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An Examination of Venture Capital as an Alternative Funding Source for Small and Medium Enterprises (SMEs) within Namibia's Khomas Region.

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Abstract: *Despite the recognized contribution of small and medium-sized enterprises (SMEs) to economic development, empirical studies consistently identify insufficient access to finance as one of the foremost challenges confronting entrepreneurs in both developed and developing economies (Economic Association of Namibia, 2023). Venture capital (VC) presents a practicable solution to this challenge, offering a viable channel for providing much-needed financial support to SMEs. Consequently, venture capital financing has attracted growing attention globally, including within Namibia. Given the concerted policy efforts by Namibian authorities to cultivate an entrepreneurial climate conducive to SME growth and sustainability, the persistently high failure rates among SMEs, and the mounting constraints facing traditional financial institutions, there is a clear imperative to examine venture capital financing as an alternative funding source within the domestic context. Accordingly, this study aims to assess the viability of venture capital investment as an alternative funding mechanism for SMEs operating in Namibia's Khomas Region.*

The research adopted an exploratory approach, employing an inductive reasoning process and a qualitative research design. Using a purposive sampling strategy, nine participants were selected for the study, representing financial institutions, investment management firms, government agencies, and entrepreneurs/SME owners. Data gathered through semi-structured interviews were subjected to thematic analysis, from which four principal themes emerged, each accompanied by sub-themes: Current financing and mechanism landscape, Enhancement of business sustainability and growth, Factors shaping the Namibian business environment, and Barriers to VC implementation. The findings reveal that Namibia's current financing landscape remains predominantly occupied by traditional banking institutions. Although SMEs access various non-bank financing alternatives, formal venture capital financing is notably absent in Namibia, and the concept remains relatively nascent. Nevertheless, VC is broadly recognised as a transformative alternative financing instrument capable of revitalising the SME sector not only through capital injection but also via expert advisory support, mentorship,

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and extensive market networking opportunities. To facilitate the effective implementation of venture capital in Namibia, the study recommends proactive government engagement through awareness-raising initiatives and policy reforms designed to create an enabling environment that attracts VC investors seeking to establish operations in the country.

Keywords: Small Business Development, SMEs, Venture Capitals, alternative financing, business incubators, small business failure, small and medium-sized enterprises, entrepreneurship, enterprises and SME support.

Introduction and Background To The Study

SMEs play a critical role in economic growth and empowerment, a function widely acknowledged by academics, development economists, and governments worldwide, particularly in developing nations (Abisuga-Oyekunle et al., 2020; Eijdenberg et al., 2019; Hernita et al., 2021; Ndiaye et al., 2018; Roberts, 2022; Rowinski, 2023). Their potential to boost employment, contribute to GDP growth, reduce poverty, narrow inequality, generate tax revenue, and improve living standards has drawn the attention of policymakers, entrepreneurs, financial institutions, venture capital firms, and non-governmental organisations alike (Bayraktar & Algan, 2019). However, despite this recognised significance, empirical literature consistently identifies a financing gap for SMEs as one of the most substantial obstacles confronting entrepreneurs in both developed and emerging economies (Eggers, 2020; Herbane, 2019; Iindj, 2023; Mukata & Swanepoel, 2017; Olawale & Garwe, 2010; Rahman et al., 2019; Shikongo, 2018). Apuoyo (2020) further observed that restricted access to capital adversely affects the survival and productivity of SMEs, particularly in emerging markets. According to Ribelles Recatalá (2015), banks have historically accounted for over 80% of corporate financing. However, following the 2008 financial crisis, banks have encountered numerous difficulties including bailouts, institutional mergers, declining domestic demand, and challenges with debt refinancing which have precipitated a paradigm shift that restricts the credit and financing available to SMEs. The World Bank Group (2023) notes that most intermediaries and lenders remain reluctant to extend loans to SMEs, largely because these businesses lack collateral and, more critically, are perceived as high-risk borrowers. Consequently, there is an urgent need to explore and promote alternative financing mechanisms to create viable funding opportunities for SMEs in Namibia.

Venture Capital (VC) financing is regarded as a non-banking alternative through which SMEs can access funding, although it remains the least understood in the Namibian context (Lerner & Nanda, 2020; Mirza & Sabah, 2018). By identifying, funding, and nurturing growth-oriented enterprises with strong entrepreneurial potential, the VC model plays a catalytic role in entrepreneurial development a function well-articulated by both scholars and practitioners (Mbhele, 2012). Numerous globally significant and rapidly expanding corporations, including Alibaba and Tencent in China, and Apple, Amazon, Facebook, and Microsoft in the United States, have benefited from venture capital backing. Lerner and Nanda (2020) observed that since the emergence of this financing model, a multitude of new financial intermediaries such as crowdfunding and accelerator platforms have been established over the past decade, and the number of start-ups accessing venture capital funding has grown substantially. Lerner and Leamon (2023) trace the origins of venture capital to the United States, where it initially manifested as informal business investments by wealthy individuals and families. Families such as the Phippses, Rockefellers, Vanderbilts, and Whitneys were already established as private fundraising investors in the final decade of the 1800s. The first formal venture capital firm, American Research and Development Corporation (ARD), was founded in 1946 with the overarching objective of providing small enterprises with startup capital at a predetermined rate of return over a fixed investment horizon (Ante, 2008). Subsequently, the federal Small Business Investment Company (SBIC) was established in 1958. Since then, the number of venture capital firms worldwide has surged, with the United States dominating among nations investing in venture capital (Statista, 2023).

Figure 1.1 illustrates the global distribution of venture capital-backed start-up successes (unicorns) in Q2 2019.

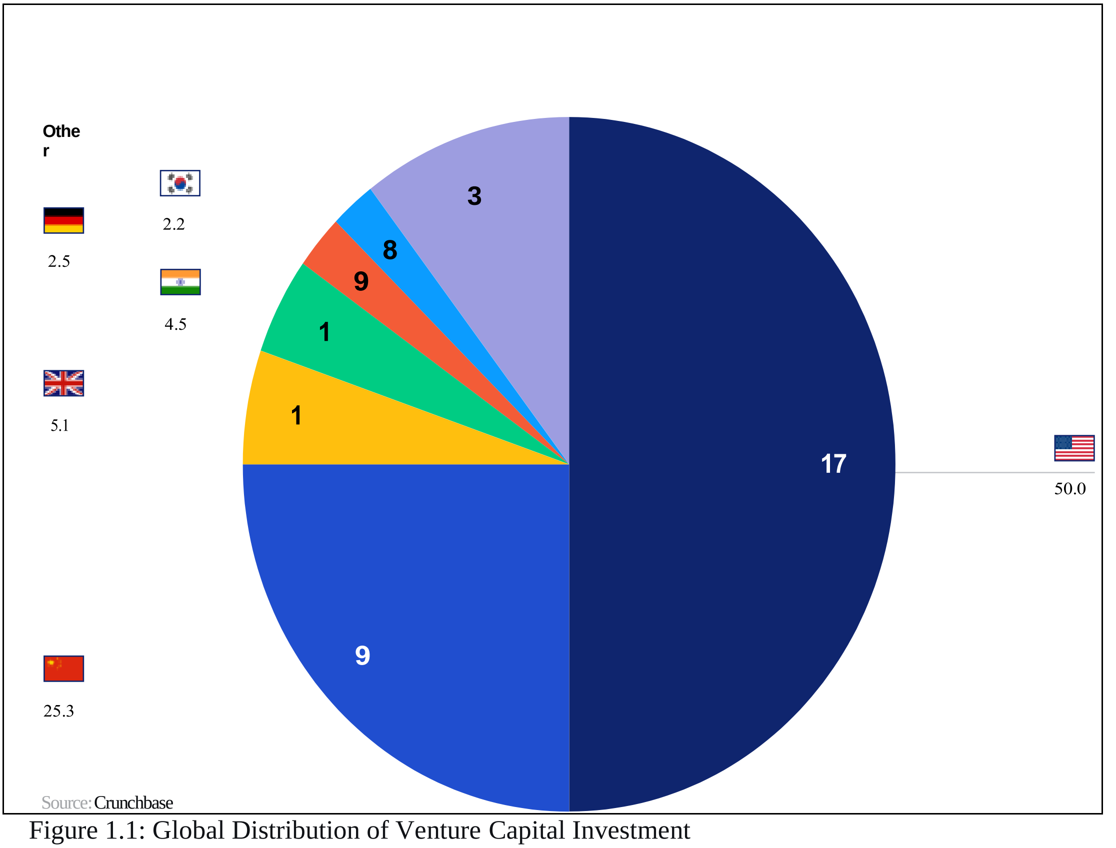


Figure 1.1: Global Distribution of Venture Capital Investment

Despite the geographic expansion of VC firms, more than 75% of unicorns remain concentrated in China and the United States. The remaining 37 countries including Australia, Brazil, Canada, Colombia, Estonia, France, Hong Kong, Indonesia, Israel, Japan, Luxembourg, Malta, Nigeria, Philippines, Portugal, Singapore, South Africa, Spain, Sweden, and Switzerland are grouped under "other" (Toptal, 2019).

Namibia's Venture Capital Landscape

Namibia is a geographically and demographically small country, regarded as one of the most economically and politically stable nations on the African continent (Bakar et al., 2017). Characterised by a diverse population with a rich blend of races and ethnicities, alongside a widening gap between the affluent and the poor, Namibia faces considerable challenges, including elevated rates of criminal activity and serious nepotism within the administration (Melber, 2022). Even though it is one of the continent's newest democracies, having emerged from apartheid, major issues confronting Namibia include high rates of violent crime, multifaceted impoverishment, and unemployment (Bobek et al., 2019). According to the Namibia Statistics Agency (2024), the country's total population stands at 3.02 million, with the Khomas Region alone housing the largest population of 494,729 people. Additionally, the unemployment rate stands at 34%, with youth unemployment at a particularly concerning 48%. These obstacles serve as a catalyst for government policies and priorities aimed at fostering SME growth in Namibia (Bobek et al., 2019; Iguna & Sazita, 2018; MITSD, 2019; Ndhikwa, 2023; Smorfitt, 2010). Although the Namibian government recognises the vital role that SMEs play in the economy, it is generally acknowledged that SMEs are often inadequately served, and financing is viewed as the primary obstacle to their expansion (Shikongo, 2018). In view of this, several policy initiatives, financial strategies, and support programmes have been instituted to sustain the long-term growth of SMEs. These include the establishment of the Namibian Stock Exchange (NSX) in 1992, aimed at developing domestic investment options (Ministry of Industrialization and Trade, 2015), and the Namibia Investment Promotion and Development Board (NIPDB), established in 2020 to provide SMEs with financial support, mentorship, training, and enhanced market opportunities.

Despite these support mechanisms, Modise (2023) observed that Namibia's entrepreneurial ecosystem has yet to position itself as a destination for investment. Consequently, Namibian start-ups continue to struggle in accessing venture capital a crucial step in building scalable and impactful technology businesses. A range of ecosystem challenges contributes to this deficiency, making the development of venture-scalable companies particularly difficult (Aitana & Svotwa, 2024). According to Modise (2023), the issue lies not in the absence of capital within the country, but rather in the misalignment between the needs of entrepreneurs and the criteria of capital providers. Given the constrained availability of credit financing and the unfavourable business environment, alternative funding sources have become increasingly vital for SMEs to survive beyond their first two years of operation. The utilisation of alternative financing methods, such as venture capital, has significantly influenced the financing transformation and expansion of small firms in developed economies (Jeng & Wells, 2000). These financial innovations have reshaped the operating environment for SMEs and opened new avenues for their development and growth (Mirza & Sabah, 2018).

State of Venture Capital Funds in Namibia

The VC sector in Namibia is currently in its early stages and constitutes a relatively small segment of the broader private equity industry, resulting in limited popularity among both investors and SMEs (Aitana & Svotwa, 2024; Amadhila, 2020). Although SMEs in Namibia play a significant role in the nation's economic expansion, they face numerous obstacles and securing funding for innovative and sustainable growth particularly from VC and Private

Equity (PE) firms remains particularly challenging (Pinto et al., 2023). Despite its small size, Namibia possesses a relatively advanced private equity industry compared to other emerging and developed countries (Walenga, 2019; World Bank, 2020), with the potential to provide capital for early-stage, late-stage, and buy-out funding across various business growth phases. The limited adoption of venture capital by small firms in Namibia can be attributed to a lack of awareness and underutilisation, as evidenced by similar studies conducted in Ghana (Abor & Biekpe, 2006). This trend is also apparent in South Africa's venture capital investment industry (De Waal, 2007), where most investors are either high-net-worth individuals or institutional investors (Memba et al., 2012). Presently, the primary source of equity financing in Namibia is predominantly captive funds, with a restricted supply of seed capital. Government measures are essential for revitalising the industry, given the substantial demand from SMEs for venture capital funding alongside a shortage of investors willing to make such commitments (Aitana & Svotwa, 2024).

Literature Review

A thorough analysis of the theoretical and empirical research on venture capital funding was covered in this chapter. The first part focused on the review of the theoretical framework, starting with defining key terms such as venture capital, stages of investment and types of venture capital, this was followed by the Principal Agency Theory (PAT) and Resource-Based View theory (RBV) that underpins this study. The second part reviewed empirical literatures on the subject of VC. And then gave a synopsis of the chapter before referencing Uber's success story in South Africa.

Definition Of Venture Capital (VC)

Venture capital, an alternative non-bank financing institutional concept, which originated from the USA in the 19th century is widely defined as a financial intermediary (entities or individuals) that provides funds, managerial skills, and experience to young but promising entrepreneurs in the medium to long term businesses with the potential for significant growth (Lerner & Leamon, 2023; Mirza & Sabah, 2018; Ribelles Recatalá, 2015). These investors offer financial support to both start-up ventures and established small firms that are high-risk and lack sufficient money and collateral but have significant profit potential as aspiring growth enterprises (Apuoyo, 2020). Venture capital (VC) is defined by the Organization for Economic Co-operation and Development (OECD) as funding given by venture capitalists to management-led, early-stage, unlisted businesses with the aim of obtaining a high return on investment. The venture capitalists' financial resources and industry knowledge helped the young company create value. In addition, these capitalists also receive an ownership stake in the company as compensation for their investment, typically based on the amount invested and the degree of risk involved in the venture.

Furthermore, venture capital is the financial commitment made by venture capitalists to support the development of new concepts, businesses, goods, services, and procedures that promise high returns on investment (International Finance Corporation, 2009). According to Gompers et al. (2020), the hallmarks of venture capital financing include intricate and highly confidential information sharing, as well as standards, procedures, and logistics managed by venture capitalists who rely on their special talent and potential to make profitable investments in companies operating in cutthroat markets. They also carry out non-financial functions such company governance, screening, monitoring, and providing strategic advice and operational support. Also, VC according to Wallmeroth et al. (2018) are investors who raise money from a variety of sources, including banks, insurance companies, endowments, pension funds, banks, sovereign wealth funds, family offices, governments, and start-up businesses that present considerable risk with a substantial potential for incentive in the form of equity stakes. Venture capital is refer to as a form of private equity that is commonly sought by startups (Lerner & Leamon, 2023). Idi and Germinah (2022) highlighted that the financier or venture capitalist and the entrepreneur have a win-win alliance that is marked by cooperation and a shared aim of financial success. Furthermore, the performance of the company directly affects how profitable their investment will be in the future.

Professionally managed equity invested alongside entrepreneurs to finance early stage (seed and startup) or expansion venture with the goal of attaining higher-than-average return on investment is described as venture capital, according to the European Venture Capital Association (EVCA). VC is a subclass of private equity (Cavallo, 2018). The launch, expansion, and development of an early-stage company are the goals of these investments. Venture capital investments are made during an enterprise's early stages, while the viability of its business plan is still being confirmed, as opposed to traditional debt instruments like bank loans and equity-based investments, that are invested in enterprises that are expanding and have established customers, products, and a track record of steady cash flows.

Stages of Venture Capital Financing

VC investments are often categorized as long-term commitment lasting at least 3 years and typically spans multiple business cycles, offering sustained support to enterprises (Canton, 2021). These investments occur at all three stages of business cycle. First, the early-stage financing: investment at this stage is usually a small amount called seed-financing or start-up capital, given to an inventor or an entrepreneur to develop a new idea or prototype (Ribelles Recatalá, 2015). It is an intermediate stage between the beginning and expansion. Start-up capital is provided to small business whose product are mostly in testing or pilot production (Metrick & Yasuda, 2021). According to Bonini and Capizzi (2019), financial investment requires by companies at this initial stage is often restricted not due to a lack of ambition but because of the need to test, produce, and eventually promote the marketability of the company’s output. Traditionally, investors refuse to fund SMEs at the early stage of development due to high risk and information asymmetry involve with start-ups (Kijkasiwat, 2021). A significant obstacle to numerous start-ups has been the lack of or restricted availability of financing. According to start-ups inability to secure funds is linked to their lack of collateral, high level of business uncertainty, poor record keeping and lack of good strategic business plan (Khan, 2022; Thomas, 2022). VC funding serve as a mediating solution to SMEs early-stage financing challenges (Mirza & Sabah, 2018). The second stage is the expansion stage financing: businesses at this stage are already operational with significant breakeven profit, established market presence, and growth but needs additional funds for expansion to expand into new market, increase product capacity and sales, and improve new products (Metrick & Yasuda, 2021). In addition, Thompson et al. (2018) noted that some companies experience some changes in their financial strength due to retirement of some shareholders or change of ownership leading to changes in capital structure and the organization needs to recapitalize. Also, established businesses who cannot secure financial support or loans from banks, approach venture capitalist as an alternative funding source to finance their expansion (Mirza & Sabah, 2018). Low risk is perceived by VC at expansion stage and therefore, investment amounts in this later stage are usually large compared to the earlier stages of funding. Funding may come from growth stage venture capital funds, private equity firms, or corporate venture capital firm (Gompers, 2022; Lerner & Leamon, 2023). The final stage is the acquisition and leveraged Management buyout stage: here funds are provided to companies who want to buyout or acquire another company. Buyout could be in the form of transferring a whole company or the management control of a new product line or business section of an existing company to a new investor or owner (Mike et al., 2018). According to Appelbaum and Batt (2020), VC private equity investment in healthcare in the US has aggressively pursued growth possibilities to consolidate businesses in extremely dispersed marketplaces.

Types of Venture Capital Financing

Venture capital investors come in a variety of forms, each having unique traits and applications for funding businesses at various stages of growth. But Bertoni et al. (2015) categorized them into four: independent VC, corporate VC, bank-affiliated VC and governmental VC. According to Cumming et al. (2017) individual venture capital (IVC) refers to the private organizations that oversee combined money from institutional financiers, philanthropic wealthy people, and pension funds. Furthermore, IVC are set up as private alliances, where shareholders are the limited partners (LPs) and managers of funds are the general partners (GPs). Furthermore, IVC are set up as private alliances, where shareholders are the limited partners (LPs) and managers of funds are the general partners (GPs). In order words, their funds and investment decisions are managed by professional investment managers or partner within the firm (Berger & Hottenrott, 2021). According to Tykvová (2018), these businesses actively assist portfolio enterprises, offer strategic counsel, and use their connections to supply equity funding for new businesses with promising growth prospects. Corporate VC (CVC): These are corporate subsidiaries or affiliated arm of a larger corporation (banks, insurance companies, etc.) who pursue the strategic objectives of their parent companies while making investment decision on their behalf (Haslanger et al., 2023). According to Ma (2020), CVC longer investment horizon enables them to provide startup capital to innovative firms. Its strength of combining corporate research and industry expertise is a hybrid model that allow it to support start-up businesses' expansion and creativity by providing both financial funding and additional resources (Chemmanur et al., 2014). According to Wang (2023) research, small businesses supported by private capital firms exhibit greater levels of innovation than to those supported by public CVC firms. The author also pointed out that private CVC investors have a higher tolerance for failure than public CVC financiers, which results in a better capacity to promote successful innovation. Some of the examples of CVC are Google Ventures (GV) by Alphabet Inc., and Intel Capital by Intel Corporation.

Bank-affiliated VC (BVC): BVC are venture capital affiliated with financial institutions (banks, insurance companies, and pension funds) that uses bank's resources to invest in start-ups and early-stage firms (Li et al., 2023). A good example is the Goldman Sachs Venture Partners, and the JP Morgan Chase Strategic Investments. Mirza and Sabah (2018) cited an example of USAID in Ghana, a non-bank financial institution operating as Ghana Venture Capital Fund (GVCF) and a management company Venture Fund Management Company (VFMC) to make investment decisions. Their investment practices are aligned with the regulations of the financial institution that they are affiliated with. Governmental VC (GVC): GVC are government-owned investment agencies or organizations that are structured like VC to fund small businesses in order to foster innovation, entrepreneurship, creating employment, and growth in the economy (Bertoni et al., 2019). According to Cumming et al. (2017), there are more governmental VC funds in the EU than in the US. However, the author delineated three reasons why Governmental Venture Capitals (GVCs) underperform compared to Independent Venture Capitals (IVCs). Firstly, GVCs are established through political and regulatory procedures rather than private negotiations among contracting parties. Secondly, GVCs are perceived to have less efficient compensation arrangements compared to IVCs. Thirdly, GVCs lack independence in decision-making processes, unlike IVCs which benefit from legal autonomy due to their limited partnership structure. Limited partners in IVCs refrain from direct involvement in daily fund operations to maintain their limited liability status. As a result, state venture capital investments produce fewer benefits than other venture capital investments (Humphery-Jenner, 2012). Some examples include the Small Business Investment Companies (SBICs) in the US, and the European Investment Fund (EIF) in Europe.

1.1: Classification of MSME's by MISTD Act 2015, Republic of Namibia

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

Source: MTI 2016

Theoretical Framework

The theoretical framework of a research serves as a perspective that guides the research's direction and connections (Winchester & Salji, 2016). While specific theoretical frameworks addressing the involvement of venture capital in SME funding in Namibia are lacking, understanding the dynamics is based on the ideas that are currently in place. First, the Principal Agency Theory (PAT). Secondly, the Resource Based View (RBV) which according to Nason and Wiklund (2018) has, during the past three decades, become one of the cornerstones of management research.

The Principal Agency Theory (PAT)

A main agency relationship, as defined by the main Agency Theory, arises when the owner, or principal, hires an agent to carry out a certain task. In this situation, the owner will have to provide the agent the power to make decisions. In venture capital funding, investors and business owners, in this case, venture capitalists and SMEs have a principal-agent relationship. Goal disparities and knowledge asymmetry are two common obstacles to this transfer of decision-making power (Glücksman, 2020). The main agency issues arise from venture capitalists' potential to prioritize their own interests over those of the fund owners. This pertains to banks, insurance firms, and pension funds. In addition, some level of information asymmetry occurs while trying to make investment decisions as investors relying on VC firms to choose high profit return projects (Sahlman, 2010). Additionally, entrepreneurs often prioritize their own goals above the VC firms. The aim to reduce these agency issues may have an impact on the timing and choice of exit and entry (Cumming and Macintosh, 2009).

The Resource Based View (RBV)

Approaches that focus on the venture capital financing take their roots from the Resource Based View theory (Battisti et al., 2022). The Resource Based View (RBV) hypothesis has been an important notion to assist the growth of small enterprises, thanks to the work of corporate finance academics over the previous ten years (Barney, 1991). The "Theory of Growth of the Firm of 1959" by Penrose, which showed that a firm's inability to acquire essential resources both real and intangible assets hinder its ability to grow, is the genesis of RBV. Research suggests that firms need certain resources and strategic capabilities to succeed in the uncertain business environment of today (Gregurec et al., 2021). And these strategic capabilities consist of two components: organizational resources and organizational competences (Kamasak, 2017). Resources are assets that organizations rely on to achieve their goals, while competences are the ways in which these assets are utilized productively (Nason & Wiklund, 2018). Furthermore, because resources are valuable, rare, imperfectly imitable, and non-substitutable (VRIN) (Battisti et al., 2022), they can give a company an edge over competitors and enhance its performance.

According to RBV, the two most important resources for a business are capital and exceptional talents, which are crucial for maintaining a firm's competitive edge and enabling it to amass assets that promote economic expansion (Pereira & Bamel, 2021). According to Kato (2021), the RBV theory seems to fit in precisely alongside the idea of venture capital financing for SMEs with substantial potential for expansion as well as the technical know-how that fund managers bring to promote the venture capital-backed businesses and foster the entrepreneurial environment. This theory sheds light on the workings of venture capital as a substitute source of funding for SMEs in the Namibian context.

Empirical Literature

This section reviewed earlier research on venture capital funding as a substitute source of funding for SMEs and discussed the contemporary issues with venture capital funding of SMEs in Namibia. After the issues have been discussed, this provides relevant contextual background based on the aforementioned theories to finding the study gap, explaining the research findings in the Namibian context, and suggest remedies. after the problems had been addressed.

State of SMEs Development and Financing in Namibia

Even while SMEs play a significant role in boosting the economy, reducing poverty, and job creation, they continue to be financially disadvantaged globally as a result of limited availability of external financing.(Bayraktar & Algan, 2019; Eggers, 2020; Muriithi, 2017; Shilyomunhu, 2017; Sibiya & Kele, 2019; Thomas, 2022). Ayyagari et al. (2011) state that SMEs make up over 95% of all enterprises worldwide and account for over 60% of all jobs in the unorganized sector. But the most significant issue that has been identified as defining SMEs globally is their restricted access to financing (Iguna & Sazita, 2018). According to Quartey et al. (2017) barriers to SME financing exist throughout the West African subregion. They lament the difficulty SMEs face in obtaining financing and assert that sufficient funding is essential to the survival and expansion of SMEs. In contrast to the global average of 26, 32% of businesses in the MENAP (Middle East, North Africa, Afghanistan, and Pakistan) region and 18% in the CCA (Caucasus and Central Asia) region, respectively, cite accessibility to funding as a primary constraint, according to the World Bank Enterprise survey published in Fouejieu et al. (2020), Small and medium-sized enterprises (SMEs) face numerous obstacles, including inadequate management abilities, inadequate corporate governance frameworks, inadequate infrastructure, restricted technology, restricted market access, restricted access to reasonably priced legal, accounting, and business advisory services, subpar record-keeping and accounting procedures, absence of formal or informal business networks, lack of research centre's for SMEs' growth, and inadequate government assistance in the form of beneficial economic policies and programs targeted at SME development and expansion (Arshad et al., 2020; Meyer et al., 2018; Naradda Gamage et al., 2020; Prasanna et al., 2019). Antwi et al. (2015) also discovered that SMEs in Ghana face a number of difficulties, including inadequate bookkeeping and budgeting procedures, an inadequate level of managerial expertise, a lack of collateral security to obtain bank credit, high interest rates on bank loans and other credit facilities, fluctuations in exchange rates, a dearth of credit information bureaus, high utility costs, and erratic power supply. According to Ayensuwa Ekuban (2021) a number of factors, including substantial utility charges, SMEs' limited access to the global market, the influx of inexpensive goods that are competing with SMEs' produce, restricted access to financing, excessive taxes, and high credit costs, are impeding the growth of SMEs in emerging economies.

SMEs have been observed to be diverse in nature, varying in numerous aspects from the nature of company operations, ownership arrangement, administration structure, managerial abilities and expertise, type of industry, number of employees, and size of firm among other factors. This is in addition to the major obstacle of obtaining finance, which has grown into a common trait of SMEs throughout the world. (Quartey et al., 2017). The majority of SMEs are owned by families and sole proprietorships with a focus on retail and trading as their main lines of business (Herr & Nettekoven, 2017; Yew, 2021), and manufacturing activities (Omar & Anas, 2014). Additionally, the way they operate differs between nations and between urban and rural regions within a nation, particularly in emerging economies (Abor & Quartey, 2010).

In the Namibian context, April and Itenge (2020) identified challenges such limited collateral, no credit record, bad documentation, insufficient cash flow analysis, and financial statement deficiencies as hindrances to SME growth in Namibia. Furthermore, many Namibian SMEs are unaware of the availability of Venture Capitalists, highlighting the need for educational programs to increase awareness and access to Venture Capital funds (Aitana & Svotwa, 2024). Regarding financial constraints, research shows that inadequate access to credit significantly impedes the capacity of Namibian SMEs to obtain working capital from the bank to procure raw materials due to limited collateral security, high interest rates, transaction costs, and information asymmetry, among others hinders their development (Bobek et al., 2019;

Shikongo, 2018; Smorfitt, 2010; Thomas, 2022). As finance is integral to various aspects of small business start-up and development, the inability to secure long-term debt financing from formal financial institutions further constrains SME growth (Abor & Biekpe, 2006). In addition, Amadhila (2020) highlighted that managerial skills and education levels are key factors impeding SMEs in their business operations. The lack of effective management practices and skills development inhibits the ability of SMEs to navigate challenging business environments and capitalize on growth opportunities. The lack infrastructure and technology is also identified by Tjano (2019) as part of the challenges limiting innovativeness and competitiveness among SMEs in Namibia. According to Amadhila (2020), inadequate access to credit facilities affects SMEs ability to afford modern equipment and technology which further hampers operations and expansion. Thus, Asamoah and Buckman (2021) emphasized the important role that venture capital plays as a financial market middleman, giving money to companies that might otherwise struggle to find investors. Venture Capital is acknowledged as an essential stimulant for entrepreneurial endeavours, offering not only monetary resources but also knowledge, connections, and administrative assistance (Dawson & Barrédy, 2018).

Current Financing Mechanism for SMEs in Namibia

The banking sector, in specific, is vital to the nation's commercial environment. and remain the main external funding source for Namibian businesses. According to International Finance Corporation (2017), over 90% of all SME financing in recent years has come from traditional sources. The two main SMEs financing scheme available in Namibia are the bank financing and non-banking financing scheme. These are further discussed below:

Bank Financing SMEs Scheme

The bank financing scheme includes, first, commercial banks: According to Nangolo and Hamukoto (2023), commercial banks in Namibia offers SMEs financing facilities such as business current account with overdraft facilities, business revolving credit plan, property finance or business mortgage loans, vehicle and asset finance, contract & tender financing, infrastructure financing, expansion loans and restructuring or merger financing schemes. However, to access these financing schemes from the four major commercial banks in Namibia, registered SMEs need to an annual revenue ranging from N$0 to N$10 million (Standard Bank Namibia (SBN), Bank Windhoek, First National Bank Namibia (FNB Namibia) and N$0 to N$5 million (Nedbank Namibia). Secondly, besides the four main commercial banks, other smaller commercial banks such as Trustco Bank Namibia, Agribank of Namibia, and Development Bank of Namibia (DBN) offer financing facilitates to SMEs. All these financial institutions provide funding to individuals, small business, or financial intermediaries to encourage economic growth in the country. According to New Era (2021) report, in 2020, DBN, the biggest SME financier in the country had provided funding to more than 318 SMEs in total of N$279.3 million (24.5% of SME financing in the country). Sadly, despite the role played by the banking sector in SMEs financing, only 26% of micro businesses have access to formal loan while others are left out due to several factors including lack of sufficient collateral security (Nangolo & Hamukoto, 2023; Shikongo, 2018).

Venture Capital: An Alternative SMEs Financing

Venture capitals (VC's) are entities that offer strategic and value-enhancing interventions to support the success of new ventures and minimize the risk of failure (Lerner & Nanda, 2020). On a global scale, VCs are acknowledged as crucial tools for fostering entrepreneurship and technological innovation within SMEs (Schutte & Direng, 2019; Tykvová, 2018). VCs financing model as an alternative financing hub for many SMEs has been advocated in numerous research (Battisti et al., 2022; Gompers et al., 2020; Karim, 2018; Kato, 2021). Venture capital involves the provision of funding for the initiation, development, expansion, and acquisition of a business, during which the Venture Capital Investment (VCI) acquires a share of the business's capital through a mutual agreement in exchange for financial support (Lerner & Leamon, 2023).

Previous research has highlighted the impact of VC as an alternative funding for small businesses and the significant advantages SMEs experience through VC investment. For example, Rupeika-Apoga and Saksonova (2018) conducted research on SMEs' Alternative Financing using Latvia, Europe as a case study. The study used a mixed method approach, with a sample of 1,200 company owners or senior managers and nine banks from Latvia that operate in the other Baltic and Nordic nations. The findings show that alternative financial service providers, such as venture capitalists, are rapidly outcompeting established financial service providers. Parallel to this, Kato (2021) Parallel to this, Kato (2021) conducted a thorough literature assessment from six growing African nations (South Africa, Nigeria, Kenya, Ghana, Egypt, and Uganda) in order to evaluate the effect of venture capital financing on the expansion of SMEs in these regions and to provide a foundation for future research priorities. According to the report, venture capital financing has a beneficial impact on the expansion of VC-backed businesses in terms of increased sales, employment growth, and return on investment. Therefore, in order to facilitate SMEs' simple access to venture capital finance for their expansion, lawmakers and practitioners in developing nations should work together to design suitable regulations.

Furthermore, the OECD report conducted by Thompson et al. (2018) examined different financing options for SMEs and business owners, specifically looking at how capital markets, such as venture capitalist financing, have supported SMEs since the 2008 financial crisis. The report found that capital markets, including private equity, private debt, and collectively invested vehicles, have played a significant role in financing SMEs in many OECD countries, suggesting that the financial crisis has increased the importance of capital markets. According to Idi and Germinah (2022), venture capitalists play a crucial role in connecting the funding provided by venture capitalists with more conventional sources such as banks, which usually offer loans to well-established businesses.

Importance of Venture Capital Financing to SMEs Development

There has been a noticeable rise in academic research discussing the impact of VC financing on Small and Medium Enterprises (SMEs) and how it has transformed the ecosystem for entrepreneurs. Mirza and Sabah (2018) highlight the significance of the venture capital sector in driving the development and growth of SMEs, particularly in the aftermath of the global financial crisis. This has led policy makers to recognize the crucial role played by these financiers. Despite the increasing impact of venture capitalists on the development of small and medium enterprises in developing nations Kato (2021) suggests that access to stable financing for the survival and growth of these enterprises remains limited and disjointed. Besides the provision of capital to SMEs, VC contributes valuable strategic, operational, and governance supports that has significantly enhance the growth and development of SMEs globally (Apuoyo, 2020; Biney, 2018; Ketani-Mwanakatwe & Malama, 2024). In their study Bonini and Capizzi (2019) analysed the impact of venture capital on the evolving entrepreneurial finance ecosystem. They found that venture capitalists have maintained their significance in early-stage finance due to their specialized skills in areas such as screening, negotiating, and monitoring. This is particularly important in today's increasingly intricate financing landscape. Furthermore, a study conducted by Antarciuc et al. (2018) sheds light on the impact of sustainable venture capital (SVC) on the development of sustainable start-ups in Saudi Arabia. The research reveals that sustainable business models employed by venture capitalists have a significant influence on the growth of these start-ups.

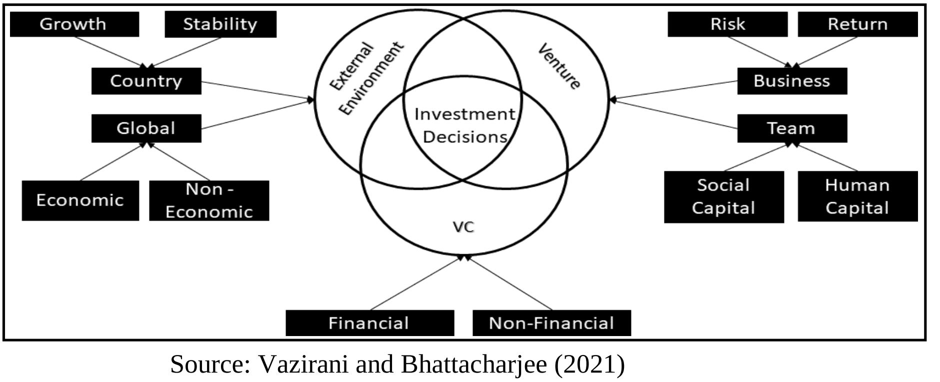
In respect to VC operational support and mentoring influence on SMEs development, a study conducted by Bock et al. (2018) in Germany sheds light on the growth factors of research-based spin-offs (RBSOs) and the impact of venture capital investment. The study analysed a dataset of 98 German RBSOs developed between 1997 and 2012. The study aimed to assess the performance of RBSOs that receive venture capital funding compared to those that do not and determine if any performance differences can be attributed to the scouting or coaching abilities of venture capitalists. The findings indicate that RBSOs backed by venture capital demonstrate stronger employment and revenue growth in comparison to those without venture capital support. It is suggested that the superior performance of these firms can be attributed to the guidance provided by venture capitalists, rather than their ability to identify promising opportunities. In addition, a study conducted by Yi et al. (2023), the impact of venture capital on the open innovation of Chinese enterprises was investigated. The study's findings reveal that venture capitalists play a crucial role in driving open innovation within enterprises through three key mechanisms: Investing in financial resources, enhancing the ability to adapt, and motivating leaders to excel. However, the impact varies depending on the region, industries, and property rights conditions. In addition, when evaluating the effects of equity crowdfunding on innovation and growth potential in small- and medium-sized enterprises, a study by Eldridge et al. (2021) concluded that crowdfunding does not have a substantial impact on creativity in small businesses. However, the authors argue that crowdfunding does indeed affect the growth potential of small firms, showing a significant positive correlation. As a result, venture capital companies provide valuable assistance to small businesses, helping them overcome the challenges of being new to the market. They offer practical support, including business advice and access to a valuable network.

Driver of Venture Capital Development

According to Hellman (2000) the accessibility of human resources, government policy, financial market structure, opportunity source, and supportive agencies are the five main reasons that have fuelled the growth of the venture capital business. These elements are connected to one another and directly affect one another. According to Lange and Banadaki (2024), governance, social, and environmental aspects influence venture capital decisions and development. According to a survey conducted by the National Venture Capital Association (NVCA) (NVCA, 2010), factors that negatively impact VC investment include a lack of an established venture capital ecosystem, decreased entrepreneurial activity, a shortage of skilled businessmen to launch new businesses, laws pertaining to intellectual property, adverse economic circumstances (such as higher costs and valuations), an unstable regulatory environment, unfavourable tax regulations, and difficulties in accomplishing profitable exits. Furthermore, according to the Global Venture Capital (GVC) and Private Equity Country Attractiveness Index, institutional investors place a high value on aspects like the degree of economic activity, tax laws, investor protections, the depth of the economy, corporate governance norms, the entrepreneurial culture, and the human and social environment (Groh et al., 2011). Santisteban and Mauricio (2017) thus emphasized that funding small firms is not VC investors' primary concern and that other aspects have a substantial impact on the viability and result of VC financing for small enterprises.

Vazirani and Bhattacharjee (2021) investigated the factors that impact VC investment and concluded that a combination of internal and external factors shown in Figure 2.1 are the drivers of VC investment decision. According to Grilli et al. (2018), a country's institutional stability affects VC activities and performance. This shows that if a country's institutional framework regulating entrepreneurship, socioeconomic, investment, and political environment are not stable, VC capital cannot thrive. Bonini et al. (2012) added that corruption and inflation hinder early-stage investment, especially in developing economies. Furthermore, Bock and Watzinger (2019) noted that the tax policies adopted by a nation have a negative direct effect on financial returns, which in turns affect innovation and VC investment. Human resources are essence to start-up firms, however, increase in labour compliance cost and regulations rigidity affect the activities of venture capital (Grilli et al., 2018). Economic growth in terms of higher GDP growth rate, greater industry production index, and lower unemployment rate impacts VC financing positively or negatively (Bock & Watzinger, 2019). Thus, VC financing investment are driven by both external and internal factors. In the Namibian context, Aitana and Svotwa (2024) asserts that SMEs inability to assess equity funding and their high rate of early-stage failure is attributed to factors such as information asymmetry, SME investment readiness and awareness, adverse selection and moral hazards, high risk and uncertainty, increase in management, and regulatory policies affecting the promotion of VC financing investment.

Figure 1.2: Internal and external factors affecting VC financing Investment



Source: Vazirani and Bhattacharjee (2021)

Venture Capital Financing: International Perspective

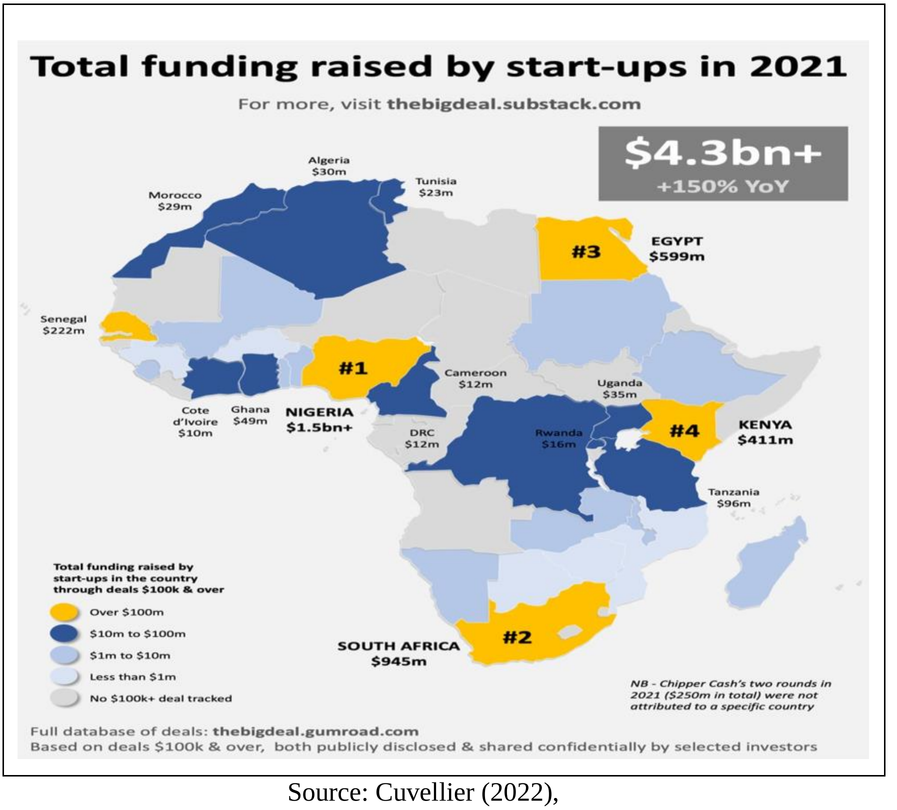
The development of VC financing for SMEs differs widely among member countries. Institutional financiers originated, according to Lerner and Nanda (2020), in the United States and later extended to the UK and Europe in the decades that followed. While venture capital financing to small and medium-sized enterprises (SMEs) is concentrated in the United States, it is spreading quickly to other nations as well. In Europe, several nations, including France, Germany, the Netherlands, and Sweden, have fairly considerable amounts of capital market usage, as does Canada, Israel, Korea, and the United Kingdom (Thompson et al., 2018). Also, the report stated that the US has private debt funds of about USD 260 billion as at the end of 2015 and the Business Development Companies (BDCs) is a powerhouse in the capital markets industry leading to the establishment of Apple, Microsoft, Google, Compaq, and many others in the last three decades. Furthermore, Shuwaikh et al. (2024) highlighted that the activities of VC in the US are stimulated by its stock market Thus, when compared to the EU, When it comes to employment as well as venture capital, the US market is much bigger and deal flows for exit markets. Therefore, American small businesses have easier access to funding

Despite the fact that banks still provide the majority of SMEs with funding in Europe (Rupeika-Apoga & Saksonova, 2018), EU venture capital financing is expanding quickly due to the availability of global entrepreneurial ventures (EVCA, 2005). As per the study by the European Private Equity and Venture Capital Association (EVCA), venture capital investments made by European Union capitalists surged from USD12.8 billion to USD15.8 billion in 2004 and 2005. According to a 2005 report by the Israeli Venture Capital Association (IVCA), venture capital activity in Israel increased from over USD 700 million in 2004 to USD 1.2 billion in 2005, even though most of the money came from outside sources, primarily the United States and Europe. Venture capital (VC) investment became apparent in Asia around the close of the 1980s and has since expanded rapidly. As a result Wang et al. (2023) reported that in China, the development of entrepreneurial enterprises, the cultivation of emerging industries, and the enhancement of technology companies' innovation efficiency have all been fuelled by venture capital financing models that have been integrated with Chinese characteristics (Han et al., 2023). China reportedly ranked second globally in 2018 for total venture capital investment, after the United States with $52.4 billion (Toptal, 2019). Even though many established SMEs in Sri Lanka are hesitant to bring on external equity investors out of a fear of losing control over their operations, Kulasinghe et al. (2018) contend that structured equity instruments (VC) are necessary to promote SMEs in Sri Lanka. In addition, it is anticipated that over the next five years, Sri Lankan startups will require $200 million in equity capital. In India, venture capital investment is perceived differently. While it is financing projects in collaboration with individual project owners, it also faces obstacles like reluctance to increase project financial disclosure and apprehension about losing its independence (Katti & Raithatha, 2020).

Venture Capital Financing: Regional Perspective

As a potential and lucrative location for venture capital investments, Africa has seen an increase in recent years in the activity of international venture capital organizations, particularly in nations like Nigeria, South Africa, Kenya, Ghana, Egypt, and Uganda (Fayulu, 2022; Kato, 2021; Lee & Amabo, 2021). VC start-up funding in Africa, according to Cuvellier (2022), only makes up a small portion of worldwide capital investment, although rising at a faster rate than the global average (+150% YoY), from $1.7 billion in 2020 to over US$4.3 billion in 2021. The author pointed out that, as seen in Figure 2.2 below, the "Big Four" nations; South Africa, Kenya, Egypt, and Nigeria represent the majority of the 54 countries on the continent and do not receive an equitable share of the overall cash raised. In 2021, these four nations accounted for 81% (or US$3.5 billion) of all venture capital funds raised by African start-ups.

Total VC Funding Raised for African Start-ups in 2021



Source: Cuvellier (2022),

With over US$1.5 billion (36% of the total sum raised in the area) in fintech start-ups including OPay's US$400 million Series C deals, Nigeria tops this list of "Big Four," which is preceded by South Africa with US$945 million, Egypt (almost US$600 million), and Kenya (US$411 million). Furthermore, in 2021, financing totalling US$222 million was raised in Senegal, while over US$10 million was raised in eleven other nations. Africa still lags behind other continents like Asia, Latin America, and Europe despite the possibility of beneficial investment (Jaoui et al., 2022). While the Commonwealth Development Corporation (2010) maintained that the Chilanga Cement Plant in Zambia (then Northern Rhodesia) was the site of the first venture capital investment in 1955, Benali and Ghalfiki (2021) contend that venture capital activities in Africa became apparent in the early 1990s, after a number of projects financed by African venture capitalists. While other African nations, such as Ghana, are developing policies to encourage venture capital investment, they are sometimes unsure of the appropriate intervening policy approaches to put into practice. These nations created the Venture Capital Trust Fund (VCTF) through an Act of Parliament known as the Venture Capital Trust Fund Act 2004, or

Act 680 (Lerner & Leamon, 2023). Furthermore, despite the obstacles facing the venture capital (VC) sector in Africa, empirical research indicates that VC funding as a substitute source of finance for small and medium-sized enterprises (SMEs) is essential to the growth of early-stage entrepreneurial organizations (Biney, 2018; Lerner & Nanda, 2020). The activities of venture capital (VC) in Africa are largely dependent on variables like economic stability, market size, return on investment, etc., and they concentrate on industries like high-tech startups, healthcare, manufacturing, and agribusiness, which are crucial industries for emerging markets. These are the conclusions drawn by Mirza and Sabah (2018).

Of the total $1.34 billion in venture capital investments made in Africa in 2019, $678.73 million came from Fintech startups operating in the technology industry (WeeTracker, 2021). Moreover, the African venture capital industry has had a rise in market yield over the last ten years, with a yearly return of 11.2%, notwithstanding the 2008 financial crisis (Ventures Africa, 2013). Lebus (2013) thus said that it has raised the confidence of venture capital investors in Sub-Saharan Africa. The number of venture fund investments in South Africa increased from ZAR 1.2 billion in 2019 to ZAR 1.4 billion in 2020, according to data from the Southern African Venture Capital and Private Equity Association (SAVCA, 2022) 74% of the funds were distributed to specific businesses, including software, fintech-specific goods and services, and business products and services sectors. The majority of these investments were directed towards larger organizations (Herrington et al., 2017). Despite these investments, Celliers (2020) pointed out that South Africa's venture capital (VC) market is still very tiny and that the sector appears hesitant to make significant investments in start-ups.

Venture Capital Financing: Namibian Perspective

The VC industry in Namibia is still in evolving and represents a small portion of the overall private equity market (Aitana & Svotwa, 2024). As a result, it has not garnered substantial interest from investors and SMEs (Tjano, 2019). In contrast to industrialized nations where venture capital funding is firmly established and has played a substantial role in the growth of small and medium enterprises by providing equity capital, venture capital funds are not widely utilized as a financing option in Namibia (Maponga, 2015). According to Aitana and Svotwa (2024), the low adoption rate of venture capital funds among Namibian SMEs is due to a widespread lack of knowledge, awareness and promotion of venture capital financing initiatives for SMEs. In addition, a good portion of SMEs find it difficult to access funding from alternative sources such as loan capital and venture capital funds (Abor & Biekpe, 2006). Currently, Namibia's capital markets primarily support government bonds and large, established companies. As a result, a significant percentage of SMEs mainly rely on personal financial resources and contributions from family, friends, associates, and conventional short-term debt, which can be an expensive way to raise money as only a few of them utilize formal financial services (Thomas, 2022).

Some initiatives are in process to establish a VC financing source for SMEs such as the Development Bank of Namibia (DBN) strategic initiative to develop and create a venture capital fund as the third component of the country's SME financing plan (The Namibian, 2023). According to the bank, this project would use the fund to act as an equity investor in SMEs that are already established and may have significant growth prospects by giving money in return for equity. Despite this initiative and the success story of numerous start-ups such LEAF and Intercity (both of which are long distance transportation company), Tutors Hub (pioneered edtech), Pay Today and PayPulse (digital payments), and Macquire Medical (pioneered telemedicine), Modise (2023) asserts that startups in Namibia is still struggle with raising venture capital. Statistical data from Statista, in 2022 reveals that only three Namibian startups raised venture funding, totalling $15.21 million and JABU Logistics alone raised $15 million in funding. Furthermore, Namibia VC market is projected to raise a total capital of US$9.2m by 2024 (Statista, 2024). Therefore, Namibia is definitely a small country, but it has a lot of opportunities (Modise, 2023).

Research Methodology

This chapter outlines the research methodology employed to investigate the viability of venture capital as an alternative funding source for Small and Medium Enterprises (SMEs) in Namibia's Khomas Region. The methodology encompasses the research philosophy, design, approach, sampling strategy, data collection methods, and analytical techniques. The chapter also addresses ethical considerations and limitations encountered during the study. The chosen methodological framework is aligned with the exploratory nature of the research, given the nascent state of venture capital financing in Namibia.

Research Philosophy and Approach

This study adopts an interpretivist research philosophy, which acknowledges that social phenomena such as financing challenges and entrepreneurial experiences are shaped by subjective perceptions, contextual factors, and stakeholder interpretations. Given that venture capital financing in Namibia remains a relatively underexplored area, an exploratory approach is deemed appropriate for generating rich, contextual insights.

Consistent with studies examining SME financing challenges in Namibia, a qualitative research approach was employed. The qualitative paradigm is particularly suited to exploring complex social phenomena such as financing constraints, as it allows for in-depth understanding of participants' experiences, perceptions, and decision-making processes. This approach aligns with prior research on SME access to equity financing in the Khomas Region, which successfully utilised qualitative methods to uncover the nuanced challenges facing entrepreneurs.

Research Design

An exploratory research design was adopted for this study. The exploratory design is appropriate when investigating a topic about which limited prior research exists, as is the case with venture capital financing in Namibia. This design facilitates the identification of key themes, patterns, and relationships that can inform future research and policy development.

The study employed an inductive reasoning approach, moving from specific observations and participant narratives to broader themes and conclusions. This approach enables the research to remain open to emergent findings rather than being constrained by pre-existing theoretical frameworks, which is particularly valuable in the under-researched Namibian VC context.

Target Population

The target population for this study comprised key stakeholders involved in SME financing and venture capital activities in the Khomas Region, Namibia. This included:

- SME owners and owner-managers operating within the Khomas Region
- Representatives from financial institutions (commercial banks and development banks)
- Investment management experts and venture capital practitioners
- Officials from government organisations responsible for SME development and investment promotion

The Khomas Region was purposefully selected as it houses the largest population in Namibia (494,729 people) and serves as the country's economic hub, hosting most formal financial institutions and the majority of registered SMEs.

Sampling Technique

A purposive sampling strategy was employed to select participants for the study. Purposive sampling is widely used in qualitative research to identify and select information-rich cases that can provide deep insights into the phenomenon under investigation. The criteria for participant selection included:

- Direct involvement in SME financing or venture capital activities
- Relevant expertise and experience in the Namibian financial ecosystem
- Willingness to share detailed experiences and perspectives

Nine participants were selected for the study, representing a cross-section of stakeholder groups. This sample size is consistent with qualitative studies in the SME financing domain, where the emphasis is on depth rather than breadth of data . Prior research on SME challenges in Namibia has successfully employed similar sample sizes, with studies interviewing between nine and fifteen participants to achieve data saturation.

The participant composition included:

- Financial institution representatives
- Investment management experts
- Government officials from relevant ministries and agencies
- Entrepreneurs and SME owners

Data Collection

Primary Data Collection

Semi-structured interviews served as the primary data collection instrument. This method was selected for its flexibility in allowing participants to share detailed narratives while ensuring consistency across interviews through a guiding framework of questions. The semi-structured format is particularly effective when exploring complex topics such as financing challenges and stakeholder perceptions.

The interview protocol was developed based on the research objectives and a review of relevant literature on SME financing and venture capital. Questions were designed to explore:

- Current financing mechanisms available to SMEs in the Khomas Region

- Awareness and understanding of venture capital financing
- Barriers to accessing alternative financing sources
- Perceived viability of venture capital as an alternative funding mechanism
- Factors shaping the Namibian business environment for investment

Interview questions were open-ended to encourage participants to share their experiences and perspectives freely. Probes and follow-up questions were used to clarify and deepen responses.

Secondary Data Collection

Secondary data sources were utilised to contextualise the findings and provide supporting evidence. These included:

- Policy documents from the Ministry of Industrialisation and Trade
- Reports from the Namibia Investment Promotion and Development Board (NIPDB)
- Publications from the World Bank Group and International Monetary Fund
- Industry reports from the Namibian Stock Exchange and Development Bank of Namibia
- Academic literature on venture capital in emerging economies

Data Analysis

Thematic Analysis

The data collected from semi-structured interviews were analysed using thematic analysis, a method well-established in qualitative SME financing research. Thematic analysis involves identifying, analysing, and reporting patterns (themes) within qualitative data and was applied in the following systematic process:

Phase 1: Data Familiarisation

Interview recordings were transcribed verbatim, and the research team read and re-read the transcripts to become immersed in the data.

Phase 2: Initial Coding

The data were systematically coded to identify meaningful segments relevant to the research questions. Both deductive codes (derived from the literature) and inductive codes (emerging from the data) were applied.

Phase 3: Theme Development

Codes were grouped into potential themes based on patterns and relationships. Themes and sub-themes were identified according to their frequency and relevance to the research questions.

Phase 4: Theme Review and Refinement

Themes were reviewed and refined through discussion among the research team, ensuring they were coherent and distinct. The final thematic structure was developed to represent the key findings accurately.

Phase 5: Theme Definition

Each theme was clearly defined, and representative excerpts from participant interviews were selected to illustrate the findings.

Phase 6: Report Writing

The final analysis was integrated into the research report, with themes structured to address the research questions.

Emerging Themes

Based on the analytical process and consistent with prior research on VC financing challenges in Namibia, the following four main themes and their sub-themes emerged:

Theme 1: Current Financing and Mechanism Landscape

- Dominance of traditional banking institutions
- Limited non-bank financing alternatives
- Absence of formal VC financing in Namibia
- SMEs' reliance on internal funding and informal sources

Theme 2: Enhance Business Sustainability and Growth

- Contribution of VC funding to SME development
- Role of mentorship and expert advice
- Networking opportunities and market access
- Potential for business transformation through equity financing

Theme 3: Factors Shaping Namibian Business Environment

- Policy and regulatory framework
- Government support initiatives (NIPDB, DBN, NSX)
- Economic and political stability
- Market opportunities and challenges
- Entrepreneurial ecosystem maturity

Theme 4: Barriers to VC Implementation

- Information asymmetry
- SME investment readiness and awareness
- Adverse selection and moral hazard concerns
- High risk perception
- Mismatch between entrepreneur needs and investor criteria

These themes align closely with findings from prior studies on SME financing in Namibia, particularly those examining challenges in accessing equity financing from venture capital and private equity firms.

Research Quality and Trustworthiness

To ensure the trustworthiness and rigour of the qualitative research, the following measures were implemented:

Credibility

Credibility was established through prolonged engagement with participants, triangulation of data sources (interviews, document analysis, and literature review), and member checking, where participants were invited to review and validate the findings.

Transferability

Thick description of the research context, participants, and findings enables readers to assess the transferability of the results to other settings. The study provides detailed contextual information about the Khomas Region and the Namibian VC landscape.

Dependability
A detailed audit trail was maintained, documenting all research decisions, processes, and analytical steps, allowing the study to be replicated in future research.

Confirmability
Findings are grounded in the data, with direct quotations used to illustrate themes. Interpretations are clearly distinguished from factual reporting.

Ethical Considerations
Ethical approval was obtained from the relevant institutional review board prior to commencing data collection. Participants were provided with information sheets explaining the purpose of the study, the voluntary nature of their participation, and their right to withdraw at any time. Written informed consent was obtained from all participants. Anonymity and confidentiality were maintained throughout, with participant identities protected using pseudonyms or codes. This ethical framework aligns with established practices in qualitative SME research.

Limitations of the Methodology
While the qualitative approach provides rich, contextual insights, it is subject to certain limitations. The study's focus on the Khomas Region may limit the generalisability of findings to other regions of Namibia. The small sample size, while appropriate for qualitative research, precludes statistical generalisation. Additionally, reliance on self-reported data carries the risk of social desirability bias. These limitations are acknowledged, and the findings are presented as contextually bound rather than universally applicable.

The qualitative approach, employing semi-structured interviews and thematic analysis, is consistent with established research practices in SME financing studies. The methodology was designed to generate comprehensive insights into the financing landscape, barriers to VC implementation, and the viability of venture capital as an alternative funding mechanism for Namibian SMEs.

Research Findings

The findings are derived from semi-structured interviews conducted with nine participants, including financial institution representatives, investment management experts, government officials, and SME owners. The data were analysed using thematic analysis, from which four main themes emerged: Current Financing and Mechanism Landscape, Enhance Business Sustainability and Growth, Factors Shaping the Namibian Business Environment, and Barriers to VC Implementation. The findings are presented with supporting quotations and contextualised within the existing literature.

Theme 1: Current Financing and Mechanism Landscape
Dominance of Traditional Banking Institutions
Participants consistently reported that Namibia's financing landscape remains predominantly occupied by traditional banking institutions. This finding aligns with prior research indicating

that banks have historically accounted for over 80% of corporate financing. One participant representing a financial institution noted:

"The banking sector remains the primary source of business financing in Namibia. Most SMEs approach commercial banks first when seeking capital for their ventures."

This observation is consistent with the literature, which documents that SMEs in Namibia face significant challenges in accessing financing from formal financial institutions due to stringent collateral requirements, lengthy application processes, and risk perception. The majority of intermediaries and lenders remain hesitant to extend loans to SMEs, largely because these businesses lack collateral and are perceived as high-risk borrowers.

Limited Non-Bank Financing Alternatives

While participants acknowledged the existence of some non-banking financing sources, these options were described as insufficient to meet SME demand. An SME owner explained:

"We have tried microfinance institutions and government schemes, but the amounts are often too small for meaningful expansion. The application processes are also very cumbersome and time-consuming."

Despite various policy initiatives and support programmes initiated by the Namibian government including the Namibian Stock Exchange (NSX) established in 1992 and the Namibia Investment Promotion and Development Board (NIPDB) established in 2020 participants indicated that these mechanisms have not adequately addressed the SME financing gap. This supports the observation by Modise (2023) that Namibia's entrepreneurial ecosystem has not yet positioned itself as a destination for investment.

Absence of Formal VC Financing in Namibia

A striking finding across all participant interviews was the absence of formal venture capital financing in Namibia. One investment management expert elaborated:

"Namibia has no dedicated venture capital firms operating at scale. What we have are some private equity activities and occasional angel investments, but the structured VC industry that exists in developed markets is virtually non-existent here."

This finding corroborates previous research indicating that the VC sector in Namibia is in its early stages and constitutes a relatively small segment of the broader private equity industry, resulting in limited popularity among both investors and SMEs. According to Statista (2024) data, Namibia's venture capital sector is projected to reach a total capital raised of US$9.2 million by 2024, reflecting growth but also highlighting the sector's nascent stage.

SMEs' Reliance on Internal Funding and Informal Sources

Participants reported that the majority of SMEs in the Khomas Region rely on personal savings, family contributions, and informal lending arrangements. An SME owner stated:

"I started my business with my savings and loans from family. Banks were not willing to give me a loan because I didn't have collateral. I didn't even know venture capital existed as an option."

This finding aligns with research indicating that funding limitations are a critical obstacle confronting entrepreneurs in emerging economies. As noted in the literature, the issue lies not in the absence of capital within the country, but rather in the misalignment between the needs of entrepreneurs and the criteria of capital providers.

Theme 2: Enhance Business Sustainability and Growth

Contribution of VC Funding to SME Development

Despite the absence of formal VC in Namibia, participants widely acknowledged the potential transformative role of venture capital in SME development. A government official observed:
"If we can establish a functional venture capital industry, it would fundamentally change the SME landscape. We have seen what VC has done in other African countries like Kenya, Nigeria, and South Africa."

Participants recognised that globally significant corporations including Alibaba, Tencent, Apple, Amazon, Facebook, and Microsoft have benefited from venture capital backing, underscoring the model's potential. Namibia's start-up ecosystem ranked eighth in Africa and 87th globally in 2024, indicating that the foundations for growth exist.

Role of Mentorship and Expert Advice

A recurring theme among participants was the value of mentorship and advisory support that typically accompanies venture capital investment. One investment management expert explained:

"VC is not just about money. The strategic guidance, governance support, and networks that VC firms bring are often more valuable than the capital itself. This is what SMEs in Namibia desperately need."

This observation is consistent with the view that VC funds expedite innovation and entrepreneurial activities, consequently enhancing the wellbeing of societies through multiple economic activities. The Economic Association of Namibia has emphasised that VC and private equity fill the void by providing funding, strategic guidance, governance, and networks.

Networking Opportunities and Market Access

Participants highlighted that venture capital investments often unlock networks and market opportunities that would otherwise be inaccessible to SMEs. An SME owner noted:

"If we had access to VC, we could tap into their networks other portfolio companies, potential clients, industry experts. That would accelerate our growth tremendously."

This finding echoes the observation that through innovation funding techniques, VC organisations support and sustain young enterprises, thereby stimulating entrepreneurial activity and opening new avenues for development and expansion.

Potential for Business Transformation through Equity Financing

Participants expressed optimism about VC's potential to transform the SME sector in Namibia. According to the Economic Association of Namibia, around the world, venture capital and private equity have proven to be powerful engines for innovation, job creation, and inclusive growth by bridging the gap between promising ideas and the capital required to turn them into viable businesses.

Theme 3: Factors Shaping the Namibian Business Environment

Policy and Regulatory Framework

Participants noted that Namibia's policy environment presents both opportunities and challenges for VC development. One government official explained:

"The government has introduced several initiatives to support SME growth, including the Development Bank of Namibia's venture capital funding mechanism. The planned increase in pension fund allocations to unlisted investments to 5% signals progress."

However, participants also indicated that policy implementation remains a challenge. It has been observed that Namibia cannot afford to continually launch new initiatives while under-utilising existing ones, and the priority must be to make current instruments work together, aligning ministries, DFIs, asset managers, and ecosystem builders around visible graduation pathways for entrepreneurs.

Government Support Initiatives

Participants acknowledged several government support mechanisms, including the Development Bank of Namibia (DBN), which is developing the third component of the country's SME financing policy. According to a recent report, the DBN's SMEs Recovery Loan Scheme has allocated nearly N$400 million to over 360 businesses, demonstrating commitment to using SMEs as catalysts for economic transformation.

Additionally, participants noted the Green Credit Facility introduced by the Environmental Investment Fund (EIF), which targets green SMEs and youth-led enterprises, having already disbursed over N$70 million to 118 businesses. A participant commented:

"These initiatives are commendable, but they are mostly debt-based. We need equity-based mechanisms that do not burden SMEs with repayment obligations during their early, vulnerable years."

Economic and Political Stability

Participants consistently cited Namibia's economic and political stability as a strength. An investment professional noted:

"Namibia is a geographically and demographically small country with significant economic and political stability on the African continent. This is a major advantage for attracting investment if harnessed effectively."

According to a business publication, Namibia has a relatively high literacy rate and internet penetration, good infrastructure, and stable governance factors that can contribute to significant ecosystem growth, which in turn can help address pressing socio-economic issues.

Entrepreneurial Ecosystem Maturity

Despite Namibia's political stability, participants expressed concern about the maturity of the entrepreneurial ecosystem. One participant noted:

"The ecosystem is still developing. We need more incubators, accelerators, angel investors, and technical talent to create a pipeline of investable businesses."

It has been observed that there is a shortage of skills to advance the country's digitalisation ambitions, with Namibia producing very few ICT graduates relative to its investment in education. This skills gap creates challenges for building scalable technology businesses.

Theme 4: Barriers to VC Implementation

Information Asymmetry

Participants identified information asymmetry as a primary barrier to VC financing in Namibia. An investment expert explained:

"The supreme impediment in obtaining funding from VC and PE is information asymmetry. SMEs often cannot articulate their business models in ways that investors understand, and investors lack visibility into SME operations."

This finding aligns with the literature, which states that information asymmetry leads to market failures as lenders and borrowers possess different sets of information when making financing decisions. This creates a massive disconnect between MSMEs and investors, as SME owners sometimes intentionally or unintentionally disseminate incomplete data to investors.

SME Investment Readiness and Awareness

Participants reported that most SME owners in the Khomas Region lack awareness of venture capital as a financing option and are not "investment ready." An SME owner acknowledged:
"To be honest, I don't really understand how venture capital works. I know it involves giving away equity, but I don't know the terms, the process, or how to approach investors."

It has been documented that the majority of MSME founders often do not possess the required attributes, business traction, investible propositions, proper preparation, and full comprehension of the terms and conditions for investment agreements. The persistence of capacity constraints, known as advisory gap, cause many promising MSMEs to be less prepared when approaching financiers.

Adverse Selection and Moral Hazard

Participants expressed concerns about adverse selection and moral hazards in SME financing. An investment expert noted:

"VC investors are cautious because they fear that SME owners may not be transparent about their financial position. Without proper due diligence mechanisms, VC firms risk investing in businesses that are not viable."

This concern is supported by the literature, which states that adverse selection refers to a business dealing in which the MSME or the entrepreneur possesses more information about the potential success or failure of the investment and might sometimes manipulate it to obtain the investor's approval. Critical analysis is applied in the approval process of MSME financing by equity investors, including the assessment of the founding team's managerial abilities and the business's risk management capacity.

High Risk Perception

Participants consistently cited the perception of high risk as a barrier to VC investment in Namibia. A financial institution representative explained:

"SMEs are perceived as risky borrowers. Most don't have security deposits, and many have limited trading history. For VC firms, the early-stage nature of these businesses amplifies the risk."

This aligns with the literature, which notes that although entrepreneurial activities are a major source of global innovation, such activities are inherently risky and uncertain, particularly for MSMEs with poor or lack of proof of concept. Additionally, lack of proof of concept and unstable political environment signal to investors that ROI would almost be impossible to achieve.

Mismatch Between Entrepreneur Needs and Investor Criteria

Participants highlighted a fundamental mismatch between what SME owners need and what investors require. An investment expert observed:

"There is no shortage of capital in Namibia, but the problem is the disconnect between the requirements of capital providers and the needs of entrepreneurs. Investors argue that startups are not investable because they are way too risky, but the reason startups are not investable is because no one is willing to give them funds to build out their businesses."

This chicken-and-egg conundrum creates a cycle where SMEs cannot become investment-ready without capital, and investors cannot invest without investment-ready SMEs.

Summary of Findings

The findings of this study reveal that Namibia's Khomas Region faces significant challenges in SME financing, with traditional banking institutions dominating the landscape while formal venture capital remains virtually absent. Despite this, participants widely acknowledged VC's potential to transform the SME sector through financing, mentorship, strategic guidance, and market networks.

Four key barriers to VC implementation were identified: information asymmetry, poor SME investment readiness and awareness, adverse selection and moral hazards, high risk perception, and the mismatch between entrepreneur needs and investor criteria. These findings are consistent with prior studies on SME financing in Namibia and other emerging economies.

The study also revealed several enabling factors, including government support initiatives, Namibia's economic and political stability, and growing recognition of VC's transformative potential. However, significant work remains to create an enabling environment for venture capital investment in Namibia.

Recommendations

Based on the findings of this study, which examined venture capital as an alternative funding source for SMEs in Namibia's Khomas Region, several recommendations are proposed. The recommendations address the key barriers identified in the research, including the absence of formal VC financing, limited SME investment readiness, information asymmetry, high risk perception, and policy implementation gaps. These recommendations are directed at government policymakers, financial institutions, venture capital practitioners, and SME support organisations.

Recommendations for Government and Policymakers

Accelerate the Implementation of the DBN Venture Capital Fund

The Development Bank of Namibia has initiated the establishment of a Venture Capital Fund as the third component of the national SME Financing Strategy. This fund is designed to invest in SMEs with strong growth potential that are unable to access traditional borrowing, providing equity funding in exchange for ownership stakes. It is recommended that government expedite the operationalisation of this fund, ensuring its registration as an independent special purpose vehicle under the Trust Moneys Protection Act and its governance by a qualified board of trustees. According to the Economic Association of Namibia, venture capital and private equity can fill the void by providing funding, strategic guidance, governance, and networks that are currently lacking for Namibian SMEs.

Develop Blended Finance Mechanisms to De-risk SME Investment

Government should explore blended finance approaches that combine public, private, and philanthropic funding to share and reduce investment risks associated with SMEs. The SDG Impact Facility, which offers catalytic funding through blended finance including grants and concessional debt, provides a useful model. This approach can attract private capital that might otherwise be discouraged by the risks associated with early-stage and informal sector businesses, allowing SMEs with limited assets but high growth potential to access capital.

Strengthen Policy Implementation and Coordination

The 2025 revision of the cession of procurement contract payments directive aimed to enable MSMEs to secure funding by linking repayment to government contract flows. However, adoption remains low, as many procuring entities decline to co-sign cession agreements, citing risk or administrative burden. It is recommended that government strengthen policy absorption and execution by providing clear implementation guidelines and training for procuring entities. As noted by investment analysts, Namibia's challenges are often not in policy design but in policy absorption or execution.

Leverage International Development Partnerships

The African Development Bank's Country Strategy Paper (CSP) for 2025-2030 provides a US$1.78 billion investment window for Namibia, with MSMEs identified as a primary beneficiary through tailored credit facilities, guarantee schemes, and dedicated financing windows. Government should actively leverage this structured partnership to enhance Namibia's creditworthiness, reduce fiscal pressure, and provide affordable, long-term financing that maintains macroeconomic stability while supporting SME growth.

Launch Targeted Awareness Campaigns

The absence of formal VC in Namibia and the limited understanding of this financing model necessitate government-led awareness campaigns. Manta Ventures highlighted that challenges facing Namibia's start-up sector include capital, ecosystem depth, perception, and policy friction. Government should collaborate with the Economic Association of Namibia and industry bodies to promote VC awareness among entrepreneurs and investors, following models from countries where government policy reforms have enhanced VC market establishment.

Recommendations for Financial Institutions

Support Emerging Venture Capital Initiatives

Bellatrix Investment Managers launched the Ndjaba Seed Fund, a US$10 million venture capital vehicle to support early-stage startups across Southern Africa, targeting 35 to 50 startups over a ten-year investment horizon. Financial institutions are encouraged to partner with such emerging VC initiatives by providing co-investment opportunities or complementary financial products. The fund focuses on sectors including fintech, agritech, health tech, education, clean energy, e-commerce, and enterprise software.

Develop Alternative Credit Scoring Mechanisms

Traditional lending in Namibia relies heavily on collateralised loans, excluding many young entrepreneurs and informal business owners without substantial assets. A framework using alternative data to create credit scores for underserved populations should be developed. This approach would enable banks and financial institutions to better assess SME creditworthiness, addressing a key barrier to financing.

Reduce Lending Rates for SME Financing

The newly launched N$500 million National Youth Entrepreneurship Fund provides accessible financing through collateral-free loans, flexible repayment terms, and reduced lending rates capped at 4%. Commercial banks should consider adopting similar approaches for SME lending, particularly for businesses supported by government guarantee schemes. The Development Bank of Namibia's SMEs Recovery Loan Scheme, which allocated nearly N$400 million to over 360 businesses, demonstrates the viability of supporting SMEs as catalysts for economic transformation.

Recommendations for Venture Capital Practitioners

Support Incubators and Angel Networks

Manta Ventures emphasised the need to mobilise local capital and support incubators and angel networks to strengthen Namibia's venture ecosystem. VC practitioners should actively engage with the Basecamp Business Incubator ecosystem, which supports Namibian startups through mentorship, training, and investment facilitation. As noted, Namibia is not too small, it is just untapped, with strong reasons for VC investment including large untapped domestic savings, an infrastructure gap across energy, logistics and digital connectivity, a young population, and rising entrepreneurial activity.

Provide Non-Financial Support to Portfolio Companies

Beyond capital, VC firms should provide operational support through strategic guidance, governance support, mentorship, business model development, and access to investor and partnership networks. The Ndjaba Seed Fund illustrates this approach, emphasising that the value of VC extends beyond financial investment to include support needed to scale.

Target High-Potential Sectors

With Namibia's start-up ecosystem ranked eighth in Africa and 87th globally in 2024, VC practitioners should focus on high-potential sectors including fintech, agritech, health tech, education, clean energy, e-commerce, and enterprise software. Namibia's green economy presents opportunities, with the Green Credit Facility having disbursed over N$70 million to 118 green SMEs and youth-led enterprises.

Recommendations for SME Owners and Entrepreneurs

Improve Investment Readiness

A recurring finding of this study is that most SME owners lack awareness of venture capital and are not "investment ready." The Ndjaba Seed Fund provides pre-seed stage investments between US$25,000 and US$100,000, with seed-stage companies accessing US$100,000 to US$350,000, and in select cases up to US$500,000. SME owners should seek to understand the requirements for VC investment, including the need for investible propositions and comprehension of investment terms and conditions. The EMPRETEC model offers structured entrepreneurship training that can equip founders with essential business management skills.

Engage with Available Support Programmes

SME owners should actively engage with existing government initiatives including the Equipment Aid Scheme, the Industrial Upgrading and Modernisation Programme, and the National Youth Entrepreneurship Fund. The Development Bank of Namibia has pioneered a national mentoring and coaching programme as part of its SME Financing Strategy.

Entrepreneurs should leverage these non-financial support mechanisms to build business capacity.

Pursue Alternative Financing Sources

While formal VC remains absent in Namibia, SME owners should explore emerging alternatives including the Ndjaba Seed Fund, which offers flexible financing options including convertible debt and Simple Agreement for Future Equity (SAFEs). The Green Credit Facility provides targeted support for environmentally sustainable businesses. The National Youth Entrepreneurship Fund offers collateral-free loans with reduced lending rates.

Recommendations for Future Research

Comparative Studies Across Regions

This study focused on the Khomas Region. Future research should examine VC readiness and SME financing challenges in other regions of Namibia to determine regional variations and inform targeted interventions.

Longitudinal Studies on VC Impact

As Namibia's VC landscape develops with initiatives such as the DBN Venture Capital Fund and the Ndjaba Seed Fund, longitudinal studies are needed to assess the impact of VC financing on SME performance, job creation, and economic growth.

Quantitative Studies on SME Financing Gap

The International Finance Corporation estimated Namibia's SME financing gap at US$1.8 billion in 2017. Updated quantitative research is needed to accurately measure the current financing gap and track progress in addressing it.

Studies on Policy Implementation Effectiveness

Research examining the effectiveness of policy implementation mechanisms, such as the cession directive, would provide valuable insights into overcoming policy absorption challenges and ensuring policy intent translates into tangible outcomes.

Summary of Recommendations

The recommendations presented in this chapter address the key barriers to VC implementation identified in the study: limited awareness and investment readiness among SME owners, absence of formal VC structures, information asymmetry, high risk perception, and policy implementation gaps. A multi-stakeholder approach is essential, with government driving policy reforms and awareness creation, financial institutions supporting emerging VC initiatives and developing alternative credit mechanisms, and VC practitioners providing both capital and non-financial support. SME owners must improve their investment readiness and engage with available support programmes. Future research should focus on regional comparative studies, impact assessment, and policy effectiveness evaluation.

Conclusion

The study set out to investigate the viability of venture capital investment as an alternative funding mechanism for SMEs operating in the Khomas Region of Namibia. Through semi-structured interviews with nine participants representing financial institutions, investment management firms, government agencies, and SME owners, four principal themes emerged; current financing and mechanism landscape, enhancement of business sustainability and growth, factors shaping the Namibian business environment, and barriers to VC implementation.

The findings reveal that Namibia's current financing landscape remains predominantly occupied by traditional banking institutions. Although SMEs access various non-bank financing alternatives, formal venture capital financing is notably absent in Namibia, and the concept remains relatively nascent. This is consistent with the observation that the Namibian entrepreneurial ecosystem has not yet positioned itself as a destination for investment. Despite this gap, venture capital is broadly recognised as a transformative alternative financing instrument capable of revitalising the SME sector not only through capital injection but also via expert advisory support, mentorship, and extensive market networking opportunities.

The Economic Association of Namibia's public discussion on venture capital and private equity, held in Windhoek in 2025, emphasised that VC and private equity have proven to be powerful engines for innovation, job creation, and inclusive growth worldwide. These investment models breach the gap between promising ideas and the capital required to turn them into viable businesses. In Namibia, where SMEs form the backbone of the economy and access to capital remains limited, VC and private equity fill the void by providing funding, strategic guidance, governance, and networks.

Conclusions in Relation to Study Objectives

The study's findings lead to several key conclusions regarding the examination of venture capital as an alternative funding source for SMEs in Namibia's Khomas Region.

Current SME Financing Landscape

Namibia has approximately 40,000 SMEs employing close to 200,000 people and contributing approximately 12% to the country's gross domestic product. Despite this substantial contribution, financial access for starting or expanding businesses remains a significant challenge. The financing landscape is dominated by traditional banking institutions, with SMEs struggling to secure loans due to stringent collateral requirements and their perception as high-risk borrowers. While several government and corporate initiatives exist including the Development Bank of Namibia's SME financing portfolio, the Namibia Breweries MSME Development Fund, and the National Youth Entrepreneurship Fund these are predominantly debt-based or grant-based instruments rather than equity-based financing.

The 2025 revision of the cession of procurement contract payments directive represents a policy effort to address the collateral barrier by allowing MSMEs to cede their rights to government contract payments to financiers. However, adoption remains low, with many procuring entities declining to co-sign cession agreements, citing risk or administrative burden. This reflects a broader pattern where Namibia's challenges often lie not in policy design but in policy absorption or execution.

Venture Capital Landscape in Namibia

Formal venture capital financing is virtually absent in Namibia, and the concept remains relatively new to both entrepreneurs and investors. The VC sector is in its early stages and constitutes a relatively small segment of the broader private equity industry. Namibia's start-up ecosystem ranked eighth in Africa and 87th globally in 2024, indicating growth potential but also highlighting the sector's nascent stage.

The Economic Association of Namibia's public discussion on venture capital and private equity in 2025 highlighted that VC could be a transformative force for Namibia's economy. As noted by Manta Ventures director Nicole Maske, "Namibia is not too small, it is just untapped". Several factors make Namibia attractive for VC investment, including large untapped domestic savings, an infrastructure gap across energy, logistics, and digital connectivity, a young population, and rising entrepreneurial activity.

Enabling Factors and Opportunities

Despite these barriers, several enabling factors create opportunities for VC development in Namibia. The African Development Bank's Country Strategy Paper for 2025-2030 provides a US$1.78 billion investment window, with MSMEs identified as a primary beneficiary through tailored credit facilities, guarantee schemes, and dedicated financing windows. This structured partnership is designed to enhance Namibia's creditworthiness and reduce fiscal pressure by providing affordable, long-term financing.

The Development Bank of Namibia has initiated the establishment of a venture capital fund as the third component of the national SME Financing Strategy. The NBL MSME Development Fund has demonstrated the potential for private sector engagement, having awarded grant funding to seven beneficiaries in the Khomas Region in the first quarter of 2025. Emerging VC initiatives such as the Ndjaba Seed Fund, targeting Southern African startups, signal growing interest in the regional market.

Policy Implications

The findings underscore the need for policy reforms to create a conducive environment for VC investment in Namibia. Government involvement through awareness campaigns, policy reforms, and the creation of enabling regulatory frameworks is essential to attract VC investors seeking to expand to Namibia. As noted by investment analysts, "Government's role is to create an enabling environment, and the private sector must rise to the occasion by investing in local value chains and empowering MSMEs".

The Economic Association of Namibia has emphasised that VC and private equity can be powerful engines for innovation, job creation, and inclusive growth. To harness this potential, Namibia must address gaps in unlisted investment, including weak investor oversight and governance, deviations from global best practices, poor transparency reporting and accountability, fragmented investor base, and limited support for local fund managers.

The global VC market is showing signs of cautious recovery after two years of economic turbulence. African start-ups closed 122 VC deals in Q2 2025, representing a 28% increase year-on-year. Namibia can position itself to benefit from this recovery by creating a supportive ecosystem that attracts both local and international investors.

Practice Implications

SME owners and entrepreneurs must improve their investment readiness, understand the requirements for VC investment, and engage with available support programmes. As emphasised at the Khomas Region information sharing session, the provision of funding opportunities cannot be the responsibility of government alone; it should be the result of lasting partnerships between public and private entities.

Financial institutions and VC practitioners should support incubators and angel networks, provide non-financial support to portfolio companies, and target high-potential sectors. The Development Bank of Namibia's national promotional campaign aimed at enhancing public understanding of financial solutions tailored for young entrepreneurs represents a positive step toward addressing the awareness gap.

Contribution to Knowledge and Practice

This study contributes to the limited body of empirical research on venture capital financing in Namibia and the broader Southern African context. By focusing on the Khomas Region, the study provides context-specific insights into SME financing challenges and opportunities. The findings extend previous research on SME financing in Namibia by specifically examining venture capital as an alternative funding source, which has not been comprehensively addressed in prior studies.

The study's identification of key barriers including limited awareness, poor investment readiness, information asymmetry, and policy implementation gaps provides a foundation for targeted interventions. The findings also highlight the importance of building networks, mentorship opportunities, and access to capital for local entrepreneurs.

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