Namibia*.
- The Namibian. (2009, July 27). *Bursting At the Seams*. Retrieved March 12, 2011, from [http://www.namibian.com.na/index.php?id=28&tx\\_ttnews%5Btt\\_news%5D=57759&no\\_cache=1](http://www.namibian.com.na/index.php?id=28&tx_ttnews%5Btt_news%5D=57759&no_cache=1)
- UNDP. (2010). *A Users' Guide to Measuring Local Governance*. Oslo: UNDP Oslo Governance Centre.
- UNDP. (2008). *Creating Value For All: Strategies for doing Business with the Poor*. New York: United Nations Development Programme.

- UNDP. (2004). *Human Development Report 2004*. New York: United Nations Development Programme.
- UNECA. (2007). *Economic Report on Africa 2007: accelerating Africa's development through diversification*. Addis Ababa: United Nations Economic Commission for Africa.
- UN-HABITAT. (2008). *State of the World's Cities 2010/2011 - Bridging the Urban Divide*. Nairobi: United Nations Human Settlements Programme (UN-HABITAT).
- UN-HABITAT. (2010). *The State of African Cities 2010 - Governance, Inequality and Urban Land Markets*. Nairobi: UN-HABITAT.
- Urban Dynamics. (2001). *Oshakati Structure Plan 2001*. Windhoek: Urban Dynamics Town and Regional Planners.
- Viswanathan, M., & Rosa, J. A. (2009). Understanding subsistence marketplaces: Toward sustainable consumption and commerce for a better world. *Journal of Business Research* , 63 (6), pp. 535-537.
- Weber, A. (1909). *Theory of the Location of Industries*. Chicago: Chicago University Press.
- Weidner, K. L., Rosa, J. A., & Viswanathan, M. (2010). Marketing to subsistence consumers: Lessons from practice. *Journal of Business Research* , 63 (6), pp. 559-569 .
- Williamson, O. E. (1975). *Markets and hierarchies: Analysis and antitrust implications*. New York: Free Press.
- Williamson, O. E. (1979). Transaction-cost economics: The governance of contractual relations. *The Journal of Law and Economics* , 22 (1), 233–261.
- Windhoek Municipality. (1996). *The Windhoek Structure Plan*. Windhoek: City of Windhoek.
- Woodward, D. (1996). Effects of globalization and liberalization on poverty: Concepts and issues. In U. Nations, *Globalization and Liberalization: Effects of International Economic Relations on Poverty* (pp. 25-128). New York: United Nations Conference on Trade and Development.
- World Bank. (2011). *Country Data Namibia*. Retrieved March 9, 2011, from <http://data.worldbank.org/country/namibia>
- Yin, R. K. (1994). *Case study research: Design and methods (2nd ed.)*. Newbury Park (CA): Sage.
- Zukin, S., & DiMaggio, P. (1990). *Structures of Capital : the social organization of the economy*. Cambridge: Cambridge University Press.

## LIST OF APPENDICES

### Appendix I: The productivity of firms, adapted from Kitson et al. (2004, p. 995)



### Appendix II: Definition of Namibian SMEs as according to the MTI (1997)

Sector	Employees	Turnover (N\$)	Capital Employed (N\$)
Manufacturing	<10	1.000.000	500.000
Non-manufacturing	<5	250.000	100.000

### Appendix III: List of interviewed experts on general information and on town level

General information		
Mr. Eckard Schleberger	Southern African IDEAS	Consultant
Mr. Sam Gaiseb	Independent	Consultant
Mr. Veripi Kandenge	Namibian Informal Sector Organisation	Chairperson
Mr. Klaus Schade	Independent	Researcher
Ms. Edith Mbanga	Shack Dweller's Federation Namibia	National Representative
Mr. André Plaatjie	Swakopmund Municipality	Manager Corporate Services/ Coordinator NCCI
Gobabis		
Mr. Efraim M. Dawids	Gobabis Municipality	CEO
Mr. Festus Marenga	Gobabis Municipality	Local Economic Development Officer
Mr. Lukow	Gobabis Municipality	Health Officer
Further contact with: Community Development Centre in Epako Township (Omaheke Regional Council) & Gobabis branch of the Ministry of Trade and Industry (MTI)		
Windhoek		
Mr. Claudius Kaverua	City of Windhoek Municipality	Department of Ec. Dev. and Community Services
Ms. Leah Olu- King	City of Windhoek Municipality	
Mr. Sam Haukongo	Namibian Informal Sector Organisation	Administrator
Luderitz		
Ms. Inge Ipinge	Luderitz Town Council	CEO
Mr. Isaac Lucas	Luderitz Town Council	Tourism Officer
Mr. Fluksman N. Samuehl	Waterfront Development Company (Ministry of Finance)	CEO
Oshakati		
Mr. Orestus Shilunga	Oshakati Town Council	CEO
Mr. Fidelis Kabozu	Oshakati Town Council	Local Economic Development Officer

## Appendix IV: Questionnaire Local Authorities

### Guiding questions - Town Municipality

#### General

- What is the town's overall development vision?
- Vision 2030: "Transform Namibia into an industrialized country of equal opportunities [...] realizing its maximum growth potential [...] with improved quality of life for all Namibians."
- LED White Paper: "Sustainable economic performance is determined by a diversified small business sector as the main engine for equitable wealth generation and employment creation."
- What is the town's approach to deal with the impact of its apartheid history?
- Do the town and its economy still show a divide between different income groups?
- Which measures are taken in form of town planning to unify the central town districts and the township?
- Regarding service provision and policy drafting, are different population groups targeted differently?
- In how far are townships and informal settlements included in LED initiatives?
- Have all former township areas been formalized in terms of land tenure?
- Are there any plans to formalize informal settlements?
- Have any open markets, business information units or industrial parks been established?

#### Micro and small enterprises

- Are there agreements with banks to provide credit and other financial services to SMEs?
- What is the regulatory framework for small businesses in townships and informal settlements?
- How strictly are SMEs in townships and settlements being monitored and the coherence with standards reviewed?
- In how far is mixed land utilization accepted?
- Are co-operations between larger businesses and SMEs encouraged?
- Do larger enterprises outsource to small and micro enterprises?
- How much interaction is there between businesses in townships/informal settlements and those in the central city districts?
- Is there any code of conduct for firms investing in townships?

#### Business Environment

- Which initiatives are undertaken to improve the general business climate?
- Are there major investments from larger companies in the town?
- How are local entrepreneurs affected by bigger investments?

#### Empowerment

- Which measures are undertaken to empower the poor part of the population?
- Is the municipality involved with any community-based organizations?
- Do any associations for micro businesses exist?
- Are any donor countries directly involved in township/settlement issues?

Statistics	Regulation and Policy	Other
<b>Businesses</b> <ul style="list-style-type: none"> <li>- Number of businesses</li> <li>- Contribution of different business sectors</li> <li>- The informal sector (size, business types, development)</li> </ul> <b>Population</b> <ul style="list-style-type: none"> <li>- Demographic overview and migration patterns</li> <li>- Household income (towns vs. townships)</li> </ul>	<b>LED</b> <ul style="list-style-type: none"> <li>- Strategy</li> <li>- Action steps and initiatives</li> </ul> <b>TS and IS</b> <ul style="list-style-type: none"> <li>- Vision</li> <li>- Relevant policy</li> <li>- Historical development</li> <li>- Support offered to small and micro enterprises</li> <li>- Registration regulation</li> </ul>	<ul style="list-style-type: none"> <li>- Aerial views of the town (including CBD, township and informal settlements)</li> </ul>

## Appendix V: Questionnaire Township Businesses

Questionnaire – Entrepreneurial Enterprise				
Name of business:	Location and contact details:			
Type of business:				
Established:				
Registration:	LA	MTI	SSC	Taxation
Legal type: Sole proprietor / Partnership / Company (Pty/Ltd)				
Access to:	Water	Electricity	Sanitation	None
Why did you start this business?		How did you choose this location/property?		
Did you experience difficulties setting up the business?		How big was your initial business compared to now?		
Prior employments/businesses:				
Female owner: Yes/No				
Area of residence: City Township Informal Settlement				
Before having the business: City Township Informal Settlement Other				
Number of employees	Male:	Female:		
Salary: Regular / Commission				
Are there many customers? Low/normal/high		Average daily revenue:		
Origin of customers: Informal Settlement Township City				
Who are your main competitors? Small businesses / larger corporations				
Partnerships/Membership	None	Business	Association	Co-operative
Type, purpose and benefits:				
Do you plan to have partners/be a member in the future? Yes / No				
Where do you buy material and supplies? township / city / other				
Access to: Micro credit bulk buying joint storage joint transport other				
Access to financial services: Savings Group (private) Savings account (bank)				
What is your main source of funding? Own / Family / Bank loan				
Interaction with Local Authority	Never	Once	Occasionally	Regularly On demand
Support sought:				
Support received:				
How will your business change within the next five years?				
Please state the main reasons that keep you from expanding your business activities.				
What are your main expenses/costs?				



**How do you rate...**

... the level of surrounding competition:	Low	Normal	High
... the competition from outside firms:	Low	Normal	High
... your current capacity:	Too low	Adequate	Too high
... relation with Local Authority:	Insufficient	O.k.	helpful
... your ability to grow:	Difficult	O.k.	Easy

**Additional Notes:**

## Appendix VI: Details of the Survey Sample

Survey Sample	
<b>Interviews</b>	128
<b>Towns</b>	Gobabis (28), Windhoek (40), Luderitz (30), Oshakati (30)
<b>Location of business</b>	Formal Market (47%), Other property (53%)
<b>Industry</b>	<p><u>Secondary Industry (36):</u>  Confectionary (1), Craftwork (1), Funeral Supply (1), Furniture (3), Jewellery Repair and Manufacturing (1), Leather Products (2), Mahangu Pounding (2), Upholstery (1), Mechanic (5), Mechanic, Panel Beating and Spray Painting (1), Tire Repair &amp; Car Wash (1), Welding (1)</p> <p><u>Tertiary Industry (92):</u>  Auto Spares (1), Barber Shop (1), Barber Shop &amp; Copies (1), Barber Shop &amp; Hair Salon (3), Bottle Collecting (1), Bottle Wholesaler (1), Car Wash (3), Car Wash &amp; Tire Repair (1), Car Wash, Cleaning &amp; Garden Services (1), Car Wash, Hair Salon &amp; Shebeen (2), Cash Loan (2), Cell Phone Repair (2), Cell Phone Repair &amp; Digital Design (1), Construction Material (2), Cooling Systems Repair (1), Cosmetics (2), Driving School (1), Electronics Repair (2), Fashion Retail (3), Florist (1), Groceries (11), Groceries &amp; Barber Shop (1), Hair Salon (5), Meat Market (4), Milk (2), Nightclub (1), Photo Studio (2), Pool Table Accessories (1), Printing &amp; Copying (1), Restaurant or Take Away (12), Retail of Construction Material (1), Shebeen (7), Shebeen &amp; Car Wash (3), Shebeen &amp; Groceries (1), Shebeen &amp; Shop (1), Shebeen, Bottle Store &amp; Groceries (1), Shoe Repair (2), SME Consulting (1), Tailor (12), Tailor &amp; Decorations (2), Tailor &amp; Hair Salon (1), Tailor &amp; Tent Retail (1), Tire Repair (1), Transport (1)</p>
<b>Years of operation</b>	Below 6 years (41%), 5-9 years (26%), 10-14 years (22%), 15-19 years (5%), 20 years and older (7%)

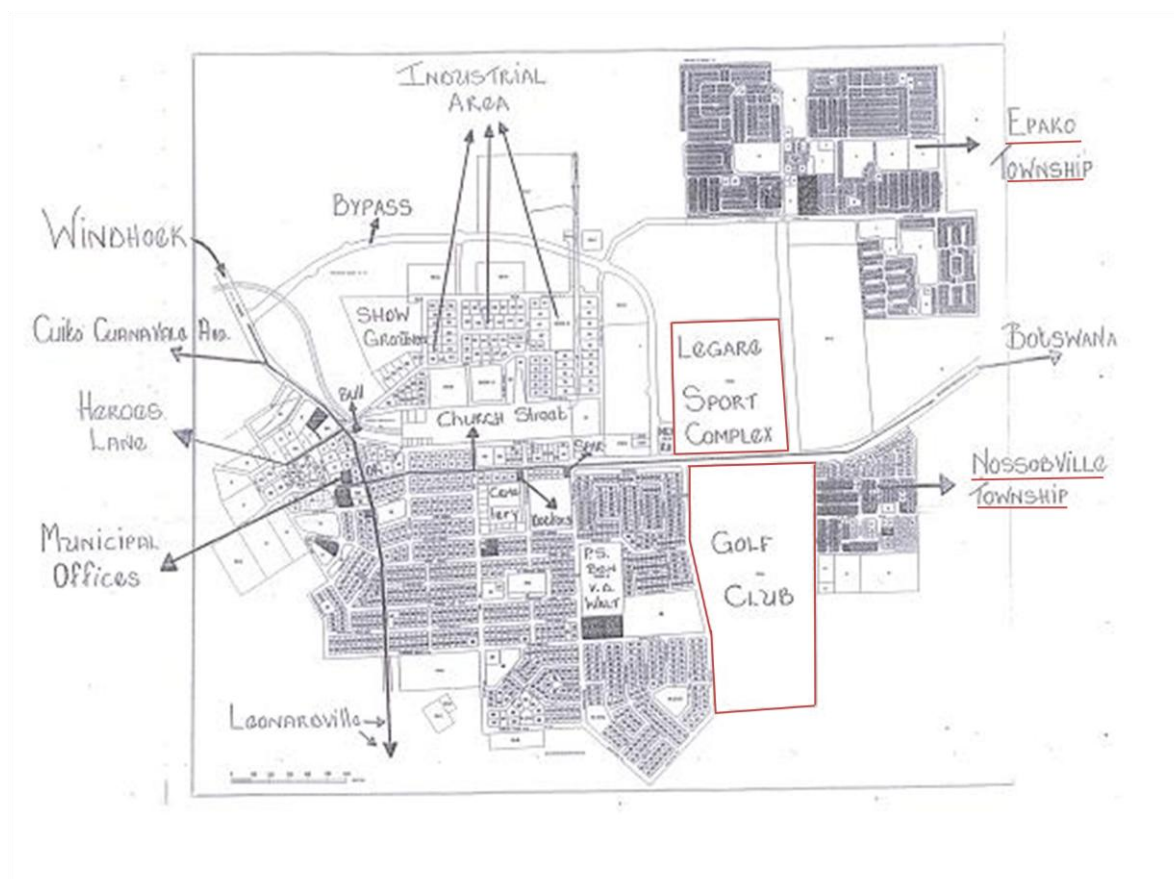
## Appendix VII: Comparison of survey results

Cross-town comparison of results						
Criterion		Total	Gobabis	Windhoek	Luderitz	Oshakati
Registration	Local Authority	61%	21%	65%	80%	73%
	MTI	45%	64%	63%	20%	30%
	SSC	23%	25%	30%	17%	20%
	Tax	19%	11%	25%	17%	20%
Industry	Secondary	27%	14%	32%	17%	43%
	Tertiary	73%	86%	68%	83%	57%
Legal Type	Sole proprietor	89%	96%	95%	87%	77%
	Partnership	4%	0%	3%	10%	3%
	Corporation cc	7%	4%	3%	3%	20%
Service availability	Water	82%	75%	100%	77%	70%
	Electricity	91%	86%	100%	93%	83%
	Sanitation	84%	68%	98%	90%	77%
Entrepreneurship	Opportunity	38%	54%	50%	20%	23%
Motivation	Make a living	48%	29%	43%	67%	53%
	No employment	16%	21%	10%	10%	23%
	Experience/Skills	10%	11%	18%	7%	3%
	First such business	6%	7%	8%	7%	3%
	Values self-employment	8%	18%	5%	7%	3%
	Create employment	5%	7%	3%	3%	10%
	Need of community	5%	4%	10%	-	3%
	Too low salary	2%	4%	3%	-	-
Stat-up difficulties	Took over (relative)	1%	-	3%	-	-
	Yes/no	73%	57%	75%	67%	93%
	Funding	41%	29%	33%	53%	50%
	Customer base	21%	18%	30%	3%	30%
	Customer management	3%	7%	-	-	7%
	Competition	2%	4%	-	3%	-
	Finding Property	2%	4%	3%	-	-
	Regulation	1%	-	3%	-	-
	Getting equipment	2%	-	3%	-	3%
	Business facilities	2%	-	3%	7%	-
Reason for location	Quality of service	1%	-	-	-	3%
	Centrality	18%	14%	23%	7%	27%
	Own residence	18%	14%	15%	33%	10%
	Applied	15%	11%	23%	20%	3%
	Many Customers	14%	7%	10%	10%	30%
	Only availability	8%	18%	3%	7%	7%
	Affordability	6%	4%	5%	13%	3%
	Only such business	5%	7%	5%	3%	7%
	Took over business	3%	7%	3%	-	3%
	Improvement	3%	7%	5%	-	-
Past growth	Was advertised	3%	-	5%	3%	3%
	None	45%	50%	43%	50%	37%
	More equipment	27%	36%	25%	17%	30%
Background	More space	29%	14%	33%	33%	33%
	Relevant job	23%	29%	28%	20%	17%
Gender of owner	Prior Business	13%	7%	20%	10%	13%
	Female	41%	36%	33%	37%	60%
Residence owner	Township	68%	61%	78%	67%	63%
	Informal Settlement	20%	29%	20%	27%	7%
	Town Proper	6%	11%	3%	3%	10%
	Other	5%	0%	0%	3%	20%

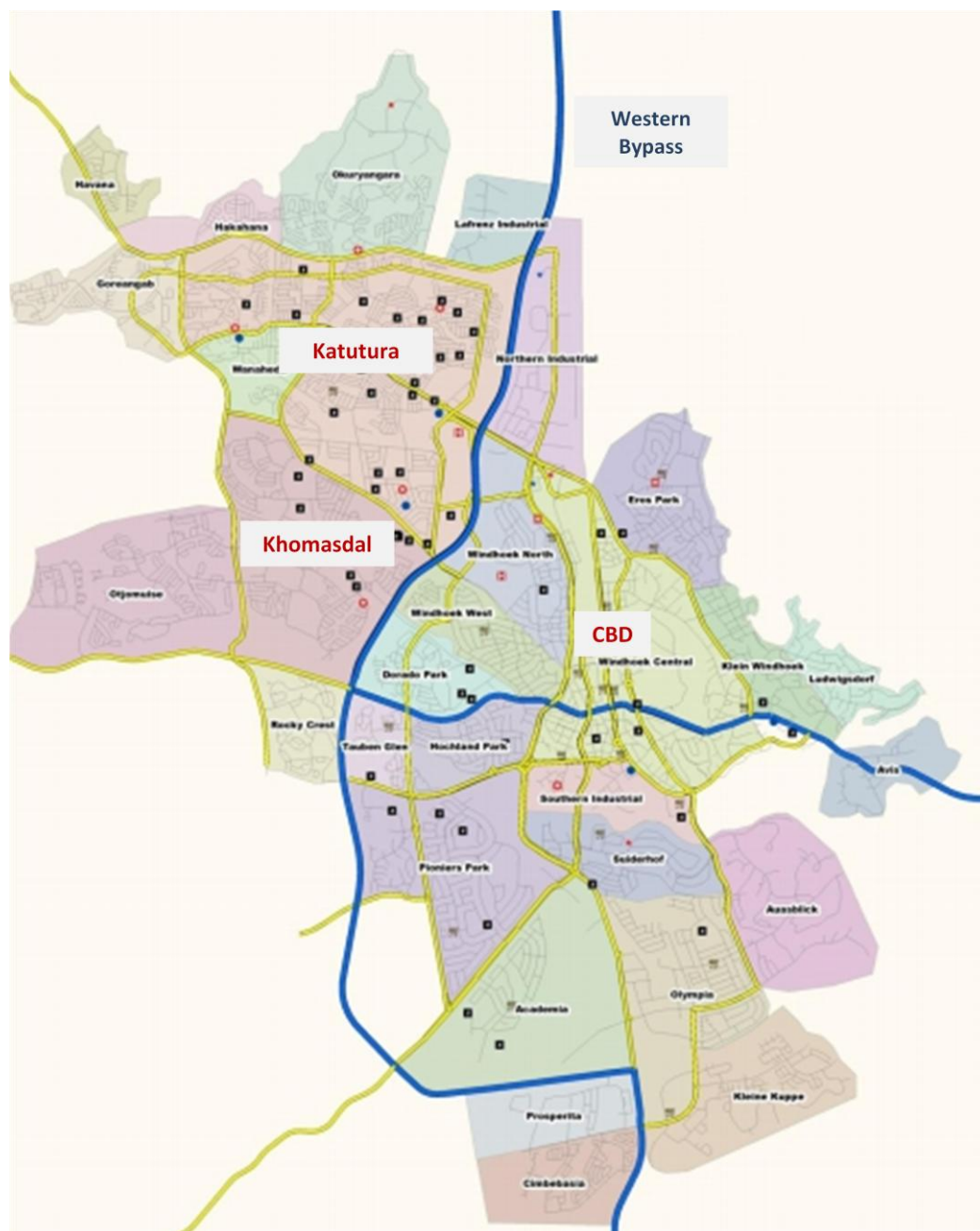
Residence prior to start- up	Township	69%	68%	78%	60%	67%
	Informal Settlement	20%	29%	20%	27%	3%
	Town Proper	5%	4%	3%	3%	13%
	Other	6%	0%	0%	10%	17%
Employees	Male	1,84	0,96	1,6	1,67	3,17
	Female	1,30	1,32	0,8	1,50	1,73
	None	27%	39%	28%	30%	13%
	Regular Salary	76%	39%	58%	63%	60%
	Commission	24%	21%	15%	7%	27%
Number of customers	Low	30%	21%	25%	23%	53%
	Normal	41%	29%	40%	53%	43%
	High	28%	50%	35%	23%	3%
Daily revenue	n/a	6%	11%	3%	10%	3%
	0-100	21%	25%	13%	17%	33%
	101-500	45%	46%	63%	30%	37%
	501-1000	12%	4%	15%	20%	7%
	1001-2000	9%	7%	5%	13%	13%
	Above 2000	6%	7%	3%	10%	7%
Origin of customers	Informal Settlement	80%	71%	85%	70%	90%
	Township	90%	75%	95%	90%	97%
	Town	70%	54%	83%	67%	73%
	Other	23%	43%	0%	7%	53%
Main competitors	Smaller businesses	65%	39%	68%	83%	67%
	Larger businesses	35%	61%	33%	17%	33%
Partnership/ membership	With business	17%	14%	28%	10%	13%
	In organisation	9%	0%	5%	13%	20%
	Planned for future	27%	0%	43%	13%	43%
Location supplier	Township	13%	7%	38%	0%	0%
	Town proper	48%	43%	53%	20%	77%
	Surrounding towns	5%	-	-	-	23%
	Windhoek (del)	12%	14%	-	30%	7%
	Windhoek (self)	13%	32%	-	10%	13%
	North (del)	2%	-	-	10%	-
	North (own)	1%	-	-	3%	-
	Keetmanshoop (del)	6%	-	-	27%	-
	Keetmanshoop (self)	2%	-	-	7%	-
	Farms	5%	11%	8%	3%	-
	South Africa (del)	2%	-	5%	-	-
	South Africa (self)	4%	-	3%	3%	10%
Access to	Micro credit	2%	0%	0%	0%	10%
	Bulk purchase	3%	0%	8%	3%	0%
	Shared storage	0%	0%	0%	0%	0%
	Shared transport	2%	0%	5%	3%	0%
	Other	0%	0%	0%	0%	0%
Financial services	Priv. saving	6%	7%	8%	3%	7%
	Bank saving	86%	64%	90%	97%	90%
Source of funds	Own	93%	96%	95%	87%	93%
	Family	10%	7%	15%	3%	13%
	Bank loan	6%	4%	3%	10%	10%
Interaction with Authority	Never	58%	68%	43%	63%	63%
	Once	5%	0%	0%	20%	3%
	Occasionally	25%	18%	38%	10%	30%
	Regularly	5%	7%	8%	3%	3%
	On demand	6%	7%	13%	3%	0%
Authority support	Sought	22%	14%	30%	20%	20%
	Received	9%	7%	13%	0%	17%

Competition in the surrounding	Low	28%	25%	30%	33%	23%
	Normal	31%	18%	33%	40%	33%
	High	41%	57%	38%	27%	43%
Competition from remote businesses	Low	34%	25%	30%	60%	23%
	Normal	28%	25%	28%	20%	40%
	High	38%	50%	43%	20%	37%
Current capacity	Too low	57%	68%	53%	50%	60%
	Adequate	41%	29%	45%	47%	40%
	Too high	2%	4%	3%	3%	0%
Interaction with Local Authority	Insufficient	55%	50%	45%	57%	70%
	O.k.	30%	18%	40%	33%	23%
	Helpful	16%	32%	15%	10%	7%
Perceived growth ability	Difficult	59%	82%	30%	60%	77%
	O.k.	25%	11%	45%	30%	7%
	Easy	16%	7%	25%	10%	17%
Main growth obstacles	Funding	23%	29%	25%	23%	13%
	Few customers	14%	-	18%	20%	17%
	Expenses	8%	14%	3%	7%	10%
	Capacity	8%	-	8%	3%	20%
	Equipment/machines	5%	18%	3%	-	3%
	Competition	5%	7%	5%	7%	3%
	No water/electricity	4%	4%	-	3%	10%
	Unreliable customers	4%	-	3%	10%	3%

#### Appendix VIII: Spatial map of Gobabis as provided by Gobabis Municipality



## Appendix IX: Spatial map of Windhoek as provided by Windhoek Municipality



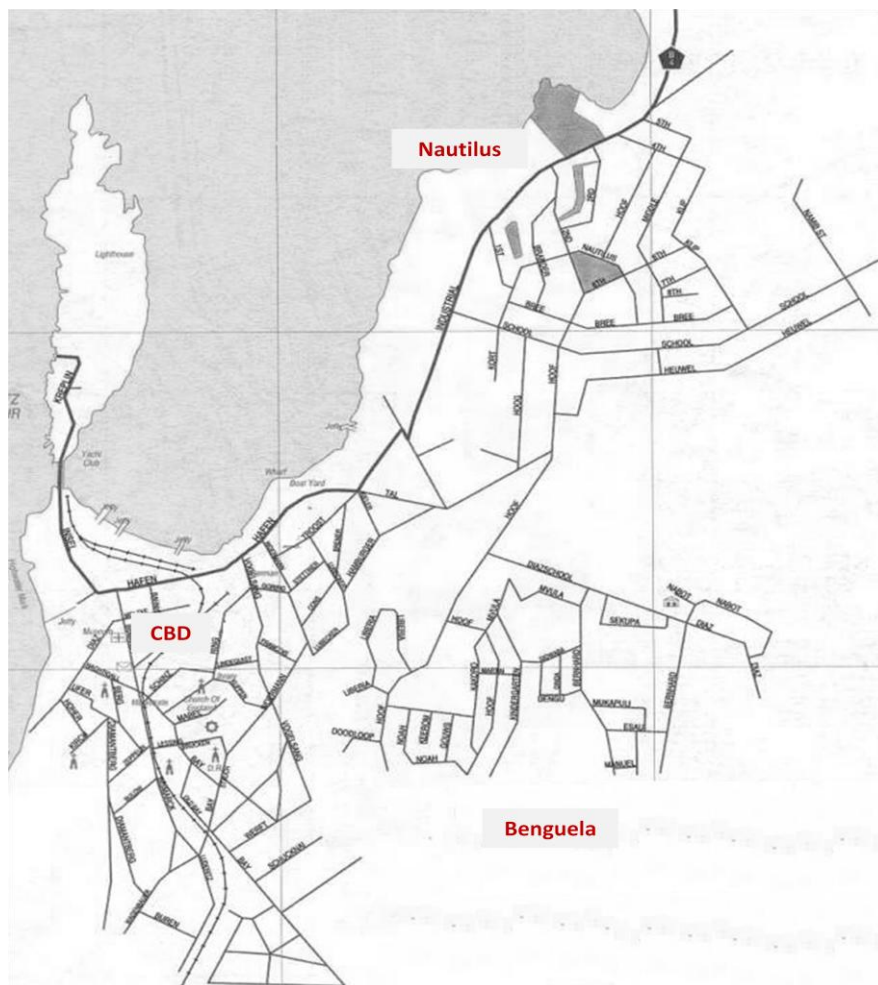
## Appendix X: List of businesses facilities established by Windhoek Municipality

NAME OF FACILITY	ADDRESS
1. Soweto Market	Erf 4517 (Ind. Ave/Abraham Mashego Str.)
2. Oshetu Community Market (former SQ Market)	Erf 4970 (Shanghai Street)
3. Eliaser Tuhadeleni Market	Erf 6290 (Shanghai Street)
4. Onghendambala Market (Eveline Street Market)	Erf R/208 (Eveline Street)
5. Nanghenda Kandulume Market (Caesar Street Market)	Erf 818 (Caesar Street)
6. Okuryangava Municipal Office Market	Erf 1738, (Omuwapu Street, Okuryangava)
7. Post Street Mall Market (un-developed)	Erf 4154 (Post Street)



8. Semi-Mall Market (un-developed)	Erf 5376 (Independence Ave/Peter Muller)
9. Windhoek's Flea Market	Erf 6873 (Mandume Ndemufayo Avenue)
10. Northern Industrial (Limbandungila Market)	Erf 4813 (Etienne Rousseau Street)
11. Twahangana Market (Hakahana)	Erf R/925 of portion 3 (Etetewe Street)
12. Pioneerspark Market	Erf R/1301 (Hochland Road)
13. Lyeeta Market	Erf 2346 (Ombakata Street Okulyangava)
14. Hereford Taxi Rank Market (un-developed)	Erf No 7760 (Hereford Street)
15. Tukondjeni Market	Erf 955 (Ondoto Street)
16. Katutura Hospital	RE / 90 B/ 31 Hans Dieter Genscher Street
17. Okahandja Park Market	Erf 3675, Ongava and Julius Nyerere Streets
18. Strokes and Patterson Streets Market	Erf 6733, cnr of Patterson and Strokes Str.
19. <b>Khomasdal Market</b>	Hans Dieter Genscher Street
<b>INDUSTRIAL STALLS</b>	
1. <b>Katutura Industrial Stalls</b>	Erf no 2127 Hostel Street Katutura
2. Khomasdal Industrial Stalls	Erf no 1145 Andrew Mogale Street Katutura
3. Shire Street Light Industrial Stalls	Erf 2798 Along Shire
4. Menarovandu Industrial Stalls	Erf no 2194 Ranonkel Street Khomasdal
<b>Others</b>	
1. <b>SME Incubation Centre</b>	Erf no 7348 Hans Dieter Genscher Street

#### Appendix XI: Spatial map of Luderitz as provided by Luderitz Town Council



**Appendix XII: Spatial map of Oshakati as provided by Oshakati Town Council**

