



**THE RALLY FOR DEMOCRACY AND PROGRESS (RDP)**



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## STATEMENT MOTIVATING THE MOTION ON MAKING GOVERNMENT PAYMENT SYSTEM CONDUCTIVE TO BUSINESS AND SME PROMOTION

**Wednesday, the 22<sup>nd</sup> June 2016**

Honourable Speaker,  
Honourable Members,

Namibia has witnessed a phenomenal growth in the number of business start-ups during the past two decades or so. SMEs in Namibia contribute to the national economy in various ways: employment creation and income generations, adding value to the gross domestic product of the country. Namibia Vision 2030 clearly states that SMEs should act as the locomotives that drive the economy forward to achieve “.... human development, equitable and balanced growth, with a growing industrial sector.....”.

The development of the SME sector offers greater opportunity for the attainment of sustainable socio-economic development. A study of 100 SMEs conducted by Sherbourne R., 2012, assessing market demand for Private Equity and Venture Capital initiatives for Emerging SMEs in Namibia has shown that a high number of SMEs were established since independence, suggesting that enterprise creation has been relatively positive. However, he argued that while it might look as if there are many small businesses in Namibia (and therefore huge potential for business growth), the actual growth potential may in fact be limited to only a very small number of innovative enterprises. Access to financing and a more robust procurement system could lead to more SMEs being elevated to the category of those with better growth potential.

Statistics released by the Ministry of Industrialization, Trade and SME Development (MITSD) show that the 33,700 SMEs operating in the country are catering for 160,000 employees and have the potential to create better and more employment opportunities if well supported.

The definition of the sector was last officially enunciated in the 1997 SME Policy. This definition has remained constant over the years, despite various regional and global dynamics leading to economic changes and the nature of firms undergoing structural changes.

The 1997 definition, defined SMEs in terms of the number of employees, annual sales as well as the capital base of the business. A firm is categorized as an SME if it meets at least two of the above three criteria. Moreover, the 1997 definition did not include the micro enterprises and only differentiated between SMEs engaged in manufacturing activities from all other businesses.

No provision was made for timely modifications of the definition as and when local, regional and global dynamics would dictate. It is for the above mentioned reasons that the draft revised MSME Policy proposes a revised version of the Namibian SME definition. The definition complies with internationally acknowledged standards and defines MSMEs according to two criteria, namely number of employees and annual turnover.

Honourable Speaker,

SMEs face many challenges that range from lack of finance, lack of skills, training and experience in running the business, financial knowledge, lack of market research, lack of collateral as well as late payment of invoices by government.

It has been observed that a majority of these businesses do crash land during the first twenty four months of their existence. Indeed, available data indicates that approximately 75% of the small-scale businesses belong to this failure group. It is equally pertinent to note that this increased failure rate is consistently substantially greater than the increase in the rate of new business creations.

Whilst the Ministry of Industrialization, Trade and SME Development has been providing a range of services in support of SMEs promotion, the government is making the operations of businesses in general and SMEs in particular difficult due to late payment of invoices.

Government offices and departments have been accused of taking a long time, up to six months and more to pay accounts and invoices.

The Treasury Instructions HB: 0200 handling of payments and vouchers and HB 0203 states that “All claims accepted shall be dealt with immediately and the relevant voucher shall be forwarded for payment without delay. Accounting officers shall take care that payments for services and supplies which are supplied and delivered in terms of contract correspond with the condition of the contract”.

Despite this provision, several businesses and SMEs complain of the delay in payment by government as a major hindering factor. Linda Naikaku the Namibia Chamber of Commerce and Industry (NCCI)’s Deputy Chairperson for the Northern Branch, in the interview with the New Era of 26 May 2016, blamed late payments as one of the contributing factors to poor workmanship and the abandonment of some government projects. She said contractors are blamed for substandard work on capital projects, but government and other service providers contribute to this situation, because they usually fail to pay contractors on time.

She said failure by government to pay contractors on time has often left contractors with serious debts and without working capital to pay their workers. Contractors are not paid on time; even when they have gone out of their way to get overdrafts from banks in order to buy material and equipment.

From time to time contractors find themselves faced with angry employees and subcontractors, demanding payment. At the same time heavy interest due to non-payment is added on bank overdrafts and suppliers invoices. In fact a number of people lost their properties, because of debts incurred this way and suppliers refuse to provide materials to contractors with outstanding debts, leaving some contractors with no choice but to abandon government projects in frustration or simply liquidate.

Honourable Speaker,

Late payments of invoice by government led to the reluctance by business owners to do business with government institutions. A case in point is the refusal of some medical doctors to treat patients with government medical aid, unless these patients pay upfront and claim later from the medical aid. Some accommodation facilities such as hotels, guest houses and shops also refuse to do business with government institutions because of late payments.

Late payments and delay in processing payment for business and SMEs by public procurement entities, puts undue pressure on the cash flow and thus the financial stability of most SMEs (Survey 2014).

Honourable Speaker,

Honourable Members,

Unlike larger companies, the SMEs have even more limited source of funds and it is thus critical for them to manage their working capital as effectively as possible. Working capital is a critical success factor in the day-to-day trading operations. Inability, to manage cash flow is a major contributor to business failure. Working capital is essential for supporting operational activities for the sustainable growth of the business. Therefore, working capital tied up in outstanding invoices lead to additional financial strain to the business. Many businesses become insolvent due to mismanagement of working capital.

Honourable Speaker

Honourable Members,

Late payment of invoice is not exclusively a Namibian problem. According to research carried out by Dunn and Cheatham (1993) inability to manage working capital was cited as a major cause of SME failure in the UK and the USA. A substantial fraction of short term funds is usually tied up in different components of working capital. Surveys by CFOs and Deloitte (2013) identified the managing of working capital as among the top three key organizational concerns faced by companies in India.

Honourable Speaker

Cash flow management has led to some business and SME owners bribing officials as a last resort to expedite invoice payment. This practice has been reported and is rife in some government institutions.

It is therefore, of pertinent importance for us as law-makers to address this issue and find lasting solutions for our economy to grow through SME development, and preventing corruption from becoming part of our government institutions .

It is on this basis that I propose that the motion be referred to a relevant parliamentary committee after having been discussed and debated in this August house.

I THANK YOU.