EXPLORING THE IMPACT OF ACCESS TO FINANCE BY SMALL AND MEDIUM-SIZED ENTERPRISES ON EMPLOYMENT CREATION IN THE KHOMAS REGION

A THESIS SUBMITTED IN PARTIAL FULFILMENT

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ABSTRACT

The aim of the thesis was to explore the relationship that exists between access to bank finance by manufacturing Small and Medium-sized Enterprises (SMEs) and the employment they create in the Khomas region. Employment creation is the dependent variable and defined as a measure of the net increase in employment levels over a two-year period. Access to finance is the independent variable and defined as a business condition wherein SMEs can obtain the funds they need to invest and grow.

The mixed method approach was used to collect quantitative and qualitative data to achieve objectives of the study. Quantitative data was collected in Windhoek by administering a questionnaire in a survey of manufacturing SMEs. Qualitative data was collected through interviews with banks that operate a separate SME department in their structures. Quantitative data was analysed through bivariate and multivariate regression analysis using SPSS software, while qualitative data was analysed using the inductive strategy approach to produce a set of findings.

Data analyses using both bivariate and multivariate regression models showed that there exists a linear relationship between access to finance by SMEs and employment creation in the Khomas region. The analyses further showed that the relationship is not only positive but strong.

The thesis concluded by showing that in the past two years, manufacturing SMEs made contributions to employment creation in the Khomas region, although to a limited extent. This was partly attributed to the challenges that SMEs face in accessing finance to fund their growth objectives.

Based on the findings and conclusion, some recommendations were made that were aimed at addressing the challenges that limit the impact of SMEs to create employment in the Khomas region mainly because of a lack of access to bank finance. With these findings and recommendations, the objectives of the thesis were fully addressed.

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LIST OF ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
BON	Bank of Namibia
DBN	Development Bank of Namibia
DGDA	Dalberg Global Development Advisors
EC	European Commission
EIB	European Investment Bank
EIF	European Investment Fund
EU	European Union
FNB	First National Bank of Namibia
GDP	Gross Domestic Product
GRN	Government of the Republic of Namibia
HIV	Human Immuno-Deficiency Virus
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
JEREMIE	Joint European Resources for Micro to Medium Enterprises
MITSD	Ministry of Industrialisation, Trade and SME Development
MTI	Ministry of Trade and Industry
NAD	Namibia Dollar
NCCI	Namibia Chamber of Commerce and Industry
NLFS	National Labour Force Survey
NMA	Namibia Manufacturers Association
NSA	Namibia Statistics Agency
OECD	Organisation for Economic Co-operation and Development
SEE	Standard Error of Estimate

SME	Small and Medium-sized Enterprise
SME CGF	SME Credit Guarantee Fund
SME CPD	SME Continuing Professional Development
SPSS	Statistical Package for Social Sciences
USA	United States of America
USD	United States Dollar
WBES	World Bank Enterprise Surveys
ZAR	South African Rand

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DEDICATION

Firstly, I am wholly thankful to God Almighty who gave me the strength and wisdom to focus my attention until the completion of this thesis. Secondly, I am indebted without measure to my precious wife, Mildred, who stood with me and urged me on to the finishing line. Lastly, I make special mention of my three children Esther, Emily and Adriel who regularly provided tonnes of joy to me – much needed indeed during the strenuous task of completing this thesis. To you all I dedicate this piece of work.

DECLARATIONS

I, David Kanonuwa, hereby declare that this study is my own work and is a true reflection of my research, and that this work, or any part thereof has not been submitted for a degree at any other institution.

_____	_____	*12 March 2018*
Name and Surname	**Signature**	**Date**

CHAPTER ONE

INTRODUCTION

1.1 Background

The development community has long upheld that a thriving private sector is essential for economic growth and employment creation. Small and Medium-sized Enterprises (SMEs) play an instrumental but often under-recognized role in such economic growth and employment creation (Dalberg Global Development Advisors [DGDA], 2011). As Kim (2011) states, SMEs today have become the backbone of most modern economies and are the key source of their economic growth and employment creation. Beck and Demirguc-Kunt (2006) assert that SMEs are the emerging private sector in developing countries. SMEs are today considered the engine of employment creation in developing countries like Namibia, but their contribution is found to be more pronounced in developed economies (DGDA, 2011).

To illustrate the point, consider that 95 percent of enterprises in OECD member states are SMEs accounting for an average 66 percent of private sector employment (Organisation for Economic Co-operation and Development [OECD], 2005). Balling, Bernet and Gnan (2009) show that SMEs are the centre-piece of the European Union (EU), and they account for 99 percent of the national workforce employed in Italy.

Kim (2011) looks at newly industrialised economies and shows that in South Korea for example, SMEs account for 88 percent of all employment and represent 99 percent of all enterprises. In fact, some of the world's leading South Korean companies such as Samsung and LG were once small enterprises. Looking at the emerging economy of South Africa, SMEs generate more than 55 percent of all jobs (Kim, 2011).

Locally, a research by Namibia Economic Policy Research Unit (NEPRU, 2005) revealed that SMEs in Namibia employed only 20 percent of the national workforce. Findings of that research reflect the average contribution of SMEs to national employment in developing countries (DGDA, 2011).

Klapper (2006) asserts that among other factors, access to finance by SMEs facilitates their ability to enter markets, expand their operations and promote employment creation. This is because smaller firms are often the most innovative in creating new products and can be a test ground for new business ideas. Although nearly half of all start-ups fail within 5 years, a few of them grow to become large firms and replace incumbents. This process yields positive structural changes to the economy and is shown to be linked to employment growth (Beck & Demirguc-Kunt, 2006).

Access to finance is therefore necessary to create an economic environment that will enable SMEs to grow and contribute more to employment creation (DGDA, 2011). But since it is known that SMEs often face the difficulty of accessing finance in

capital markets due to their limited size and reputation, it is important that financing conditions for SMEs are made less stringent in an effort to stimulate their growth (Ayadi, 2008). This necessity is more critical in developing countries like Namibia which require the highest possible contribution to employment creation by SMEs as a way of reducing the high unemployment rate.

1.2 Statement of the Problem

The Khomas region, which is the economic and administrative centre of Namibia, is faced with a problem of high unemployment, reflecting the general unemployment problem challenging Namibia as a nation (Namibia Statistics Agency [NSA], 2015). During the 2014 National Labour Force Survey (NLFS), the national unemployment rate of Namibia was recorded at 28.1 percent whereas the Khomas region's rate of unemployment stood at 26.5 percent. Furthermore, it was reported that unskilled labour constitutes the majority of Namibia's labour force. The labour force is made up of 71 percent economically active people who either have no education or are educated only up to junior secondary level (NSA, 2015). The high level of unemployment combined with lack of skilled manpower has been persistent since the attainment of national independence in 1990. High unemployment is undesirable because it is associated with such social and economic ills as, among other things, low economic output, poverty, poor health care, high crime rate, and prostitution (NEPRU, 2005).

SMEs have been found to play a crucial role in identifying ways to solve the high unemployment problem. A well-developed SME sector can be a major contributor to

employment creation especially for unskilled personnel (DGDA, 2011). Kakwambi (2012) asserts that SMEs should be the catalyst for employment creation in Namibia, especially at the local and regional government levels. Bank of Namibia (BON, 2010) supports this viewpoint and shows that a significant percentage of the world's economically active population derives its living from SME sector employment. In that regard, SMEs in Namibia could play a critical role in reducing the high level of unemployment especially among the unskilled labour force, if they fully utilise their potential.

Notwithstanding the important role played by SMEs in employment creation and economic growth, restricted access to finance is consistently ranked as one of the most significant obstacles to doing business by SMEs. This is shown through a series of World Bank surveys of firms in more than 100 economies (DGDA, 2011). In Namibia the SME sector operates well below its potential capacity in terms of employment creation, caused partly because SMEs struggle to access finance for their growth requirements (BON, 2010). This results in missed opportunities to create employment, hence the high unemployment rate found in developing countries (Kim, 2011). Put differently, if the SME sector in Namibia was to receive all the funding it requires for its growth objectives, its impact on reducing unemployment could be far more significant particularly in the Khomas Region. NEPRU (2005) summarises it all by pointing out that the Namibian SME sector is very important to employment creation but is hindered by financing constraints.

This study thus aims to measure the full extent to which SMEs in the Khomas region, particularly those in the manufacturing sector, can contribute to regional employment creation if they are able to access finance. Manufacturing SMEs can be described as SMEs that produce tangible products and are more labour intensive compared to service-oriented SMEs. Focusing on manufacturing SMEs in this study is designed to accentuate the greater potential of SMEs to create regional employment, and by extension, help to reduce unemployment in the region.

1.3 Research Objectives

This study will seek to achieve the following objectives:

1. To find out the nature of the link between access to finance by manufacturing SMEs in the Khomas region and employment creation.
2. To measure the full extent to which manufacturing SMEs in the Khomas region can contribute to employment creation if they are able to access finance.
3. To identify measures to improve access to finance for manufacturing SMEs in the Khomas region.

1.4 Significance of the Study

This study will explore the potential impact on employment creation when manufacturing SMEs in the Khomas region are able to access finance for their growth plans. The findings of this study should offer a unique stimulus for its readers (who may happen to be policy- and decision-makers) to create an enabling environment that offers favourable financing opportunities for SMEs in the region.

The resultant spin-offs for the region will be SME sector growth and increased employment creation.

In addition, the study could serve as a baseline for replication in other regions of Namibia and thereby assist SMEs in those respective regions to maximise their contribution to employment creation. The overall result could be lower national unemployment levels in Namibia.

Lastly, the study will help to expand the domain of knowledge on the economic role and significance of manufacturing SMEs in employment creation with particular reference to the Khomas region of Namibia.

1.5 Limitations and Delimitation of the Study

There was limited time and financial resources available to the student to undertake the study. Resultantly, it was not possible to cover all SMEs in the region. The study was therefore restricted to manufacturing SMEs operating within the municipal boundaries of Windhoek which is currently the only municipality of the Khomas region.

1.6 Structure of the Thesis

The preceding paragraphs presented a background to the topic, gave a statement of the problem, highlighted the research objectives and explored the significance of studying how improved access to finance for SMEs impacts on their ability to create

employment in the Khomas Region. The last paragraph gave the limitations and delimitations of the study.

In the following chapter, a more detailed review of literature is provided in the area of access to finance by SMEs and the resultant impact on employment creation. Chapter Three focuses on the methodology and will give information on the research design, population, pilot study, sample, sampling techniques, research instrument, procedure employed, data analysis and research ethics. The results of data analysis and discussion will follow in Chapter Four. Finally, Chapter Five includes a summary of the study results, gives some conclusions and finally offers recommendations and areas for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter will review empirical studies and related literature showing the link, as well as the impact of access to finance by Small and Medium-sized Enterprises (SMEs) on employment creation in an economy. The chapter will also identify ways in which access finance for SMEs can be improved. The rest of the chapter is structured as follows. Section 2.2 will define key concepts underlying the study and Section 2.3 discusses the unemployment problem in Namibia. Section 2.4 will analyse the important role played by SMEs in creating employment opportunities in modern economic activity, while Section 2.5 discusses in detail the concept of access to finance by SMEs. Section 2.6 will illustrate the relationship between access to finance by SMEs and the employment they could potentially create. Section 2.7 will give an in-depth discussion about the financing gap and Section 2.8 identifies causes of the financing gap. Section 2.9 will identify the gaps emerging from previous research and finally Section 2.10 summaries the chapter with a particular focus on the Khomas region of Namibia.

2.2. Defining the Key Concepts

2.2.1. A Small and Medium-sized Enterprise

According to Kim (2011) there is no universally agreed definition for an SME. It varies from country to country, from the sources reporting SME statistics, and from

the objective of the definition. Kakwambi (2012) supports this view and says many countries and international organisations set their own guidelines for defining SMEs, which are often based on the number of employees, annual sales, or total net assets concerned. Definitions of SMEs diverge significantly in line with the scale of the economy concerned, its degree of development and the economic structures that are present in that country. Kakwambi (2012) further asserts that because the economies of most countries differ, it is difficult, if not impossible, to give a universally accepted definition of SMEs.

In general terms, SMEs are defined as private business undertakings where decision-making, as well as the operational and administrative management of the entity, are in the hands of one or two persons who usually are the owner(s) (Gangata & Matavire, 2013). However multiple variations arise when an attempt is made to define an SME in characteristic terms. For instance, International Finance Corporation (IFC, 2010) gives the EU definition of an SME as a private firm with between ten and 250 employees, whose annual turnover is less than €50 million or alternatively, less than €43 million on the balance sheet total. Although these thresholds are very high for most developing countries, this definition is used by at least 27 countries across the EU because the EU has put the most effort to standardize its SME definition than any other part of the world (IFC, 2010).

In the United States of America (USA), an SME is defined as any business with fewer than 500 employees. In fact, this definition may well represent a medium to

large enterprise in the African context. For example, South Africa uses an elaborate categorisation of micro, small and medium enterprises. Micro enterprises employ one to four employees, small enterprises have from 5 to 50 employees, while medium enterprises often employ up to 200 persons and have a net worth not exceeding ZAR 5 million (Nzitunga, 2009).

A casual examination of most definitions of SMEs reveals that while there are many criteria used, the most common basis of definition is the number of employees. There may be variations in the lower and upper limits of the number of employees, but a significant number of sources define an SME as having a cut off range of one to 250 employees (Ayyagari, Beck & Dermirguc-Kunt, 2007).

This thesis looks at the impact of access to finance by Namibian SMEs on employment creation. The study is based on local conditions and therefore it is only prudent to use the official Namibian definition of an SME. According to the Ministry of Industrialisation, Trade and SME Development (MITSD, 2015) formerly known as Ministry of Trade and Industry (MTI), a definition of the SME sector was first officially announced in the 1997 SME Policy. The definition did not include a categorisation of micro-enterprises and only differentiated between SMEs engaged in the manufacturing sector and those in all other industries. An SME in the manufacturing sector was defined as a firm employing fewer than ten employees, with a turnover of less than NAD 1 million and balance sheet capital of less than NAD 500,000. In all other economic sectors, an SME was defined as one which employed fewer than five persons, whose turnover was less than NAD 250,000 and

employed capital of less than NAD 100,000 (Nzitunga, 2009). These characteristic definitions of SMEs are captured in Table 1.

Table 1: Original Namibian definition of SMEs

Sector	No of Employees	Annual Turnover	Capital Employed
Manufacturing	Less than 10	≤ NAD 1,000,000	≤ NAD 500,000
All other businesses	Less than 5	≤ NAD 250,000	≤ NAD 100,000

Source: MTI (1997)

The 1997 definition had remained constant over the years, despite various movements in regional and global dynamics that resulted in many changes to the nature of firms. However, in July of 2015, MITSD proposed a new definition which was formally adopted in July 2016, after a one year time frame was given to allow all stakeholders to align their current SME definitions with the new national definition (MITSD, 2015).

The new definition now incorporates micro enterprises and also categorises SMEs according to the number of employees and annual turnover. A firm employing up to ten people and that reports annual turnover of up to NAD 300,000 is categorised as a micro-enterprise. The next category is that of a small-enterprise which should employ a minimum eleven and maximum 30 people and reporting annual turnover of up to NAD 3 million. A firm that employs not less than 31 but not exceeding 100 employees, and has an annual turnover not exceeding NAD 10 million is categorised as a medium enterprise (MITSD, 2015). This information is summarised in Table 2.

Table 2: Revised Namibian categorisation of the SME sector		
Category	**No of Employees**	**Annual Turnover**
Micro	Less than 11	≤ NAD 300,000
Small	11 – 30	≤ NAD 3,000,000
Medium	31 – 100	≤ NAD 10,000,000

Source: MITSD (2015)

The new Namibian definition of SME, as adopted, shall be applied throughout this study in so far as it relates to manufacturing SMEs. Not much effort though, will be placed on distinguishing between a micro, small or medium enterprise. As long as an entity employs less than 100 people and reports an annual turnover not exceeding NAD 10 million, it will be identified in this study as an SME.

2.2.2. Access to Finance by SMEs

Access to finance by SMEs is a business condition whereby SMEs are able to obtain the funds they need to invest and grow through, among other things, developing new products or production processes, and investing in human capital (Ayyagari, Demirguc-Kunt, & Maksimovic, 2011). As shall be seen in Section 2.5., for the purpose of this study, access to finance involves increasing the availability of low cost bank credit to SMEs and extending their reach to basic savings, payments and financial services (Honohan & Beck, 2007).

2.2.3. Employment Creation

Ayyagari et al. (2011) explain that job creation is measured as the net increase in employment levels over a two year period. In this study, employment creation is the

dependent variable and refers to the ability of Namibia, specifically the Khomas region, to increase job opportunities for its population and thereby reduce the respective national and regional unemployment rate (Mwinga, 2012). The job opportunities thus created should ideally be suited for people with low levels of education and training who form the majority of the unemployed population in Namibia (Kutazo, 2008). Employment creation provides a direct channel for distributing the benefits of economic growth broadly throughout the population (Mwinga, 2012).

2.2.4. Unemployment

Card (2011) defines unemployment as a situation wherein people are not working but are actively searching for work. NSA (2015) further categorises unemployment either in the strict sense, or alternatively in the broad sense. Unemployment in the strict sense is a sociological term referring to the group of people within the economically active population or working age group who are not working, but are available for work and actively seeking for employment (Card, 2011). Unemployment in the broad sense refers to the group of people within the economically active population or working age group who are not working and are available for work, but are not necessarily seeking employment (NSA, 2015). In this study, unless otherwise specified, use of the term unemployment refers to unemployment in the broad sense.

2.2.5. Unemployment Rate

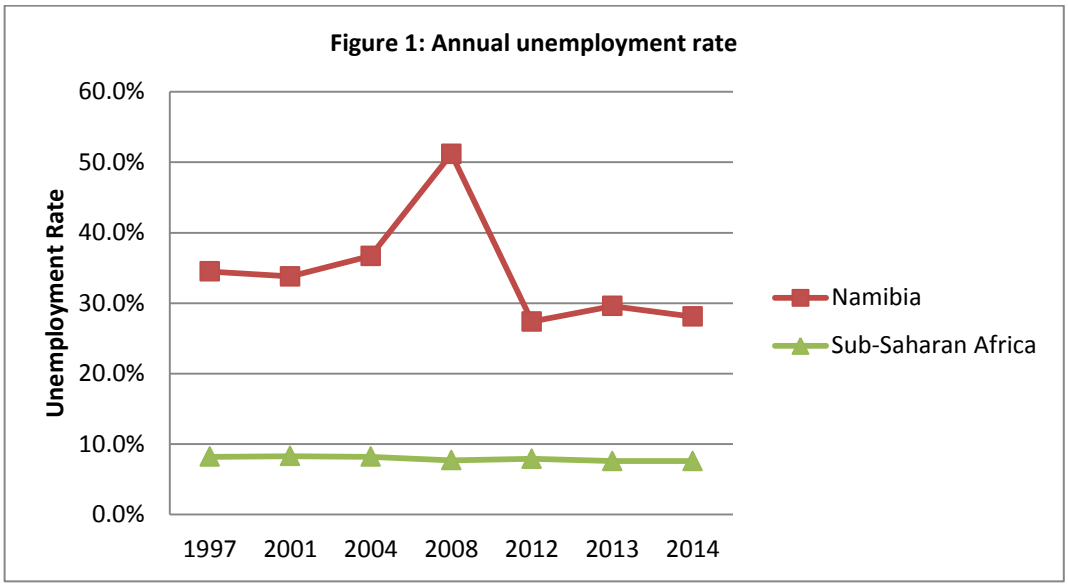
The unemployment rate refers to all unemployed people, either in the strict or broad sense, expressed as a percentage of the total number of people in the labour force (NSA, 2015).

2.2.6. Labour Force

Labour force is the total number of people aged 15 years and above who are economically active. It consists of both employed and unemployed people (NSA, 2015).

2.3. The Unemployment Problem in Namibia

Since independence in 1990, Namibia has been faced with many national challenges such as HIV/Aids, endemic diseases, income inequality, famine and widespread poverty. Underlying all these is the phenomenon of high unemployment (Mwinga, 2012). Using the strict definition of unemployment, joblessness in Namibia increased from 20.2 percent in 2000 to 21.9 percent in 2004 and further to 37.6 percent in 2008. This compares unfavourably to an average unemployment rate of 7.6 percent in sub-Saharan Africa for the period 1999 through to 2008. Based on the broad definition of unemployment in Namibia, joblessness peaked at 51.2 percent in 2008 (Kanyenze & Lapeyre, 2012). It then declined to 27.4 percent in 2012 before rising to 28.1 percent in 2014 (NSA, 2015). In comparison, this again reflects unfavourably to an average unemployment rate of 8.2 percent recorded in sub-Saharan Africa from 1999 to 2008 (Kanyenze & Lapeyre, 2012). The trend in Namibia's unemployment rate when compared to that of sub-Saharan Africa is depicted in Figure 1.



Source: Kanyenze and Lapeyre (2012); NSA, (2015).

The trend shown in Figure 1 is that of high unemployment in Namibia over the period 1997 through 2014. Beginning at an annual rate of 35 percent in 1997, unemployment peaks at 51 percent in 2008 before subsiding to about 28 percent annually ever since. The steep decline from 51 percent to 28 percent is largely because of a change in the methodology used, which resulted in significant changes to the categories of working people other than paid employees. In that respect, the steep decline does not necessarily reflect on positive structural improvements to employment levels in Namibia (NSA, 2015). From the trend shown, it can be deduced that Namibia has faced a volatile and high unemployment problem under the review period. This is in contrast to unemployment in the sub-Saharan African region where a much lower and flat rate is maintained over the same period.

Kanyenze and Lapeyre (2012) concur with Mwinga (2012) in asserting that Namibia's unemployment rate is not a normal occurrence and is remarkably high for a developing country in peace time, especially taken in the context of other countries in sub-Saharan Africa. Unemployment in Namibia represents a waste of resources and robs the society of a vital productive asset, its human resources, thereby undermining national growth. With more than a third of the economically active population unemployed, major social, political and economic risks are posed such as social exclusion and instability, crime, income inequality, deteriorating standards of living, erosion of human capital, and endemic diseases (Mwinga, 2012).

The national unemployment problem cascades down to regional levels and the Khomas region is not an exception. In fact, because the region is centrally located and is the economic and administrative hub of the country, it faces economic and social challenges unlike any other region. Its challenges closely reflect those of Namibia as a nation, and therefore a discussion of the Namibian problem is by extension a discussion of the Khomas problem.

2.4. Importance of SMEs in Employment Creation

Stern (2001) asserts that SMEs account for the majority of firms and a large share of employment in the developed world as well as in most developing countries like Namibia. Moreover, it is in SMEs where most of the world's poor people are working. By enabling a dynamic SME sector in both rural and urban areas, governments can strengthen income generating opportunities for poor people while reducing their vulnerability to economic risks.

Bartelsman et al. (as cited in Demirguc-Kunt & Maksimovic, 1998), show that SMEs form a large component of the overall population of firms in both industrialised and developing countries. Ayyagari, Demirguc-Kunt and Maksimovic (2012) also show that SMEs play an important role in employment creation in developing countries, particularly as having the largest share of employment creation in comparison to large firms.

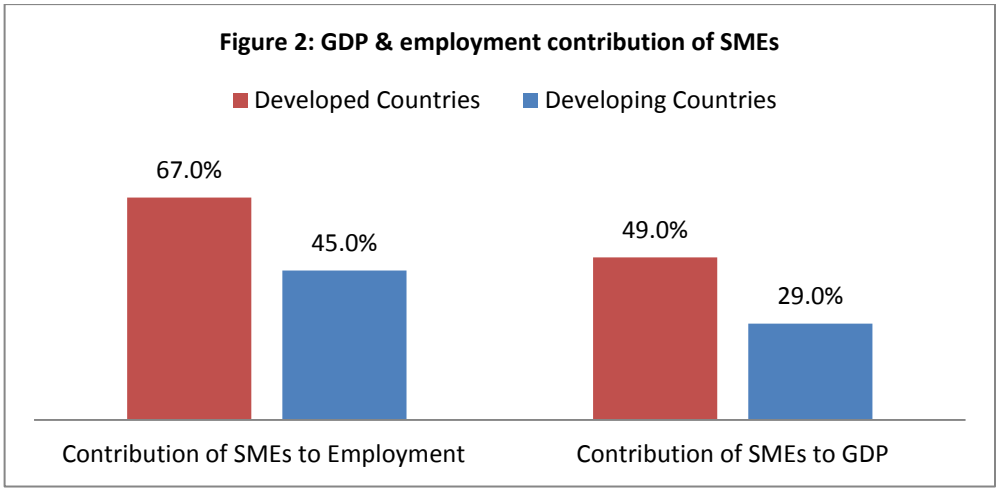
According to BON (2010), SMEs are active in virtually every sector, either as direct providers of services or goods or, alternatively, as component parts of complex supply chains. The importance of the SME sector within any economy has been amplified by the 2008 global financial crisis. To give an example, the USA legislature passed a bill, acknowledging the importance of SMEs to the USA economy. The bill made available USD 30 billion to USA banks for on-lending to small businesses, so that they can make an impact in creating employment and grow the economy out of the crisis (BON, 2010). In another clear demonstration of the importance attached to SMEs in employment creation, EU policy makers provided €30 billion to the European Investment Bank (EIB) for onward lending to SMEs in the 2008-2011 period (Mentortec, 2012). Stern (2001) goes on to show that the success stories of economic and social development in East Asian countries, notably China, Japan, Malaysia and South Korea, just to name a few, indicates that the growth of SMEs is fundamental for economic development, particularly in providing employment for poor people.

Today, SMEs are regarded as the emerging private sector around the world, forming the basis for private sector-led economic growth and employment creation (Beck & Demirguc-Kunt, 2006). A significant percentage of the world's economically active population derives its living from SME sector employment (BON, 2010). Mazanai and Fatoki (2012) state that SMEs make the largest component of the overall population of firms in South Africa and play an important role of creating employment in that country. Kakwambi (2012) supports this viewpoint and shows that the SME sector is the engine for sustainable economic growth and employment creation in Namibia. A well-developed and supported Namibian SME sector provides a major source of employment creation, giving job opportunities to especially unskilled people in many regional and local authorities like the Khomas region and municipality of Windhoek (Kutazo, 2008).

In Namibia, the government has recognised the important role of the SME sector in creating job opportunities for many unemployed Namibians, especially those in the low income group. As a result, the government developed policies and programmes to support the development of this important sector, chief of which is the national Vision 2030. This policy document pronounces a national goal of establishing a vibrant SME sector by the year 2030, as one of the milestones towards economic prosperity and employment creation (BON, 2010). Vision 2030, in so far as it relates to the development of the SME sector, is complemented by the SME Policy of 1997 authored by the then Ministry of Trade and Industry (NEPRU, 2005). The current President of Namibia, in his first cabinet announcement of 2015, made a bold move to rename the then Ministry of Trade and Industry to the Ministry of

Industrialisation, Trade and SME Development. This further highlights the special importance placed on SME development by the successive administrations of Namibia since the attainment of independence in 1990 (MITSD, 2015).

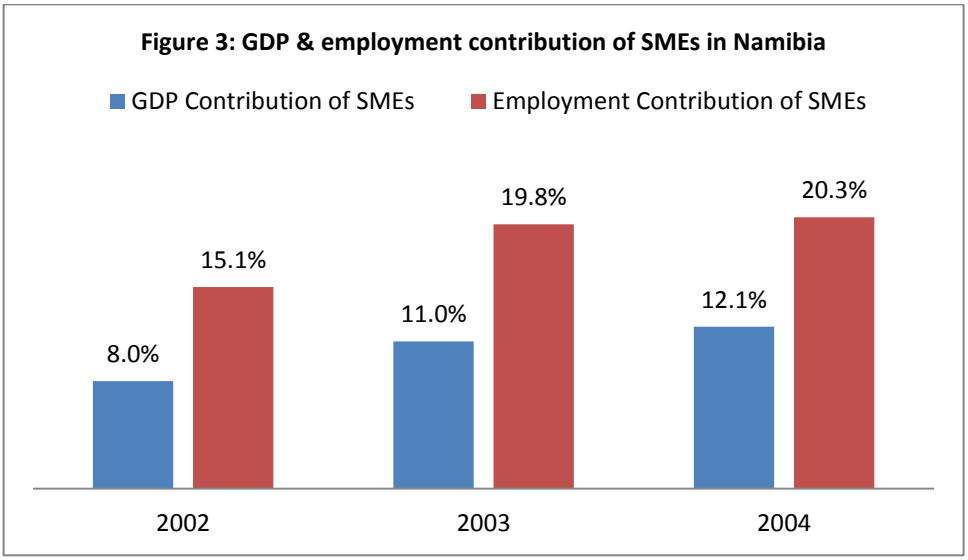
While acknowledging that SMEs the world over contribute to employment creation, DGDA (2011) argues that the contribution made by SMEs to job creation in developing countries is subdued when compared to the developed world. To give an example, 95 percent of enterprises in OECD countries are SMEs accounting for up to 66 percent of private sector employment (OECD, 2005). However, in the developing world, estimates suggest that the SME sector accounts for only up to 48 percent of the people employed. Figure 2 illustrates this comparison and further shows that SMEs in developing countries are under-utilised and could contribute more to employment creation than they currently do (IFC, 2010).



Source: Ayyagari et al. (2007)

In Namibia, local research revealed that SMEs contributed 12 percent to GDP, in the process accounting for about 20 percent of national employment opportunities for the

fiscal year ended 28 February 2005 (NEPRU, 2005). Figure 3 shows the contribution of SMEs to GDP and employment opportunities in Namibia over a three-year period.



Source: BON (2010)

From an analysis of Figure 2 and Figure 3, it is evident that SMEs in Namibia perform worse than those in other developing countries in terms of their contribution to GDP and employment creation. The gap is even wider when comparing these figures to the results of SMEs in the developed world. Whereas SMEs in developed countries contribute up to 67 percent of national employment, and those in other developing countries contribute up to 45 percent, Namibian SMEs contribute a paltry 20 percent. When comparing the contributions of SMEs to GDP, those in developed countries contribute about 49 percent, those in other developing countries contribute about 29 percent, while those in Namibia contribute only 12 percent.

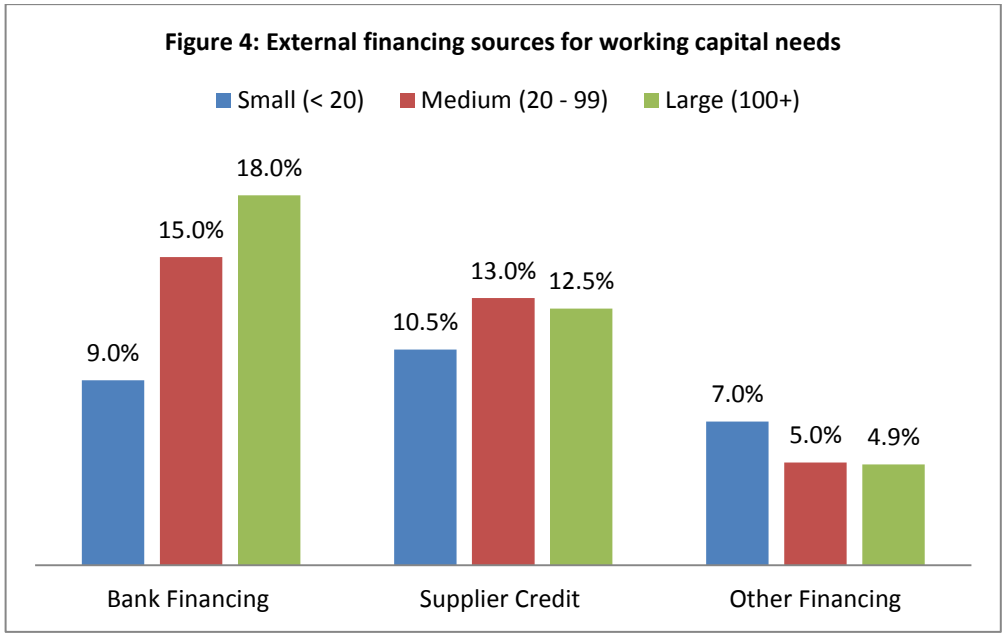
The foregoing analysis probably explains the data given in Figure 1, which compares the unemployment rate of Namibia with that of sub-Saharan Africa from 1997 through to 2014. According to the information, Namibia's unemployment rate has remained above 25 percent over the review period, whereas that of sub-Saharan Africa has not exceeded 9 percent over the comparable period. This likely could be a result of the subdued contribution of SMEs in Namibia to economic activity and employment creation, which contribution is much lower than that registered for other developing countries.

2.5. Financial Inclusion

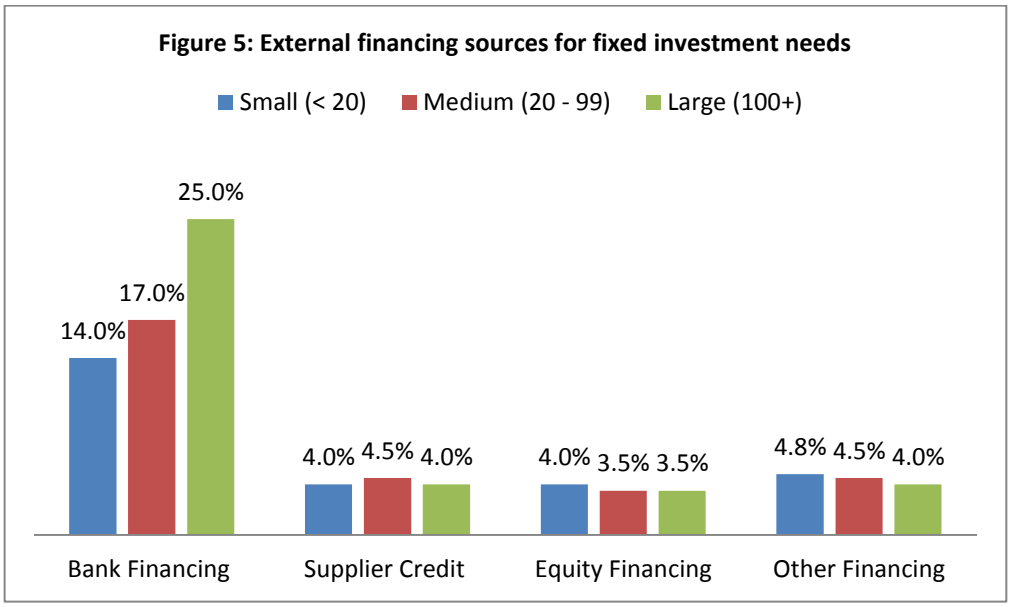
Beck, Demirguc-Kunt and Honohan (2008) state that a well-functioning financial system is crucial in channelling funds to the most productive users who will maximise employment creation, economic growth, income distribution, and poverty reduction. According to Mazanai and Fatoki (2012), SMEs have been identified as the most productive users of finance and therefore, improving access to finance and building inclusive financial systems for SMEs is a goal that is relevant to modern economies. The challenge of improving access to finance is greater than just ensuring as many SMEs as possible have access to basic financial services. It is just as much about enhancing the quality and reach of credit, savings, payments, insurance, and other risk management products for SMEs in order to facilitate their sustained growth and productivity (IFC, 2010).

2.5.1. Financing Options and Bank Finance

Finance required by SMEs could either be internal or external. Internal financing sources for SMEs typically include an entrepreneur's own savings, retained earnings of the business, or funding through the sale of assets. External sources of finance can either be informal from family, friends or credit suppliers, or they could be formal such as debt or equity (IFC, 2010). According to the theory on an SME's life cycle, firms often depend on internal and informal sources of funding in the very early stages of their development. External sources however, become more important as firms start expanding, thus enabling SMEs to generate significant levels of employment (IFC, 2010). The trend is depicted in Figure 4 and Figure 5.

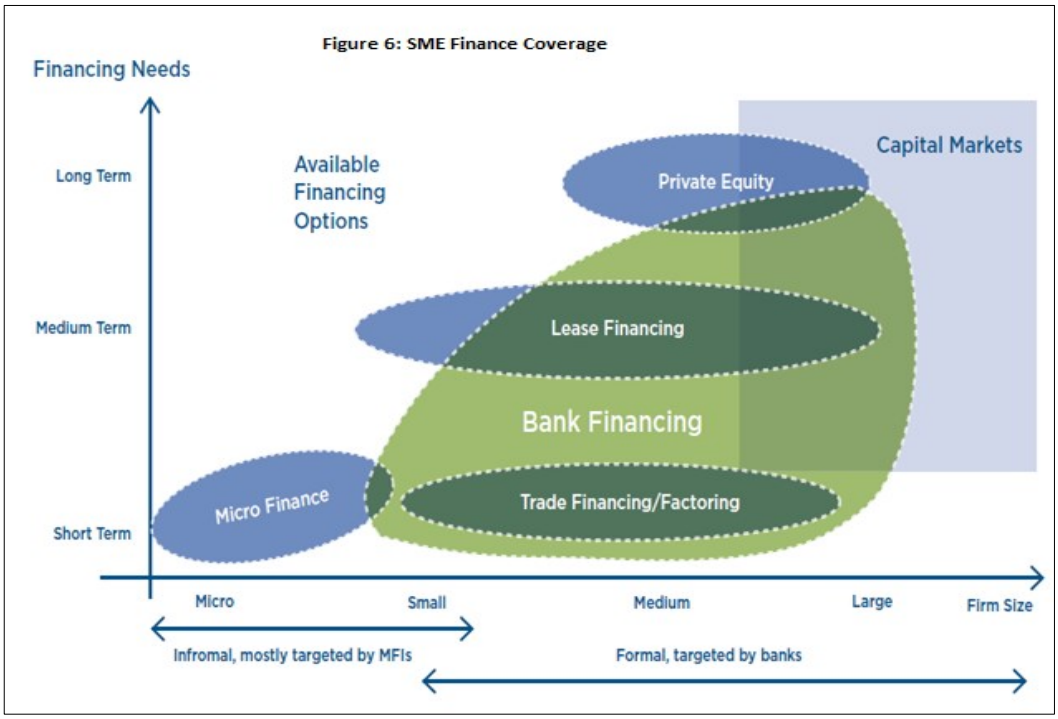


Source: IFC (2010)



Source: IFC (2010)

Figure 4 and Figure 5 present the proportion of firms' working capital and investment needs funded by various external financing sources for SMEs of different sizes. The main point illustrated through the results of the survey is that bank financing is the most important source of funding for SMEs. It can therefore be argued that bank financing is critical as a facility to increase access to finance for SMEs, so that in turn they are able to maximise their contribution to employment creation.



Source: IFC (2010)

Looking at the issue of financing options from another perspective, it is seen from Figure 6, that in the early stages of the SME life cycle, access to finance for SMEs usually starts through the provision of short-term credits of low value. When banks and other financial institutions start lending to SMEs, the loans usually remain at the higher end of the risk spectrum. This means financial institutions only offer smaller loans of short tenures. As the SMEs grow into medium-sized entities, they build sufficient credit history and infrastructure for collateral. This enables them to start accessing larger volumes of credit lines with longer tenures because of the corresponding decrease in their risk profile. Beginning the credit relationship based on short-term finance enables banks to build credit histories with borrowers, even in markets with poor land title regimes, poor collateral registries, and weak credit

bureaus. It also allows banks to build their experience, reach an increasing number of smaller firms over time, and assists these enterprises to access long-term loans as well as unsecured financing (IFC, 2010).

In summary, it can be seen that banks fund a significant proportion of SMEs' investment finance needs and they are also the major providers of funding for working capital requirements. Moreover, SMEs need a variety of additional financial services that only banks are well positioned to provide. These include cash management, insurance, transfers, and other transactional products (IFC, 2010). In essence, bank finance remains the most important source of external finance for SMEs. In this study access to finance invariably refers to the accessibility of bank finance.

2.5.2. Types of Bank Credit Available to SMEs

Access to finance can help SME firms start up and/or expand their businesses through development of new products and production processes, and invest in human capital. In the preceding section, bank finance was identified as the most important form of financing for SMEs. There are various forms of bank financing available to SMEs no matter what stage they are in the SME development cycle. These are examined in greater depth in the sub-sections that follow.

2.5.2.1. Commercial Bank Loan

Commercial bank loans come in various forms but generally they are issued either as fixed term loans or revolving lines of credit. Examples of fixed term commercial

bank loans include franchise loans, project finance, contract based finance, trade finance for imports and exports, and enterprise development finance. Examples of revolving lines of credit include bank overdrafts and credit card facilities. Borrowing entities are obligated to repay the loan principal together with interest to lending banks in accordance with the establishing debt covenant (Gangata & Matavire, 2013).

2.5.2.2. Mortgage

A mortgage in essence is a fixed term commercial loan, with the distinguishing characteristic that it is structured for acquisition of real estate by the borrowing entity (Gangata & Matavire, 2013).

2.5.2.3. Micro-finance Loan

Micro-finance loans are small loans provided to the informal SME sector and are normally offered by micro-finance institutions. The only challenge is that these institutions have limited ability to accompany their client firms in their growth progression, and they lack the ability to offer additional non-lending products that are critical to the informal SMEs (IFC, 2010). According to Nakusera, Kadhikwa and Mushendami (2008) there are two types of micro-finance institutions in Namibia, namely term lenders and cash lenders. The term lenders offer term loans of up to a maximum 36 months, while cash lenders extend credit for a period of only 30 days, with some giving 60 days to clients they consider creditworthy.

2.5.2.4. Lease Finance

Nakusera et al. (2008) identify three types of leasing, namely operational, full maintenance and financial leases. In an operational lease agreement, SME firms acquire an asset for use in the operations of the business and generation of income. In this lease arrangement, the SME has no intention of assuming ownership of the asset at the end of the financing term. The operational lease normally lasts for a period that is equivalent to the useful life of the asset. Typical examples of assets acquired by SMEs under operational leases are telephone switchboards and photocopiers. A variation to the operational lease is the full maintenance lease that entails renting vehicles and equipment over a period of up to 60 months. At the end of such an agreement there is a substantial payment of a residual amount in the case where the SME wishes to acquire ownership. However, clients usually opt-out and enter into a new agreement for a new asset and return the previously used asset. Full maintenance lease charges cover the ownership and monthly operational costs of the asset excluding fuel and insurances. The third type of leasing arrangement is the financial lease. In this arrangement, SME firms purchase assets such as machinery, equipment or vehicles for their operations and for generating income, with the ultimate aim of assuming ownership of the asset at the end of the lease term.

2.5.2.5. Venture Capital

According to Mentortec (2012), venture capital is a financing facility used when SMEs, at their start-up or expansion phase, require large amounts of financial resources but do not have access to capital markets. It typically entails high risk for the investing bank, but it has the potential for generating above-average returns on

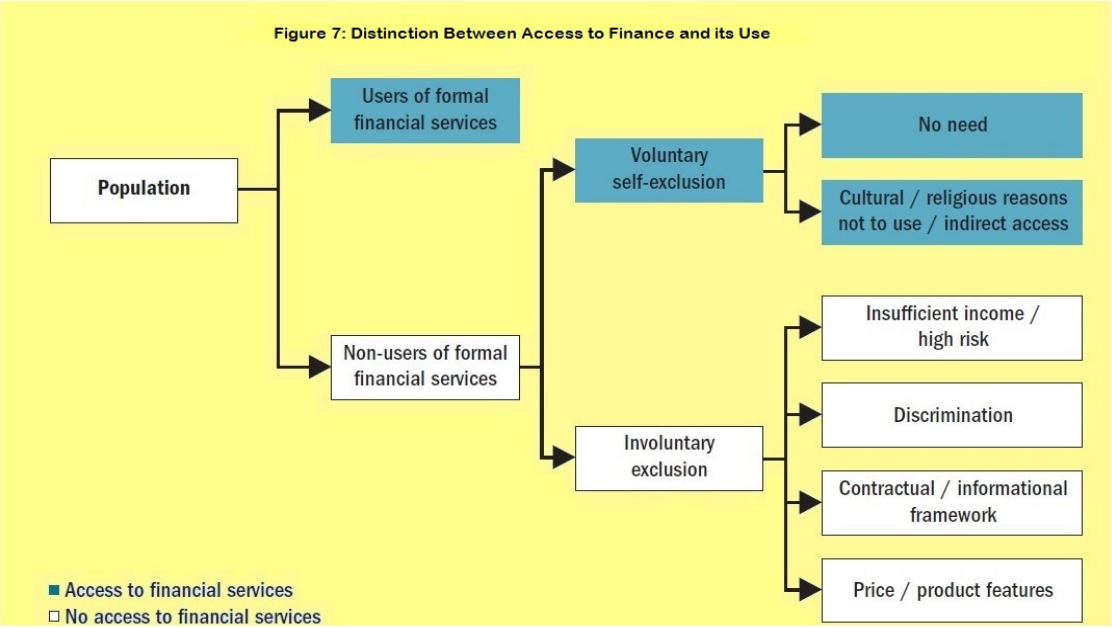
investment if the project turns out successful. In exchange for the high risk involved, the lending institution takes up equity in the recipient SME for a fixed term period as a way of safeguarding its investment. During this term period, the lending institution retains operational and management control of the business venture as a measure to safeguard its capital investment. Furthermore, the lending institution earns periodic returns in the form of interest on the loan principal as well as dividends declared on the profits earned. At the end of the fixed term, the SME repays the principal loan amount, and by so doing is able to reclaim full control of the business through buy-back of the equity interest held by the lending institution.

2.5.2.6. Factoring

SMEs normally find it difficult to finance their short-term working capital needs because most sales on credit take between thirty to ninety days to collect. Factoring is a type of financing in which the SME will sell its accounts receivable book at a discount to a financial firm, called the factor, and receives immediate cash for its operations. When the time comes for settling the accounts receivables by the debtors, the debtors pay the full invoice amount to the factoring institution. The discount given to the factor will be the equivalent of interest and service fees (Klapper, 2006). According to Nakusera et al. (2008), factoring is not a loan facility and there are no debt payments and additional liabilities on the SME's balance sheet, although it provides immediate working capital financing.

2.5.3. Improving Access to Finance for SMEs

Beck et al. (2008) state that financial inclusion, or broad access to financial services, refers to an absence of price or non-price barriers in the use of financial services. Improving access to finance, then, means improving the extent to which financial services are available to all firms at a fair price. It is critical to note though that access to financial services is not always the same as its usage. Access essentially refers to the supply of services, whereas use is determined by demand derived from the users (Beck et al., 2008). Figure 7 shows the difference between access to finance and its use.



Source: Beck et al. (2008)

Figure 7 shows the ideal economic environment wherein access to finance should be available to all potential SME users. The SME population of all potential users is divided between actual users and non-users. Non-users of finance represent a

segment of SMEs who are excluded from accessing finance. Non-use of finance could be further divided between voluntary and involuntary. Voluntary non-users are those users who have access to finance, but choose not to use it for cultural or religious reasons, or simply because they do not have a demand for it (Beck et al., 2008). From a policy perspective voluntary non-users do not really constitute a problem because their non-use of financial services is a direct result of their lack of demand.

On the other hand there are SMEs which are involuntary non-users of finance. Despite demanding financial services, this group of SMEs do not have access to them. There are several different sub-groups among the involuntarily excluded SMEs. According to Beck et al. (2008), the first group are SMEs considered un-bankable by financial institutions because they do not have enough income or present too high a lending risk. The second group are discriminated against, based on social, religious, or ethnic grounds. The third group are denied access to finance because of contractual and informational frameworks such as high costs or viability, which prevent financial institutions from assisting these groups. The last group is excluded from accessing finance because the price of financial services may be too high or the product features might not be appropriate for that population group.

To achieve the aim of improving access to finance for SMEs, efforts must be directed at reducing the overall number of SMEs that are involuntarily excluded from accessing finance. In that respect, there is need to distinguish SMEs that are rejected due to high risk or poor project quality and those that are rejected because of

discrimination or high prices, thus making financial services or products unaffordable (Beck et al., 2008). Those SMEs that are restricted from accessing finance due to high risk and poor project quality are not necessarily worrisome from a policy perspective. Their challenge of high risk and poor project quality can be addressed through implementing investment readiness training for SMEs as a way to increase the chances of matching available loan and equity funding with innovative entrepreneurs (Mentortec, 2012). Investment readiness programmes can help SMEs by providing support in the preparation of business plans, explaining the sources of financing, understanding the requirements of investors, ensuring that the right management skills are available, and improving the quality of presentations in order to better convince investors to buy into the investment proposals and actually make an investment (Mentortec, 2012).

The challenge though, remains on how to improve access to finance for the segment of involuntary non-users of finance, who are excluded from using available finance because of equilibrium interest rates that are too high. Mentortec (2012) emphasises the need to revitalise the general financing environment for SMEs in order to facilitate provision of complementary funding schemes, risk capital and bank finance along with government loan guarantee systems so as to encourage banks to lend. To support this point, Mentortec (2012) illustrates how, in the aftermath of the 2008 financial crisis, the general financing environment in the EU was revitalised as a way of making affordable finance available to SMEs. The EU implemented the European Economic Recovery Plan that availed €30 billion via the EIB for onward lending to SMEs from 2008 through 2011. In addition, the EU adopted several other incentives

like the High Growth and Innovative SME Facility for the period 2007-2013 to address the early-stage financing gap as well as providing funds for expansion phase venture capital investment for SMEs in Europe. Another incentive was implemented through JEREMIE, a joint initiative of the European Commission (EC), the EIB and the European Investment Fund (EIF), allowing member states to use part of their Structural Funds allocation for the period 2007-2013, to improve access to finance for SMEs (Mentortec, 2012).

2.6. The Linkage and Impact of Access to Finance on Employment Creation

The macro-economic condition of high unemployment found in many countries has forced governments to search for ways of generating significant employment in their economies. Policy makers agree that promoting job creation through self-employment and growth of the small business sector is a viable strategy offering high hopes that small businesses will constitute the majority of job creators in economies (Pytkowska & Korynski, n.d.).

A number of broad cross-country studies show the positive effect that access to finance has on the growth of firms, especially to SME firms who are the most in need of finance (Ayyagari et al., 2012). The study by Rajan and Zingales (1998), attempted to measure the causality between access to finance and industrial growth. The study argued that firms more dependent on external finance would likely benefit from more financial development disproportionately more than those firms that do not rely on external finance. Using micro data at industry and firm level from the USA to measure the dependence of firms on external finance, the study found that

financial development and ease of access to finance has a significant impact on industrial growth, both through the expansion of existing firms as well as through the establishment of start-ups. This industrial growth invariably leads to greater employment creation.

Ayyagari et al. (2012) further highlight cross country research that shows strong positive relationship between financial development and long-term economic growth. Financial development was identified by three measures, these being financial depth, bank and privy. Depth measures the size of financial intermediaries as computed by liquid liabilities of the financial system divided by the GDP. Bank measures the ratio of bank credit divided by the sum of bank credit and reserve bank domestic assets. Privy measures total credit given to private enterprises divided by GDP. Governments around the world now recognise that when SMEs are able to access higher levels of finance, being a measure of higher financial development, they are well positioned to maximise their economic growth and potential for creating employment. (Ayyagari et al., 2012). In the study by Klapper, Laeven, and Rajan (as cited in Ayyagari et al., 2012), results of data analysis on more than three million firms across Europe showed that in an economic environment where it is easier to access finance there is a positive relationship with higher numbers of start-up firms. It follows that with higher numbers of start-up firms resulting from easier access to finance, more employment is created by these start-up firms.

Love (2003) points out that finance help firms overcome liquidity constraints and thus improve resource allocation in the economy. These assertions are confirmed by

a case study using detailed loan and borrower information. The study by Banerjee and Duflo (2004) provides detailed loan information on 253 SME borrowers from an Indian bank before and after they became eligible for a directed credit program. The study found that these firms expanded their operations and in the process created employment after becoming eligible for finance, thereby suggesting that they had previously been credit constrained.

As shown in the preceding paragraphs, access to finance is one of the key factors that stimulate the economic activity of SMEs, allowing them to grow and create employment. Mazanai and Fatoki (2012) also show that the ability of SMEs to grow and create employment depends highly on their potential to invest in restructuring and innovation. All these investments require capital and therefore access to finance. Looking from another angle, Gangata and Matavire (2013) show that SMEs need financing to fund their operational needs, meet their short-term and long run investment objectives, and carry out expansion projects and capital structure adjustments. They also may need funding for working capital requirements and merger or acquisition transactions. These entities usually are unable to finance these requirements with internal funds because their turnover and profit levels are limited. Therefore, the remaining alternative to fund their growth objectives is by obtaining finance from external sources like bank loans. According to Mazanai and Fatoki (2012), access to finance is a priority issue in order to support and develop the SME sector as an engine for employment creation.

Further empirical studies show that increased access to finance impacts positively on employment generation. For example, the study by Yazdanfar and Salman (as cited by Pytkowska & Korynski, n.d.) examined firm-level data and concluded that availability of external finance, increased access to liquidity and high debt capacity are factors that are positively related to employment creation. In the studies by Demirguc-Kunt and Levine as well as by Dinh, Mavridis and Nguyen (as cited by Kurdyla, 2013), firms were found to have easier access to external finance in developed countries than in developing countries. The ease of access to finance was found to have positive implications for the growth and performance of firms, especially for SMEs, and this had a bearing in their ability for higher employment creation. It was also found that firms which received a loan or overdraft facility had a 3.1 percent faster growth in employment levels compared to those that did not have access to finance.

The study by Pytkowska and Korynski (n.d.) also provided results of data analysis on the 2014 survey of SMEs in Europe. It was seen that SME firms that created new jobs more often experienced a narrowing of the financing gap. A narrowing of the financing gap was identified as a lowering mismatch between the financing needs of SMEs and the perception of funding availability by SMEs. It was also found that the probability of a firm being a job creator rather than job neutral was 29 percent higher for firms which experienced a decrease in the financing gap. Conversely, firms which reduced their employment levels suffered from a widening of the finance gap.

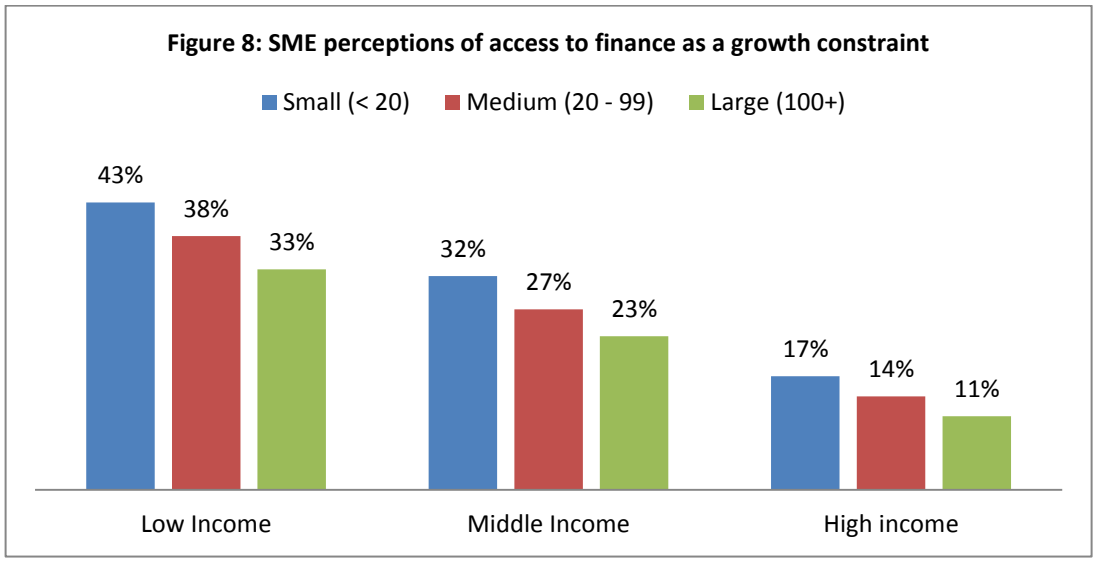
Not all studies however, show a positive link between access to finance and employment creation. The study by Nickell and Nicolitsas (as cited by Pytkowska and Korynski, n.d.), show that financial pressure tends to impact on several aspects of company behaviour. For example, increases in interest payments have a large negative effect on employment generation. Fernandes et al. (as cited by Pytkowska and Korynski, n.d.) explain that financial pressure is the interest burden resulting from accessing external finance, and concluded that higher financial pressure negatively affects the employment decisions taken by firms. This is because interest payments reduce company profitability, forcing some companies to downsize their operations and reduce their labour force. In extreme circumstances, high interest payments result in bankruptcy and company closures, leaving affected employees jobless. The impact of the financial pressure on employment was found to be more potent for firms classified as financially constrained and operating in developing economies, especially during the 2010 global financial crisis.

The various literature and empirical studies on the relationship between access to finance and employment creation among SMEs have offered mixed results. On the one hand, most of the literature and empirical studies reviewed show that not only does there exist a positive relationship between access to finance and employment creation, but access to finance by SMEs impacts strongly on their ability to create employment. But other studies offered a different view and showed that increased access to finance and leverage result in reduced employment levels.

2.7. The SME Financing Gap

The SME financing gap is defined as the difference between the demand for funds by SMEs and the supply of those funds by lenders of finance (Mazanai & Fatoki, 2012). Put differently, IFC (2010) describes the financing gap as a business environment where the offer of available financial services only partially meets the needs of SMEs. According to Kurdyla (2013), the IFC quantified the financing gap by estimating the unmet need for credit by SMEs in emerging markets as being between USD 2.2 trillion and USD 2.7 trillion in 2011. Mentortec (2012) observes that some firms cannot obtain capital, but that in itself is not evidence of a financing gap. In a competitive market, some firms will be and should be denied financing if their risk profile far exceeds the willingness of investors to supply funds at a given rate. Specifically, a financing gap is said to exist if firms that merit financing cannot obtain it in financial markets due to the existence of market imperfections.

According to DGDA (2011), SMEs are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint. The World Bank Enterprise Surveys (WBES) from 2006 to 2009 showed that SME firms in low and middle income countries perceive access to finance as a major obstacle to growth and employment creation. Furthermore, the WBES results indicate that SMEs in developing countries are more likely than SMEs in developed countries to report that access to finance is a major obstacle to their growth (IFC, 2010).



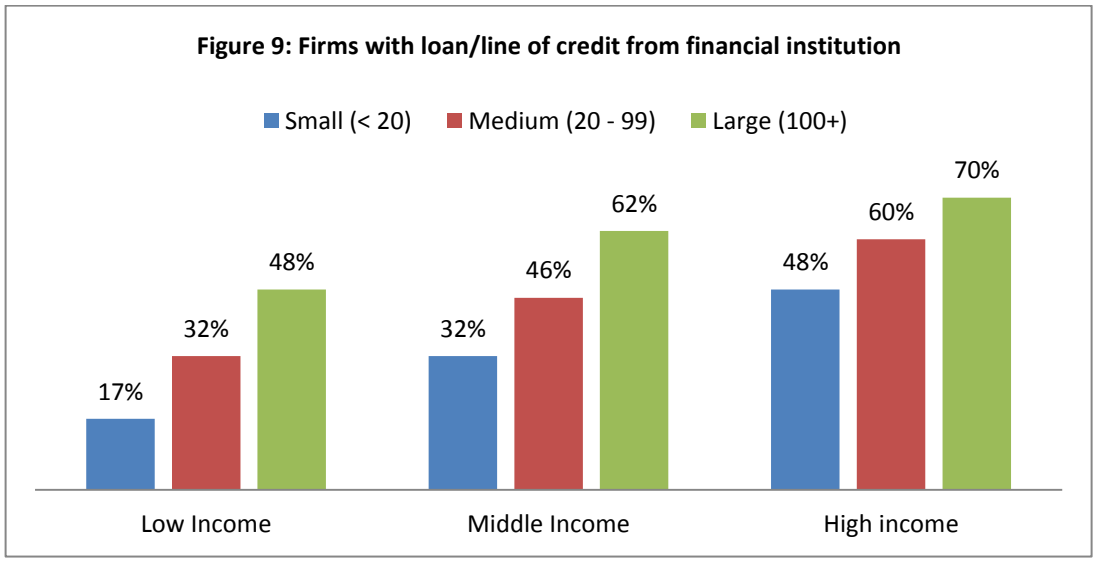
Source: IFC (2010)

As shown in Figure 8, 43 percent of small enterprises and 38 percent of medium-sized firms in low-income countries report that access to finance is a major obstacle to their growth plans. The equivalent figures in middle-income countries are 32 percent and 27 percent respectively. Financial access is perceived to be a relatively less significant constraint in high-income countries.

In a study by Gangata and Matavire (2013), thirty SMEs in Zimbabwe were surveyed. When the SMEs were asked to identify challenges that they face in business, 80 percent of the firms identified lack of capital as a major constraint. Other challenges identified included lack of inputs by 25 percent of the respondents, lack of market for products (20 percent of respondents), lack of collateral (12 percent of respondents), lack of skills and other factors by 10 percent of the respondents. The respondents were then asked whether they use financial services and 67 percent indicated that they do. This implies that a large number of SMEs are aware of

financial services available, and that they are likely to approach financial institutions for financing when there is a need. The respondents were also asked to indicate their preference for suppliers of external finance. Sixty-seven percent of the respondents said their preference for financing were financial institutions while 33 percent identified family and friends as their preferred option. When asked if they had ever sought financing from financial institutions, 53 percent answered to the affirmative. However not all applications for finance were successful as 62 percent of those who had sought finance were involuntarily excluded from accessing it. The 47 percent respondents that answered as having never sought for finance cited their lack of collateral as the reason for not bothering to apply for external finance from financial institutions.

SMEs might not be able to access finance from local banks at all, or they may face strongly unfavourable lending conditions. In general, financial access in developing countries is observed to be much lower compared to that for developed countries, and concentrated among the bigger firms as shown in Figure 9 (IFC, 2010).



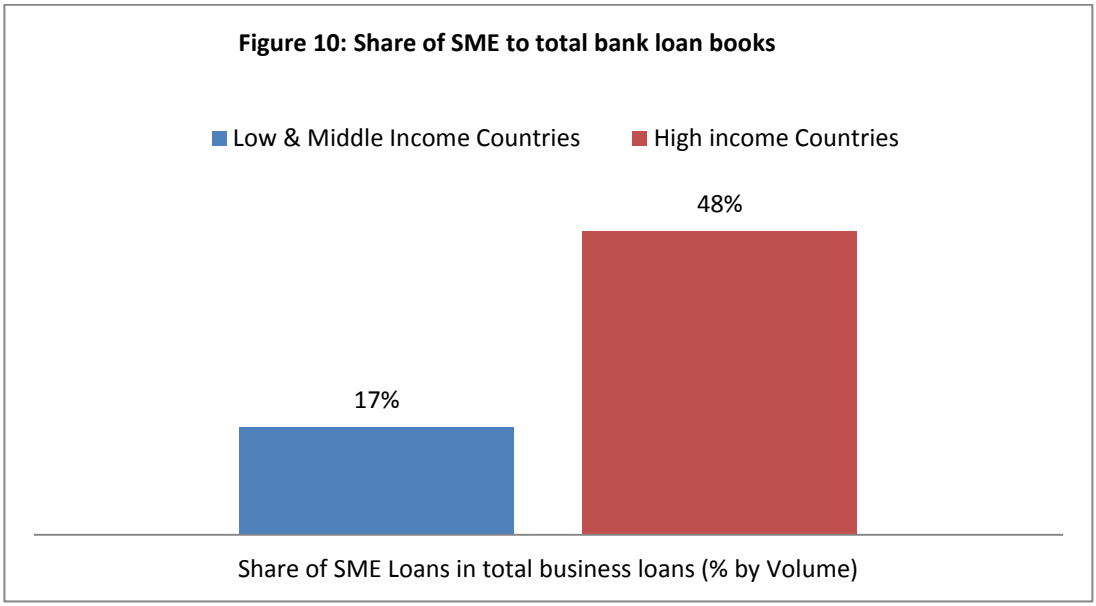
Source: IFC (2010)

Taking a look at Figure 9, only 17 percent and 32 percent of small firms in low and middle-income countries, respectively, have a loan or line of credit. This ratio is almost 50 percent in the case of high income countries. Medium-sized enterprises are also constrained in lower-income settings, although to a lesser degree. Large enterprises are generally much less constrained, even in low and middle-income countries. On average, the likelihood of a small firm having access to a bank loan in low-income countries is almost less than half of what it is for a medium-sized firm, and about a third of what it is for a larger firm. The results indicate that most of the financial loan instruments discussed in Section 2.5.2 are not readily available to SMEs in mostly developing and middle-income countries (IFC, 2010).

The foregoing discussion focused on demand-side data. Demand-side data needs to be compared to supply-side data in order to better understand the SME financing gap. Demand side information is available through survey results of the WBES

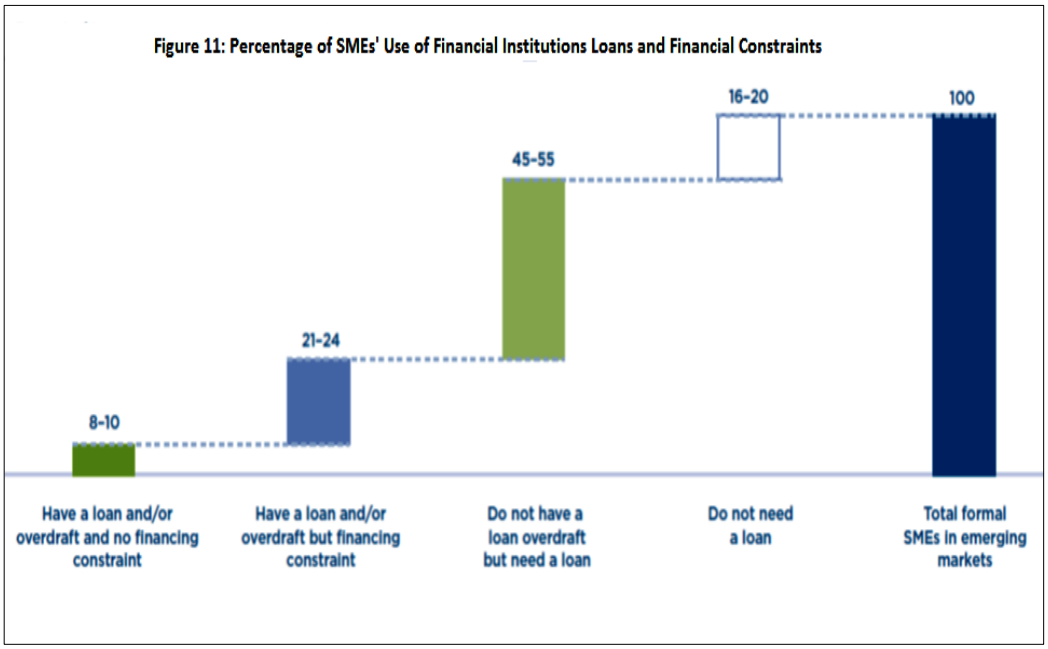
(2006 – 2009). The most appropriate supply-side information was provided through the Financial Access Survey 2010 which measures the percentage volume of SME lending by financial institutions (IFC, 2010). The supply-side survey sought to, among other things, find information on the main sources of data on SME financing, value and number of outstanding SME loans, and the number of SMEs with loans. The results are depicted in Figure 10 and Figure 11.

Figure 10: Share of SME to total bank loan books



Source: IFC (2010)

Figure 10 shows that SME loans accounted for 48 percent of total bank lending volume in developed countries, and 17 percent in developing countries. The information shows that SMEs generally struggle to access finance. However, the restrictions to access finance are less severe in developed countries as they are in developing countries.



Source: IFC (2010)

Figure 11 shows the results from a survey of SMEs in developing and emerging markets only. The number of SMEs unserved or under-served was calculated based on SME access to bank loans and overdrafts only i.e., not including SMEs' access to trade financing, leasing, factoring, and other forms of credit. Approximately 45–55 percent formal SMEs in emerging markets are unserved i.e., they need credit but do not have access to it. Between 21–24 percent of SMEs are under-served, meaning they have access to some credit but identify financing as a constraint, whereas 16–20 percent of SMEs do not need credit.

Against this background, the consistently repeated perception of SMEs about their problems regarding access to finance is a priority area of concern, which if not properly addressed, can endanger the survival and growth of the SME sector thus compromising on employment creation (Mazanai & Fatoki, 2012).

2.8. Causes of Financing Gaps for SMEs

Financing gaps for SMEs can reflect either demand-side or supply-side constraints or both. Supply-side constraints exist if appropriate sources of finance are not available on terms and conditions suitable for SMEs. Demand-side constraints exist if entrepreneurs do not make use of existing finance opportunities because of a shortage of good projects or lack of persuasive business plans (Mentortec, 2012).

There is no conclusive evidence as to whether supply-side or demand-side constraints predominate in causing financing gaps for SMEs. However, both types of constraints are examined in the section that follows.

2.8.1. Demand-side Causes of the SME Financing Gap

2.8.1.1. Information Opacity of SMEs

Compared to large firms, SME firms face less rigorous reporting requirements and a more relaxed regulatory framework. As such, information on SMEs about contracts with their labour force, their suppliers and their customers can be generally kept private. Furthermore, they are not required to produce audited financial statements that can be accessed and analysed by providers of outside finance. Some family-owned businesses, for example, are very reluctant to report strategic information such as business structure, growth opportunities, strategic orientation and even their ownership structure because they consider such information to be confidential. As a result, SME firms are often unable to convey their financial status in a credible way and they have more difficulty building a reputation to signal their high quality status

as a borrower. This impediment in the creditworthiness of SME firms is further compounded by the inherently small size of their operations and short credit history (Balling et al., 2009).

2.8.1.2. Inability to Provide Information

The availability of credit information is a basic condition of financial institutions in granting loans, whether to large or SME firms. Yet empirical evidence shows that banks normally receive balance sheets and the profit and loss accounts from only about two-thirds of their SME clients. More sophisticated documents such as budgets for the next few years, financial plans, cash-flow forecasts, information on inventories, unpaid invoices or qualitative business plan information are seldom provided by SMEs mostly because they lack the organisational capacity to provide this kind of information (Balling et al., 2009).

2.8.2. Supply-side Causes of the SME Financing Gap

2.8.2.1. Asymmetric Information

When launching a new business or an expansion project, the entrepreneur is normally better informed about the project risks than those financing it. This is referred to as asymmetric information, because the entrepreneur has superior private information about the real financial structure of the business, the real strength of the investment project and the effective intention to repay the debt. Asymmetric information prevents the lender from appreciating the correct dimensions of the project, knowing the true nature of the borrower, or their ability to influence the

borrower's behaviour after the credit is released. As a result, the lender normally raises the risk premium on loans to SMEs so as to properly account for the unknown risks. This situation may trigger credit rationing on the part of the lending institutions, meaning that the affected SMEs may not be able to obtain as much credit as they would require for their growth objectives. Conditions of credit rationing remain true even when SMEs are willing to pay a higher interest rate set by their lenders, or better still, even meet extra lending conditions to prove their solvency (Balling et al., 2009).

2.8.2.2. High Interest Rates

The problem of asymmetric information results in lending financial institutions charging exorbitant interest rates on loans to SMEs in order to compensate for the high credit risk. The borrowing SMEs may not be in a position to afford the expensive loans and therefore will opt not to take up the loans (Balling et al., 2009).

2.8.2.3. Insistence by Banks on Collateral

Financial institutions often base their lending decisions on the amount of collateral available due to the existence of asymmetric information. They are more likely to approve loans to firms that are able to provide collateral and to those firms that have established long term relationships with lenders. Collateral acts as a screening technique that reduces the risk of lending for commercial banks. By pledging assets, an SME firm provides assuring signals to the lender of capital about the feasibility of its project and its intention to repay. However, small firms remain disadvantaged in that regard, due to the fact that they lack collateral security and a proven credit track

record. Few SMEs, especially in the early stages of growth, possess significant unencumbered assets on their balance sheet that can be used as loan collateral. Providing collateral is not an easy task for SMEs, especially if the bank calls for real estate as collateral. As such the affected SME will not be able to take up the loan (Mazanai & Fatoki, 2012).

2.8.2.4. High Administrative Costs on Small Loans

SMEs typically require relatively small loans compared with large firms. The transaction costs associated with processing and administering loans are however, fixed and banks often find that processing small SME loans is not viable. They lack the techniques, such as credit scoring, to increase volume and lower costs. Since most of the administrative costs of lending are fixed and independent of the size of the loan administered, the principle of economies of scale arise. The higher the size of the loan the lower the unit cost of the loan, and conversely, the smaller the amount of the loan, the higher will be the unit cost of extending the credit. Smaller loans are more expensive for banks to administer and they tend to shun issuing such loans, opting rather to deal with larger firms that traditionally seek larger amounts of credit (Mazanai & Fatoki, 2012).

2.8.2.5. Poor Financial Infrastructure

Financial infrastructure includes the informational, contractual, and transactional frameworks that provide the basis for financial intermediation. Financial infrastructure as identified here includes accounting and auditing standards, credit reporting systems, collateral and insolvency regimes, as well as payment and

settlement systems. The design of financial infrastructure aims at reducing the information asymmetries and legal uncertainties that increase risk to lenders and constrain the supply of finance. When there is poor financial infrastructure development, financial access for firms is constricted especially for SMEs, due to information asymmetry and opacity (IFC, 2010).

2.8.2.6. Lack of an Enabling Legal and Regulatory Framework

The legal and regulatory framework for finance is the collection of laws and secondary regulations on financial institutions and instruments that define the scope and depth of all the financial institutions, instruments, and markets operating in a given country. This includes, for example, banking, insurance, leasing, factoring, and security laws, as well as the respective bodies of secondary regulations and guidelines. When there are ineffective legal and regulatory frameworks, SMEs tend to find it difficult to access the finance they require because there is a limited range of financial institutions and instruments, there is no promotion of financial market development and competition, and financial institutions and agents are not subjected to sound prudential rules and codes of conduct (IFC, 2010).

2.8.2.7. Bank Bureaucracy

Banks often employ lengthy and tedious loan processing procedures. In some banks, the process from submission, through approval, to draw-down of funds could take several months. This, coupled by stringent documentation requirements, could have serious detrimental effects on the ability of SMEs to access the finance they need.

2.9. Gaps Emerging from Previous Research

From reviewing the literature cited in the preceding sections, it is clear that there are gaps which this study will attempt to address. These gaps are listed as follows:

1. Most literature examine many aspects of finance for SMEs and financial inclusion in developed countries, with a few examining non-financial issues relating to SMEs in Namibia. None of the studies examine the Khomas region as the economic and administrative hub of Namibia, specifically examining how the SME sector can be aided to increase its economic footprint in the region. Increased economic activity would lead to more employment creation and serve as an example for replication in other regions. This study will attempt to explore this possible impact when the region's SMEs can access all the finance they require for growth.
2. The international and local literature reviewed do not capture the most recent definition of a Namibian SME as given by MITSD (2015). This means the findings of such literature may not relate to the current Namibian context of SMEs. This study will attempt to contextualise contemporary issues of access to finance for Namibian SMEs as a catalyst for employment creation in the Khomas region.
3. The are no studies propagating a model that can be used to forecast employment creation by SMEs in the Khomas region, given any level of investment for business growth. This study will attempt to adopt such a model for use in forecasting the dependent variable, given any level of investment in the independent variable.

4. Given the nature of literature reviewed, there are no suggestions for local and practical ideas to help SMEs in the Khomas region access finance. This study will offer relevant recommendations that can be applied to improve access to finance for SMEs in the Khomas region.

2.10. Summary

Empirical research data has shown that in today's modern economy, SMEs are an important role player in employment creation. This is especially true in developing countries like Namibia that are faced with high unemployment levels. However, SMEs themselves identify access to finance as one of the major impediments to their quest for growth. The result is that they are not able to realise their full growth potential and their ability to generate significant employment opportunities.

CHAPTER THREE

METHODOLOGY OF RESEARCH

3.1 Introduction

This chapter provides a framework of the study design, population, the pilot study, sample and sampling techniques, research instruments, data collection procedures, data analysis and research ethics. The implementation of an appropriate research methodology was necessary to ensure that the research objectives were adequately addressed.

3.2 Research Design

The study seeks to explore the impact of access to finance by SMEs on employment creation in the Khomas region. Employment creation is the dependent variable and is defined as a measure of the net increase in employment levels over a two-year period (Ayyagari et al., 2011). In this study employment is measured as the employment created by SMEs at the end of December 2015. Access to finance is the independent variable and it is defined as a business condition wherein SMEs are able to obtain the funds they need to invest and grow through, among other things, developing new products or production processes (Ayyagari et al., 2011). Access to finance is decomposed into its several component variables as follows:

1. Bank credit. This is a variable indicating whether the firm had a line of credit from a bank or not at the time of the survey. The variable specifically measures the amount of the bank loan received by each SME.
2. Loan interest. This is a variable identifying the average interest rate charged by banks on each loan accessed by the SMEs. The average interest rate ranged from 9 percent to 13 percent.
3. Loan conditions. This is an ordinal variable aggregating the number of conditions attached to each loan by financial institutions. There were a total number of eight loan conditions. The higher the number of conditions identified to a loan, the more inaccessible that loan was considered.
4. Credit constraint. This is a dummy variable identifying the number of SMEs in the survey who considered lack of access to finance as a business growth constraint. The variable was based on a "yes" or "no" response. The "yes" response represented existence of the constraint and "no" response represented non-existence of the constraint. Eighty-nine percent of the respondents answered "yes."
5. Bank relations. This is an ordinal variable indicating the perception of SMEs as regarding relations with their respective banks. On a scale of 1 – 4, "bad" was the lowest score, and "excellent" was the highest score.
6. Ease of access. This is an ordinal variable identifying the opinion of SMEs regarding ease of access to bank finance in the Khomas region. On a scale of 1 – 3, 1 represented "difficult access" to finance and 3 represented "easy access."
7. Banking support. This is a dummy variable indicating whether each SME considered the banking sector as being supportive to the growth objectives of

SMEs in the Khomas region. The variable was based on a "yes" or "no" response. The "yes" response showed SME perception of bank support and the "no" response showed SME perception of lack of bank support. Ninety-seven percent of the respondents answered "no."

The study used the mixed methods approach, which is an integration of the quantitative and qualitative approaches. The mixed methods approach allows for pragmatism during a research, opening the door to different perspectives, divergent assumptions, as well as to different forms of data collection and analysis (Creswell, 2003). According to Creswell (2003), the mixed methods approach is a more superior method to either the quantitative or the qualitative approach for the following reasons:

1. It enables a comprehensive analysis of the research problem and leads to a better understanding of the research problem.
2. Because of its composition, it ensures that biases and weaknesses inherent in any single method will be neutralised or cancelled by the strengths of the other.
3. It provides a means for triangulating data sources, thereby converging qualitative and quantitative approaches. For example, the results from one method can help develop or inform the other method. Alternatively, the converged methods can serve a transformative purpose of advocating for the advancement of marginalised groups like SMEs in the Khomas region.

The mixed methods approach was most appropriate in this study because the nature of the research problem and the resultant research objectives required the collection

and analysis of both quantitative and qualitative data, followed by recommendations on how to improve access to finance to the SME sector in the Khomas region. Quantitative and qualitative data was collected from both SMEs in the Khomas region (the users of finance) and suppliers of finance (the banking institutions in the same region).

To address the quantitative aspect of the research, a questionnaire was administered in a survey on manufacturing SMEs in the Khomas region. The quantitative approach was designed to address the first objective by seeking to find out the nature of the link between access to finance by manufacturing SMEs in the Khomas region and employment creation. In addition, the quantitative approach was used to address the second objective that sought to measure the full extent to which manufacturing SMEs in the Khomas region contribute to employment creation when they are able to access finance.

The qualitative approach was used during structured personal interviews with Namibian banks that operate a department dedicated to the SME sector. Qualitative data was also collected through specific questions in the survey instrument administered on SMEs. The qualitative approach sought to address the third objective by identifying measures that can help to improve access to finance for manufacturing SMEs in the Khomas region, so that in turn they can play their role in creating employment opportunities.

The survey and structured personal interviews ran concurrently for five weeks and at the end, both sets of collected data were analysed and integrated to form the basis of the study's findings.

3.3 Population

The population consists of manufacturing SMEs operating in the Khomas region that are registered with the MITSD. Nzitunga (2009) puts this population of SMEs at 1,050. In terms of the guidelines given by the MITSD of the Government of the Republic of Namibia, a firm is categorised as SME if it employs up to a maximum 100 people and does not exceed annual turnover of NAD 10 million.

In terms of the supply side of finance, the population consists of banks operating in Windhoek which have in their structures, a department dedicated to offer financial services to SMEs. These banks are Bank Windhoek, Development Bank of Namibia (DBN), First National Bank (FNB) Namibia, SME Bank, and Standard Bank Namibia. All five banks were interviewed because of the small population size.

3.4 Pilot Study

A pilot study was undertaken over a five day period. It was originally planned to interview 30 SME respondents. Five would be drawn from each of the industrial strata of construction, food and beverage processing, agricultural production, textile processing, chemical processing and engineering. However, the identified SMEs were not fully cooperative. Some refused to cooperate altogether, while others only

agreed to participate after being reassured that the data collected, being private business information, would be used in an ethical manner for purposes of the academic research only. In the end, only twelve SMEs participated in the pilot study.

3.5 Sample

The survey's initial target was to draw 102 SME respondents, representing approximately 10 percent of the population of SMEs in the Khomas region. In drawing this sample size, manufacturing SMEs in the Khomas region were grouped into six industrial strata. The strata are construction, food and beverage processing, agricultural production, textile processing, chemical processing, and engineering. The plan was to include participation in the survey by 17 SMEs from each of the six industrial strata. However, during the field visits, cross-sectional firm-level data were collected in a survey of only 63 manufacturing SMEs from the Khomas region. In as far as data collected relates to the two study variables, a two year cut-off history was used. This means the data relates to the two-year period 2014 to 2015. The data was used to test the relationship and strength between access to finance by manufacturing SMEs and employment creation in the Khomas region.

Output from the pilot study had shown that the survey would face a challenge of attaining the targeted number of SMEs from the six industrial strata, due to the concern of SMEs about the credibility and intentions of the survey. To counter this challenge, letters were written and sent by email to Namibia Chamber of Commerce and Industry (NCCI) and Namibia Manufacturers Association (NMA). The letters (Annexures 2 and 3 respectively) requested the assistance of the respective

organisations in providing a list of their respective members and contact details. It was the considered opinion that with an official membership list of SMEs from these reputable organisations, accompanied by a "Letter of Introduction" from the research supervisor (Annexure 1), the survey's authenticity would be enhanced among the population of SMEs and banks. Furthermore, the cooperation of NCCI and NMA in the survey would have likely addressed the concerns of potential SME respondents regarding whether business data collected would be treated confidentially and used entirely for academic research purposes.

The survey of SMEs in the Khomas region took five weeks to complete against a budgeted time frame of four weeks. Convenience sampling was used to draw the respondents non-sequentially using data obtained from the City of Windhoek showing SME concentration centres within the municipal area of Windhoek. It is worth noting though, that NCCI and NMA did not avail assistance in the form of their respective membership lists as requested in the correspondence of Annexures 2 and 3 respectively.

Finally, the study encountered a problem in designing a systematic sampling frame for SMEs in the Khomas region and by extension, of using a systematic sampling technique. This was mainly a result of the non-cooperation of NCCI and NMA, as well as the result of the non-availability of a current directory listing of SMEs in the Khomas region, let alone in Namibia. Therefore, it was determined that convenience sampling would be the most appropriate technique to use, since it was most practical

to interview respondents who are readily available using a non-systematic sampling technique.

3.6 Research Instruments

The primary instrument used in the survey of manufacturing SMEs was a questionnaire containing open- and closed-ended questions as shown in Annexure 4. By means of the pilot study, the questions were refined for clarity and the questionnaire's format was redesigned so as to make it easy to use by the respondents.

The questionnaire was divided into two sections. The first section was designed to gather data about the organisational structure of the SMEs such as their age, their form of ownership, and nature of their operations. This section helped to classify participating SMEs into one of the six industrial strata. The second section of the questionnaire consisted of questions that would provide operational data about the firms such as, past and present financing structure, average annual revenue, past and present attempts to access finance, amount of finance required, outcome of such attempts to raise finance, potential cost of capital, business growth plans, future external finance needs, past employment history, projected employment level with or without financing, and specific questions looking at challenges in accessing finance.

Structured personal interviews were held with key bank personnel in order to collect supply-side data from banks. These key personnel are the respective managers of SME departments in each bank, together with the head of lending unit within the

SME department. As shown in Annexure 5, questions for the structured interview were open-ended. The questions sought to extract data from the suppliers of finance that included, factors causing SMEs to fail to access finance, different bank financing options available, internal and market cost of finance, current levels of finance given to SME firms in comparison with large firms, and suggestions to help SMEs improve their profiles so that they are better placed to access finance more easily.

3.7 Procedure

In commencing the survey, an enquiry was made at the City of Windhoek town offices, seeking for directions to all SME concentration centres in the city. Thereafter, visits were made to the SME concentration centres, ideally seeking to interact with SME owners, or in their absence, managers in charge. The survey was conducted over a period of five weeks and responses were recorded by the interviewer in the spaces provided on the questionnaire. At completion of the survey, the questionnaires were collated and coded in preparation for data capture and analysis.

In the interviews with lenders of finance, Standard Bank Namibia was the first to be interviewed. The interviewer was able to get referrals from Standard Bank Namibia using the informal network of peers within the SME banking sub-sector. It was thus possible to move from one interviewee to the next until all banks were interviewed. The interviews were conducted by asking pre-determined questions and the responses were captured on the interview form.

3.8 Data Analysis

Data was captured in the Statistical Package for Social Sciences (SPSS) software to aid with quantitative data analysis. Using the SPSS software, simple linear regression analysis was applied on a cross-section of firm-level data, to establish the relationship existing between access to finance by manufacturing SMEs and their ability to create employment in the Khomas region. Specifically, bivariate regression analysis was used to measure the linear relationship between access to bank loans by manufacturing SMEs in the Khomas region and the level of employment they create. In addition, multivariate linear regression analysis was applied to test the impact of various measures of access to bank finance by manufacturing SMEs on employment creation. The multivariate regression analysis was applied using the model given as:

$$\mathbf{Y} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + e ,$$

Further information is given in Annexure 10, explaining this model in greater detail.

The Pearson Correlation Coefficient tool in SPSS was applied to measure the strength of the link between access to finance by manufacturing SMEs and employment creation, while the Coefficient of Determination was used to determine the strength of the relationship between the independent and dependent variables. Further quantitative data analysis included descriptive statistic measures such as the arithmetic mean, mode, range, variance, and standard deviation. Microsoft Excel software was used to present diagrams, charts and tables.

Qualitative data collected from the banks and from SMEs was analysed using the inductive strategy approach. This approach helped to uncover common relationships or patterns existing from the responses by condensing extensive and varied raw text data from different sources into a summary format (Creswell, 2003). The approach enabled data to be interpreted through generalising from the pattern of responses. In applying the inductive strategy approach, the following steps were taken:

1. Preparation of raw data files by data cleaning. This involved checking the data on completed questionnaires for any patent errors before capturing the raw data against each respective question in a common format on Excel. The data thus presented in a common format made it simpler to compare data responses for each question.
2. The next step was to do repeated reading of text followed by in depth review of response data. This step enabled the researcher to obtain familiarity with the content of the data, thereby getting more understanding of the emerging trends and details of the data.
3. The responses were then categorised so that similar responses were grouped in their respective categories. Particular attention was given to the frequency of each type of response and their influence on the size of each category. In categorising the responses, it was necessary to note that some sections of text were coded in more than one category and that some text failed to be assigned any category.
4. There was continuous revision and refining of category headings to keep them relevant to the emerging trends of the data.

By scrutinising responses across respondents for each question, and identifying similarities in those responses, it was possible to determine common reasons for SMEs failing to access finance and then come up with recommendations to improve ease of access for SMEs.

3.9 Validity and Reliability

3.9.1 Validity

The validity of a study is confirmed if the method, approach and technique used for measurement of a variable accurately measures it. Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are (Golafshani, 2003). Validity of this study's findings was achieved by:

1. The study made use of SPSS to encode and analyse data. The software has in-built control measures to validate data and produce accurate information.
2. The multiple regression model (Annexure 10) used in this study was adopted from the study by Kurdyla (2013). The model has been used in previous research and proven to produce valid results.
3. Multiple regression model gave a value of 6.6 for SEE compared to the mean value of 14. With an F-value of 2.953 and a rejection rate of 2.54, the model's fit was found to be suitable for forecasting employment opportunities created by SMEs in the Khomas region given any level of access to finance.

3.9.2 Reliability

Reliability refers to consistency in the collection, analysis and interpretation of data. It is a measurement of variability of results over repeated trials (Golafshani, 2003). Golafshani (2003) further shows that reliability can be defined as the extent to which results of a study are consistent over time and give an accurate representation of the total population. If the results of a study can be replicated under a similar methodology, then the instrument used in the study is considered reliable.

Reliability of this study's results was achieved by:

1. Test and retest of the instrument. During the pilot study the instrument was tested on a group of SMEs in the Khomas region. After the pilot study, the questions were refined for clarity and the questionnaire's format was redesigned to make it easy to administer in the main survey.
2. Data triangulation. The analysis of literature reviewed was compared with the results of data analysis on SME and bank responses. This was complemented by the search for data elements that seemed to contradict and seek any emerging patterns in the evidence gathered.
3. The researcher personally administered the questionnaire on respondents to clarify questions that were not clear to respondents.
4. The sample was stratified into industrial strata of the Khomas region. The strata were construction, food and beverage processing, agricultural production, textile processing, chemical processing, and engineering. The objective of stratifying

the SMEs was to draw a sample of SMEs that is representative of the SME profile in Khomas region.

5. The research instruments (Annexure 4 and 5) included a "Statement of Research Ethics" on their first pages, attesting to the ethical considerations of the research. This ensured that respondents to the survey were put at ease to make truthful and complete responses.

3.10 Research Ethics

In this study, ethical considerations were strictly followed in order to protect the privacy of respondents and their responses. That was partly made possible by ensuring that all respondents participated voluntarily. Their responses were treated in confidence and only used to advance the cause of the research. In no way were the responses used to reveal any business knowledge or trade secrets to third parties, except where they were shared with the research supervisor only for academic purposes. Each respondent was given a copy of the research permission letter (Annexure 1) authorising the student to conduct fieldwork.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This study sought to establish the relationship between two variables, namely access to finance by manufacturing SMEs (the independent variable) and employment creation in the Khomas region (the dependent variable). Furthermore, the study sought to determine the impact on employment creation as a result of manufacturing SMEs in the Khomas region accessing bank finance for their growth objectives. The study's final objective was to address challenges faced by SMEs in accessing finance.

This chapter focuses on the analysis and discussion of data collected through the research instruments. In discussing the research findings, comparisons will be made between results from the research fieldwork and the literature as reviewed in chapter two. The comparisons will be useful in making recommendations that will help to improve the impact of access to finance by SMEs on employment creation, specifically by addressing challenges faced by SMEs in the Khomas region in accessing finance.

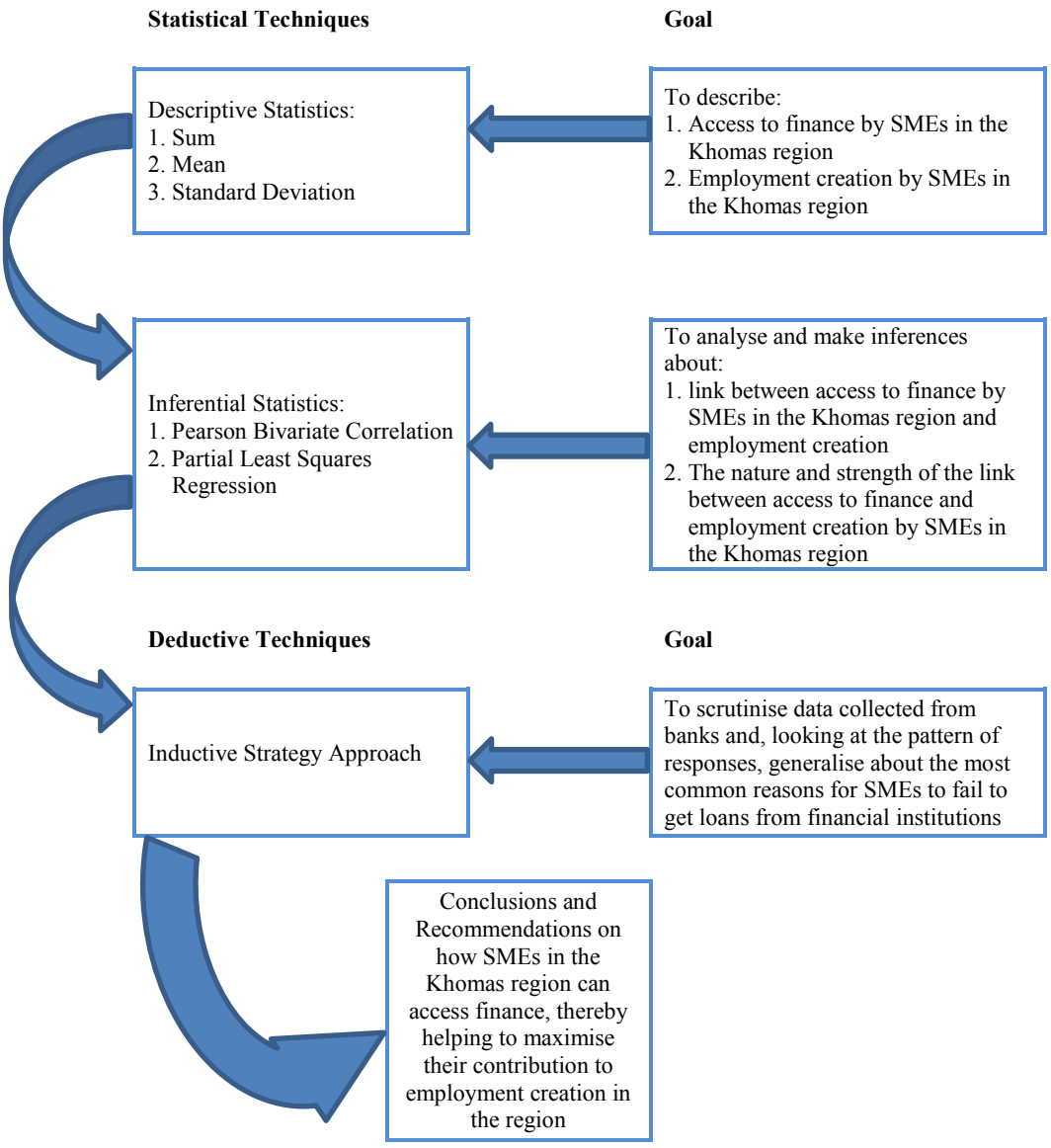
4.2 Data Collection and Analysis

The aim of collecting primary data was to obtain facts and views from two types of respondents, these being manufacturing SMEs in the Khomas region who are users of finance, and bank financial institutions who are the suppliers of finance.

Data collected from manufacturing SMEs was used firstly, to address the research objective that seeks to establish the nature of the link between access to finance by manufacturing SMEs in the Khomas region and employment creation. Secondly, data collected from SMEs was used to measure the impact on employment creation by manufacturing SMEs in the Khomas region when they are able to access finance. Finally, using the content analysis approach, data collected from bank financial institutions was integrated with survey data in order to address the third objective that seeks to identify measures for improving access to finance for SMEs in the Khomas region.

The quantitative data thus collected was analysed using the statistical package SPSS. Results of the statistical analysis together with those of qualitative content analysis were used to draw conclusions and make recommendations that address the research problem. Figure 12 gives a graphical illustration of the data analysis described in the foregoing paragraphs.

Figure 12: Illustration of data analysis steps and goals



4.3 Pilot Study

Time constraints and the general mistrust of targeted SMEs resulted in only 12 SMEs participating in the pilot study, thereby yielding a 40 percent response rate. The low response rate produced an imbalance in the representation of industrial strata as shown in Table 3.

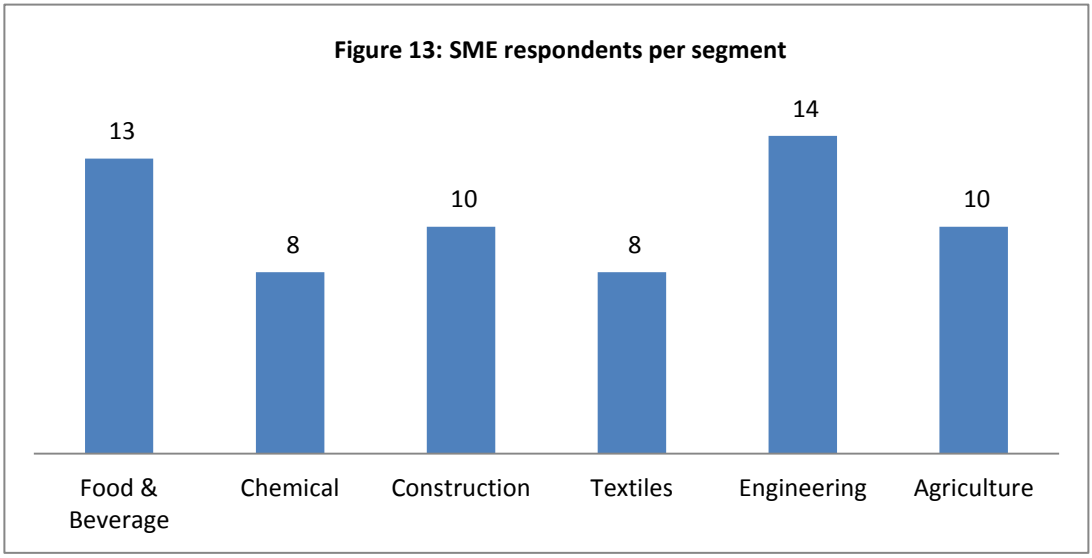
Table 3: SME pilot study respondents					
Industrial Strata	**Actual Respondents**	**Percentage Representation**		**Targeted Respondents**	**Targeted Representation**
Textile processing	2	17%		5	16.7%
Chemical processing	2	17%		5	16.7%
Food & Beverage processing	4	33%		5	16.7%
Engineering	2	17%		5	16.7%
Construction	1	8%		5	16.7%
Agricultural production	1	8%		5	16.7%
Total	**12**	**100%**		**30**	**100%**

Source: 2015 pilot study on manufacturing SMEs in the Khomas region

The aim of the pilot study was to test the effectiveness of the questionnaire that would be administered on SMEs in the main survey. The output of the pilot study was used to refine the design of the questionnaire, thus ensuring the completeness and clarity of its research questions.

4.4 Profile of Surveyed SMEs

The survey yielded 63 manufacturing SME responses against a target of 102. This represents an approximate 62 percent sampling response rate, and the respondents are an approximate 6 percent of the population of SMEs in the Khomas region. The lower than expected response rate emanates from the fact that potential SME respondents were generally reluctant to participate in the survey due to the unfounded fear of exposing their sensitive business information to a bogus academic survey. Figure 13 summarises the survey respondents according to manufacturing segments.



Source: 2015 survey on manufacturing SMEs in the Khomas region

The actual yield of SME responses created an imbalance in the sample mix of industrial segments as shown in Table 4.

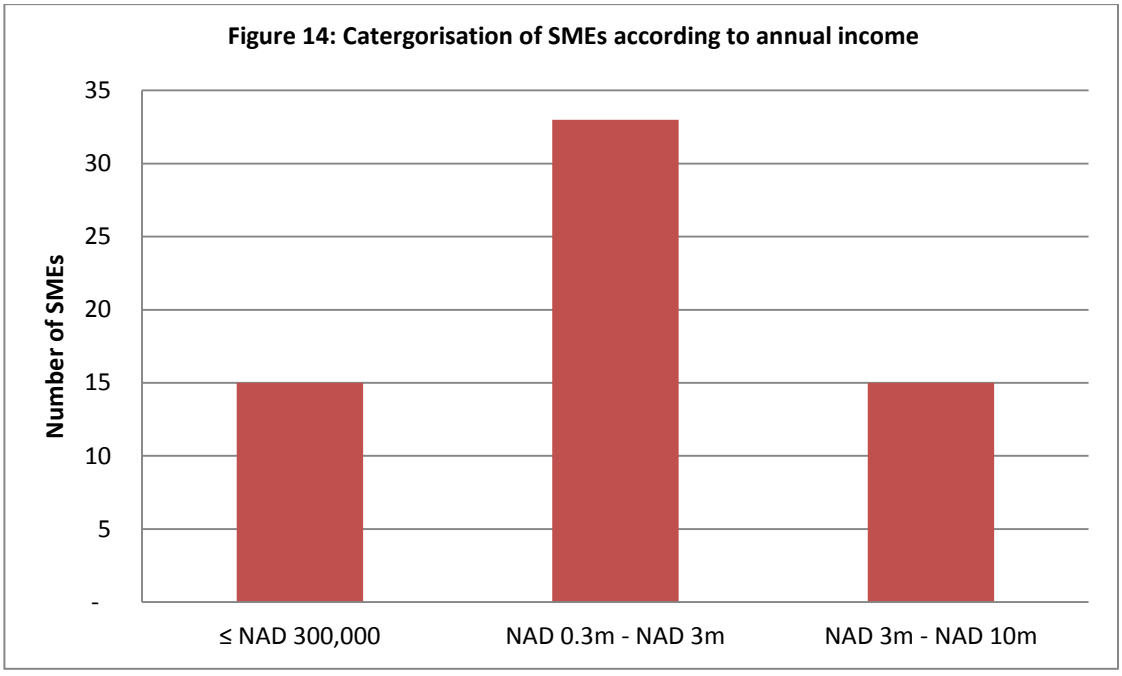
Table 4: SME survey respondents

Industrial Strata	Actual Respondents	Percentage Representation		Targeted Respondents	Targeted Representation
Textile processing	8	13%		17	16.7%
Chemical processing	8	13%		17	16.7%
Food & Beverage processing	13	21%		17	16.7%
Engineering	14	22%		17	16.7%
Construction	10	16%		17	16.7%
Agricultural production	10	16%		17	16.7%
Total	**63**	**100%**		**102**	**100%**

Source: 2015 survey on manufacturing SMEs in the Khomas region

4.4.1 Categorisation According to Annual Income

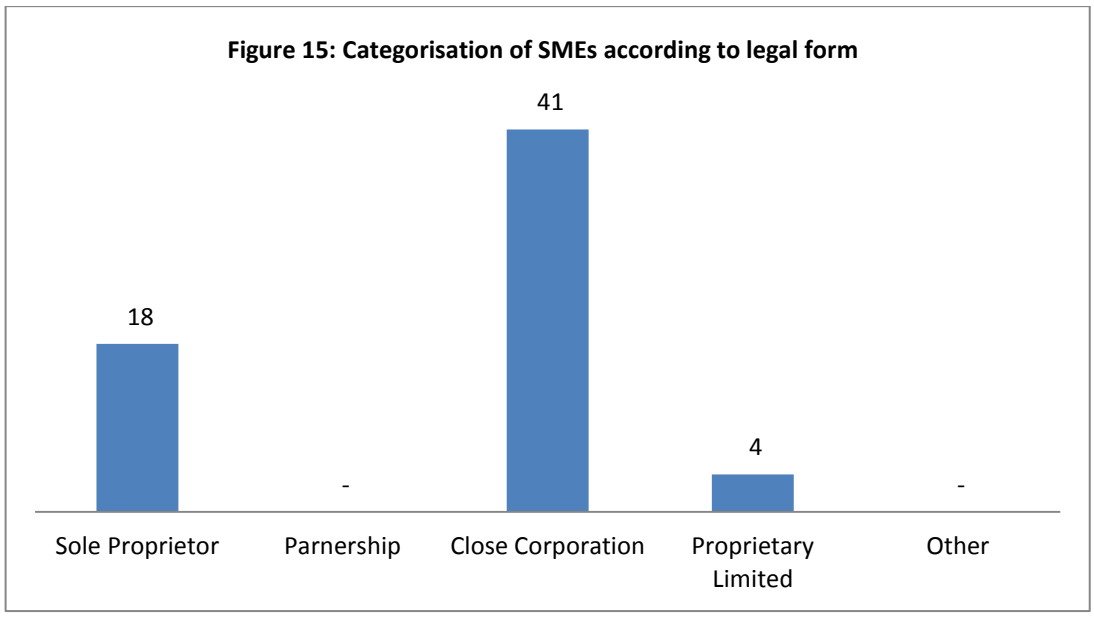
An analysis of the data on SME respondents categorises them according to their annual turnover and staff levels in line with the guidelines of the MITSD. Annexure 6 presents a profile of the SME respondents comparing their annual turnover to their respective staff levels. From this data-set, it can be seen that it is not always the case that the annual turnover threshold of an SME ties in with its respective staff level band as given by the MITSD. That means the MITSD needs to refine its latest SME policy guidelines so as to make the categorisation of practical use. Notwithstanding the foregoing, Figure 14 categorises the surveyed SMEs according to their annual turnover.



Source: 2015 survey on manufacturing SMEs in the Khomas region

4.4.2 Categorisation According to Legal Form of Business

In addition to the categorisation of SMEs according to their annual turnover, it was necessary to also give a breakdown according to their legal form of business. It is deduced from Figure 15 that the dominant form of business ownership among SME enterprises in the Khomas region is the close corporation. Of the total 63 respondents, 41 were close corporations, representing 65 percent of the responses. Sole proprietors represented 29 percent and proprietary limited companies represented the remaining 6 percent of responses. In this survey, there was no representation of SMEs operating as partnerships or any other form of business ownership.



Source: 2015 survey on manufacturing SMEs in the Khomas region

4.4.3 Employment Created by SMEs

According to Ayyagari et al. (2011), employment creation is measured as the net increase in employment levels over a period of two years or more. In the context of a developing country like Namibia, the job opportunities created should ideally be suited to absorb people with low levels of education and skills training as they form the majority of the unemployed workforce (Kutazo, 2008).

SMEs that participated in the survey are credited for creating a certain level of employment in the Khomas region. Findings from the survey reveal that the level of employment created varies from industry to industry, taking into account the time since those firms were incorporated and the amount of their start-up income. Annexure 7 presents data about the length of operation of SMEs surveyed, sources of start-up capital at incorporation, and levels of employment created since inception. Table 5 however, provides summary information showing the growth progression of SMEs in terms of staff employment, using the categorisation of SMEs according to guidelines given by the MITSD.

Table 5: Employment generated by SMEs

Categorisation of SMEs by MITSD	Number of SMEs at Inception	Current Number of SMEs	Employment at Inception	Current Employment	Staff Lay-Offs
Micro Firms: 1-10 Employees	49	21	248	152	27
Small Firms: 11-30 Employees	14	33	213	651	35
Medium Firms: 30 Employees+	0	9	0	344	0
Total	**63**	**63**	**461**	**1,147**	**62**

Source: 2015 survey on manufacturing SMEs in the Khomas region

An analysis of the data in Table 5 using the categorisation of SMEs according to number of employees follows. At incorporation, 49 SMEs fell in the micro firm band and had created 248 jobs, while 14 were small firms that created 213 jobs. None of the firms surveyed were categorised as medium entities at inception. In total, the 63 respondents created 461 jobs when they commenced business. Since inception, the respondents grew their staff levels by 686 jobs, with a current total employment level of 1,147 jobs. This in turn means that most of the firms moved to higher levels of SME categorisation since inception. Whereas 49 entities were micro firms at inception, the number that still remains in this category has diminished to 21. Small firms have increased in number to 33 and medium firms are now nine. In terms of their contribution to employment numbers, micro firms now contribute 13 percent, small firms 57 percent and medium firms 30 percent to the pool of workers.

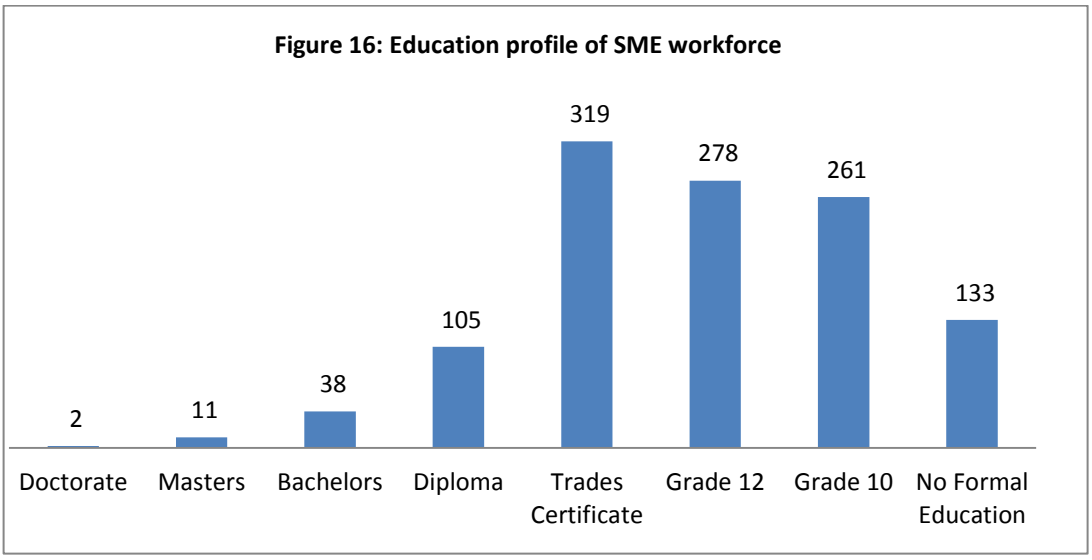
The last set of information relates to staff retrenchment programs that the respondents were forced to undertake since their inception. It will be seen that six micro firms retrenched 27 workers and three small firms have done the same for 35 workers. Reasons cited for retrenching workers were predominantly a downturn in business fortunes, with only one citing restrictive labour practices. If the workers had not been laid-off, the current employment level would have been higher by an additional 62 jobs.

4.4.4 Skill Levels of SME Workforce

Developing economies, of which Namibia is one, are characterised by high income inequalities, high unemployment levels especially for the middle to lower working class and low education levels of the workforce (Mwinga, 2012).

Figure 16 displays profiles of the workforce manning the operations of SMEs that participated in the survey. It can be seen that the percentage of workers who hold a bachelor degree and higher is very small, accounting for approximately 4 percent of the total workforce. In comparison, holders of diploma, trades and Grade 12 certificates account for the biggest ratio at 61 percent of the workforce. Workers who hold a Grade 10 certificate or lack formal education account for 35 percent of the workforce. The information provided in Figure 16 shows that the majority of people working for survey respondents either are not adequately educated or hold low levels of education. In addition to their inadequate/low education levels, data analysis also shows that skills distribution among the 1,147 people working for the respondents is as follows: 41 percent are skilled and 59 percent are unskilled.

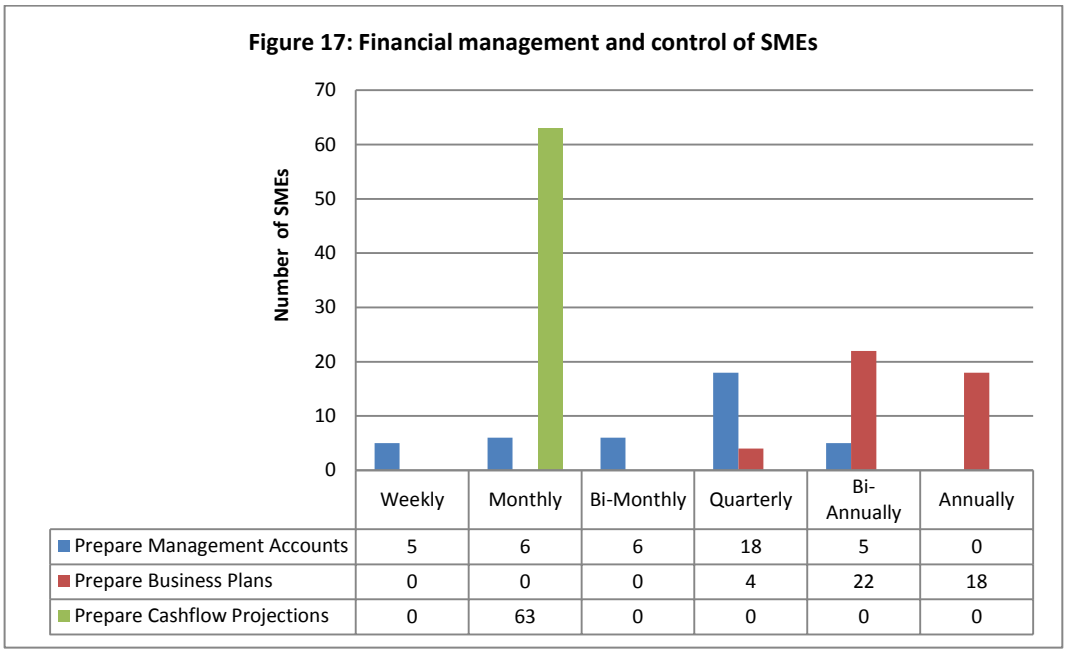
This information corroborates with results of the 2014 NLFS which showed that Namibia is faced with a labour force that is predominantly unskilled. That survey depicted the labour force as having only 8.2 percent with tertiary education, 21 percent with Grade 12 education and 70.8 percent either have no education or educated up to Grade 10 level (NSA, 2015).



Source: 2015 survey on manufacturing SMEs in the Khomas region

4.4.5 Financial Management and Control of SMEs

When an SME seeks a loan from a bank it should follow a formal loan application process. The level of formality may differ but at a minimum, an application form must be filled with additional documentation required in support of the loan application. The respondents were asked whether they operate financial management systems and make use of external consultants when making loan applications. Out of 63 SMEs, 37 percent said they use external accountants to support their financial management function and 63 percent said they prepare annual financial statements. None of those who prepare annual financial statements subject the same to an audit. The rest of the responses are summarised in Figure 17.



Source: 2015 survey on manufacturing SMEs in the Khomas region

It is seen from Figure 17 that 63 percent of SMEs surveyed said they prepare management accounts, 70 percent prepare business plans infrequently and 100 percent prepare cashflow projections on a monthly basis. To the 50 respondents who applied for a bank loan in the past five years, a question was asked whether they used external consultants to assist in preparing business plans and 23 answered to the affirmative. Of the same respondents, 46 said they were asked by the banks to provide additional information in support of their loan application, with only one failing to provide the requested information.

4.5 Access to Finance for SMEs

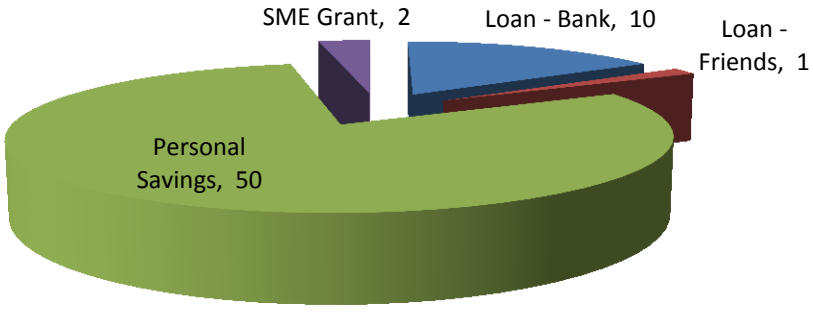
Certain research questions posed to respondents sought to extract objective data regarding the ease of access to finance by SMEs. In that regard, the research instrument asked questions about the sources of finance at start-up, current types and

usage of external finance, number of bank loan applications made since incorporation and success rate of loan applications. The data thus collected was used to analyse the ease with which SMEs find it to access bank finance.

4.5.1 Sources of Start-up Capital

Figure 18 shows that of 63 respondents, 50 SMEs financed the start-up of their operations using personal finances, thus making up 79 percent of the responses. In contrast, 16 percent of respondents (ten in total) funded their start-up operations from bank loans. The remaining 5 percent of respondents started their operations using grants reserved for SMEs and with a loan from friends. This information ties in with prior research findings alluding to the fact that in the developing world, the majority of SMEs struggle to access finance, whether it is for use in starting new operations, expanding business operations or for working capital requirements.

Figure 18: Sources of start-up capital for SMEs



Source: 2015 survey on manufacturing SMEs in the Khomas region

4.5.2 Current Sources of External Finance

When the respondents were asked whether they currently use external sources of finance, regardless of their source of start-up capital, 76 percent of respondents answered to the affirmative and 24 percent to the negative. A follow-up question asked the respondents answering to the affirmative, to identify their current sources of external finance. The respondents were allowed to choose more than one source from six possible finance sources including supplier credit. A display of the results is shown in Table 6 and it can be seen that supplier credit is the most used external source of finance with 67 percent survey respondents stating that they use at least this form of finance. Next in rank order were bank loans used by 62 percent of respondents, followed by 40 percent respondents who stated that they currently use loans from relatives and friends as a source of finance. The current financing matrix of survey respondents also showed that SME grants, selling business equity and assets each represent 5 percent of their finance sources.

Table 6: Sources of external finance for SMEs

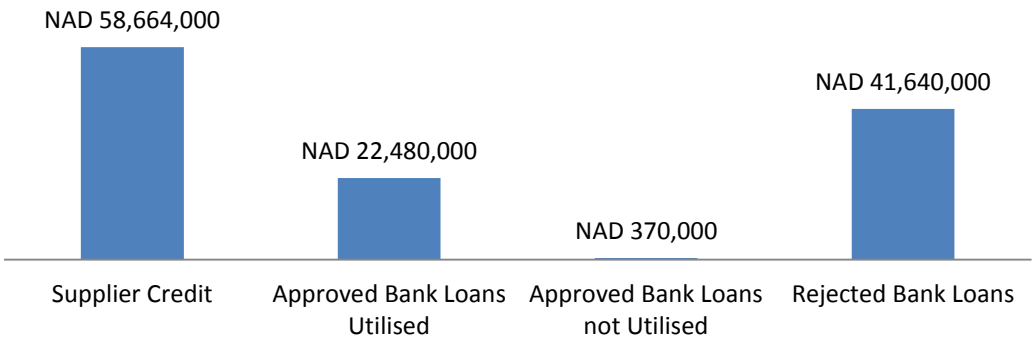
Source	Percentage of SMEs
Loans from banks	62%
Loans from friends or relatives	40%
SME grants	5%
Selling business equity	5%
Selling business assets	5%
Supplier / Trade credit	67%

Source: 2015 survey on manufacturing SMEs in the Khomas region

When the data was analysed further to compare dollar amounts between the two major sources of external finance for survey respondents, more detailed information was produced. According to Figure 19, SMEs currently make use of trade credit

amounting to NAD 58.7 million per annum. In comparison, approved bank loans worth NAD 22.9 million were made available to SMEs. The bank loans equate to approximately 39 percent of trade credit. In addition, SME loan applications that were rejected by banks amount to NAD 41.6 million, and these equate to approximately 71 percent of trade credit. Interestingly, if all loan applications made by SMEs to banks were approved, bank loans would exceed trade credit by 10 percent.

Figure 19: Comparison of major external sources of finance for SMEs



Source: 2015 survey on manufacturing SMEs in the Khomas region

4.5.3 Historical SME Bank Loan Applications

Data collected through the SME survey shows that in the past two years, 50 respondents made loan applications to their respective banks in the Khomas region. As shown in Table 7, the value of loan applications made by these SMEs amounted to NAD 64.5 million. Of the number of applications made, 55 percent were rejected outright, 22 percent were conditionally approved, 22 percent were approved outright, and one percent was approved outright but not taken up due to unfavourable loan conditions.

When the outright loan rejection data is disaggregated by banking institution, Nedbank Namibia has the highest loan rejection rate at 83 percent, followed by FNB Namibia with a 77 percent rejection rate, Standard Bank Namibia at 41 percent rejection rate, and Bank Windhoek at 27 percent rejection rate. Only one respondent reported applying for a loan with DBN, and this loan was approved in full.

Table 7: History of SME bank loan applications

Bank Name	Outright Approved Loan Applications (NAD'000)	Outright Approved Loans not Utilised (NAD'000)	Conditionally Approved Loan Applications (NAD'000)	Outright Rejected Loan Applications (NAD'000)	TOTAL (NAD '000)
Standard Bank Namibia	7,300	-	7,650	10,350	**25,300**
FNB	4,450	80	150	15,570	**20,250**
Bank Windhoek	1,550	290	5,680	2,830	**10,350**
Nedbank Namibia	500	-	900	6,890	**8,290**
DBN	300	-	-	-	**300**
Loan Values	**14,100**	**370**	**14,380**	**35,640**	**64,490**
Number of Applications	**17**	**3**	**10**	**20**	**50**
Percentage Number	**22 %**	**1 %**	**22 %**	**55 %**	**100 %**

Source: 2015 survey on manufacturing SMEs in the Khomas region

The global bank-loan rejection rate was then adjusted to factor in 'conditionally-approved-but-finally-disapproved' loan applications. A look back at Table 7 shows that ten loan applications worth NAD 14.4 million had a conditionally-approved status. These ten loan applications were eventually approved to varying degrees of success. In Table 8 it is seen that the ten conditionally approved loan applications

were eventually approved to the value of NAD 8.4 million, and the disapproved portion of the ten loans amounted to NAD 6 million. When the ratios are re-computed, the effective loan approval rate is determined at 36 percent and the effective loan rejection rate is determined at 64 percent.

If the effective loan rejection data is disaggregated by banking institution, Nedbank Namibia's loan rejection rate rises to 88 percent, FNB Namibia maintains a 77 percent rejection rate, Bank Windhoek's rejection rate significantly rises to 62 percent, and Standard Bank Namibia's rejection rate increases to 49 percent. Only one SME reported applying for a loan with DBN, and this loan was approved in full.

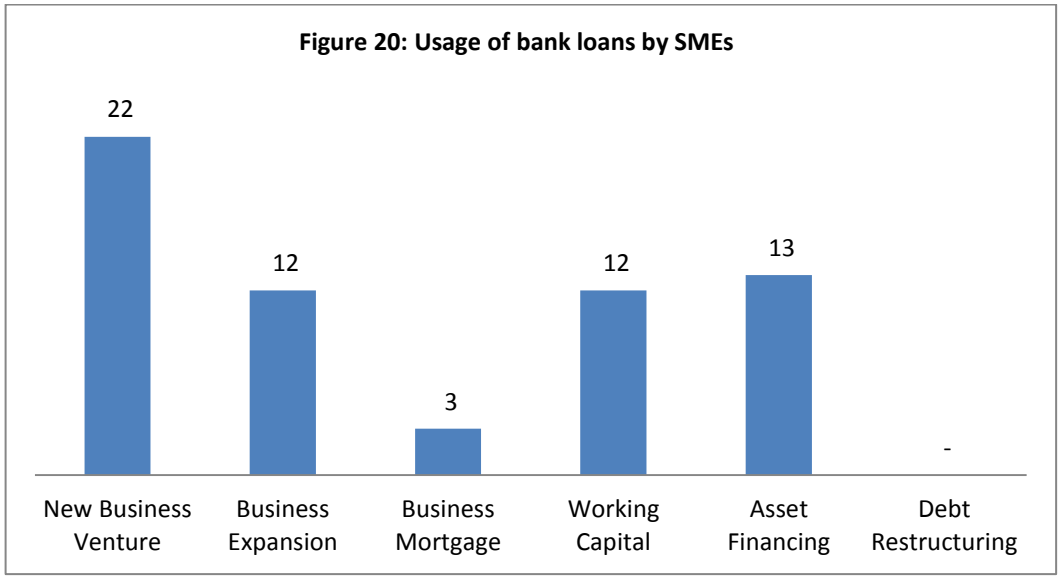
Table 8: Adjusted history of SME bank loan applications

Bank Name	Outright Approved Loan Application (NAD'000)	Approved Loans not Utilised (NAD '000)	Value of Conditional and Finally Approved Loan Application (NAD'000)	Conditional Approved but Finally Rejected Loan Application (NAD'000)	Rejected Loan Application (NAD '000)	Total (NAD '000)
Standard Bank Namibia	7,300	-	5,700	1,950	10,350	**25,300**
FNB	4,450	80	100	50	15,570	**20,250**
Bank Windhoek	1,550	290	2,050	3,630	2,830	**10,350**
Nedbank Namibia	500	-	530	370	6,890	**8,290**
DBN	300	-	-	-	-	**300**
Loan Values	**14,100**	**370**	**8,380**	**6,000**	**35,640**	**64,490**
Numbers of Applications	**17**	**3**	**10**	**10**	**20**	**50**
Percentage	**22%**	**1%**	**13%**	**9%**	**55%**	**100%**

Source: 2015 survey on manufacturing SMEs in the Khomas region

4.5.4 Utilisation of Bank Loans

When asked how the approved bank loans were utilised, the respondents had to choose from a selection of seven possible uses. Each possible use was independent of the other and the respondent could select as many as were applicable to their circumstances. Figure 20 displays results of the data analysis. The respondents expressed differences in how they utilised their loan proceeds. There were 22 respondents who stated that loan proceeds were used to venture into new business activities. This number represents 92 percent of those respondents whose loan applications were approved and utilised. Fifty-four percent of the same respondents stated that they used the loan proceeds to acquire assets other than real estate, whereas 50 percent apiece indicated they used the loans for working capital and business expansion respectively. Three respondents stated that they used their loans to acquire real estate for the business, and no SME among the surveyed ever used the loan proceeds to effect debt restructuring.



Source: 2015 survey on manufacturing SMEs in the Khomas region

4.6 SME Perceptions about Access to Finance

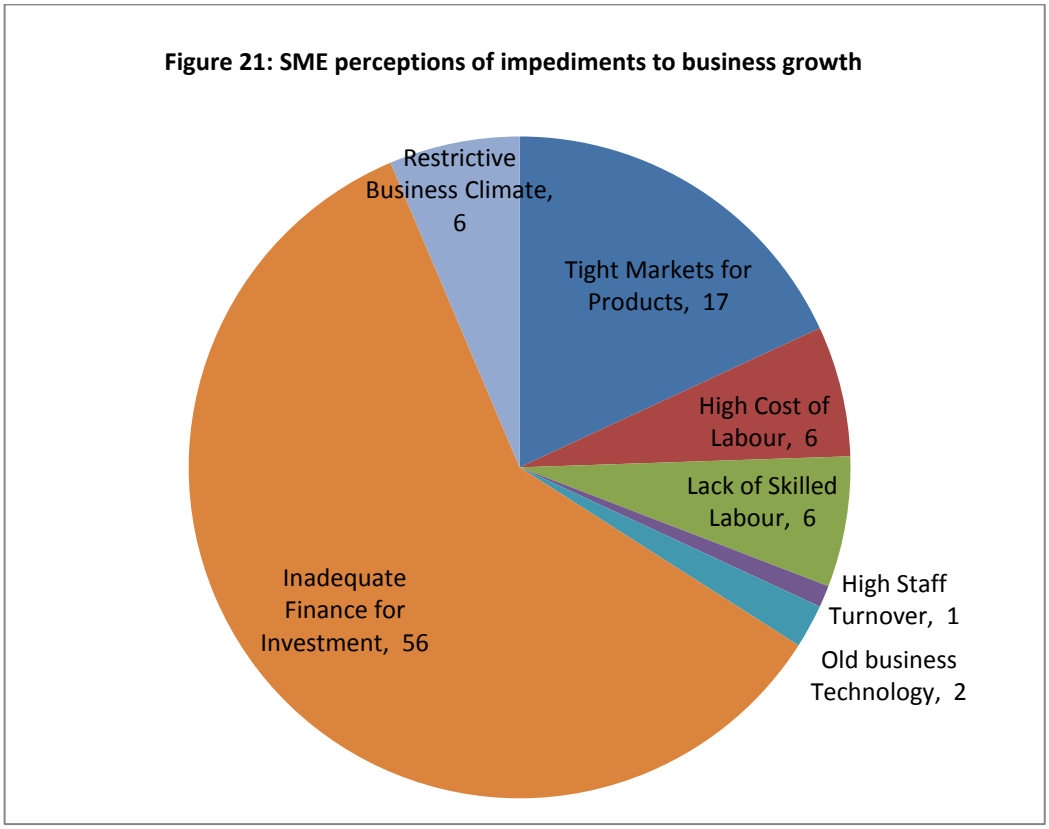
The questionnaire posed several subjective questions in addition to the objective questions posed to respondents in section 4.5. The subjective questions sought to establish the relationship of SMEs with their respective banks. The questions posed relate to impediments that respondents face in their quest for business growth, opinion on whether they think that banks are supportive enough of SME growth objectives, perceptions on the ease (or lack thereof) of obtaining bank finance, and opinion on their relationships with banks.

4.6.1 Impediments to SME Business Growth

The respondents were presented with seven factors that are perceived as likely to impede SME business growth. Each respondent was permitted to identify more than one response without any ranking. Results of analysis are displayed in Figure 21. It can be seen that 89 percent of the respondents identified inadequate access to finance as an impediment to SME business growth while 27 percent of the respondents identified tight markets for their products as an impediment to SME growth. Ten percent apiece of the respondents identified a restrictive business climate, the high cost of labour and lack of skilled labour respectively as impediments to their business growth. To wrap up the analysis, two respondents identified old business technology as an impediment to SME business growth and only one said high staff turnover hinders growth. The numbers highlighted do not seek to pinpoint the severity of each impediment, but rather, to highlight the frequency of each perceived impediment among the responses. Indeed, lack of access to finance is considered an impediment to business growth by a large number of the respondents.

Findings of this analysis support empirical research data such as that of the WBES survey, showing that most SME firms in low and middle income countries perceive access to finance as a major obstacle to business growth and employment creation (IFC, 2010). A look back at Figure 8 gives more detailed analytical results emanating from this research.

Figure 21: SME perceptions of impediments to business growth



Source: 2015 survey on manufacturing SMEs in the Khomas region

4.6.2 SME Credit Constraints by Age and Size in the Khomas Region

The data shown in Table 9 shows the number of SMEs that participated in the survey which reported facing credit constraints. The SMEs are categorised according to their age and size. Information presented in the table shows that a higher percentage of the youngest micro-firms reported facing more severe credit constraints as

compared to the older and bigger firms. Another interesting observation as seen from Table 9 is that a higher percentage of middle-aged and small-sized firms faced less severe credit constraints than the oldest and medium-sized firms. The information thus presented corroborate with the findings of studies done by Ayyagari et al. (2012) and Kurdyla (2013).

Table 9: SME credit constraints by firm age and size

Firm Age	Data	Firm Size			
		1-10	**11-30**	**31-100**	**All Sizes**
Under 2 years	# of Observations	6	1	-	7
	# of Partially / Full Constrained	6	1	-	7
	% Party / Fully Constrained	100%	100%	-	100%
3-5 years	# of Observations	6	12	3	21
	# of Partially / Full Constrained	6	7	3	16
	% Party / Fully Constrained	100%	58%	-	76%
Over 5 years	# of Observations	9	20	6	35
	# of Partially / Full Constrained	8	20	5	33
	% Party / Fully Constrained	89%	100%	83%	94%
All Ages	**# of Observations**	**21**	**33**	**9**	**63**
	# of Partially / Full Constrained	**20**	**28**	**8**	**56**
	% Party / Fully Constrained	**95%**	**85%**	**89%**	**89%**

Source: 2015 survey on manufacturing SMEs in the Khomas region

4.6.3 Perceptions on Bank Support to SMEs

During the survey, respondents were asked to state whether they think banks in the Khomas region are supportive enough in providing loans to SMEs for business growth. Only two respondents, representing three percent of SME responses were of the opinion that banks are supportive to the growth objectives of SMEs. The other 61 respondents, alternatively 97 percent of SMEs, did not agree with the view that

banks are supportive to the growth objectives of SMEs in the Khomas region in providing SME loans and other supportive measures.

When asked about their perception regarding the ease of obtaining bank finance, 75 percent of the respondents professed that it was 'difficult' to obtain finance from banks, buttressing their assertion about the lack of bank support to SMEs. In the other responses, 16 percent submitted that the task of obtaining finance from banks was 'fairly easy,' five percent said it was 'easy' to access finance, and the remaining four percent failed to give an opinion. A follow up question required the respondents to state the source that influences their perception about the ease of obtaining bank finance. From a list of five potential influences, each respondent could identify as many as possible without the need to rank the influences. Table 10 shows the results in a matrix table comparing the perception to their likely influences.

Table 10: Perception-Influences matrix

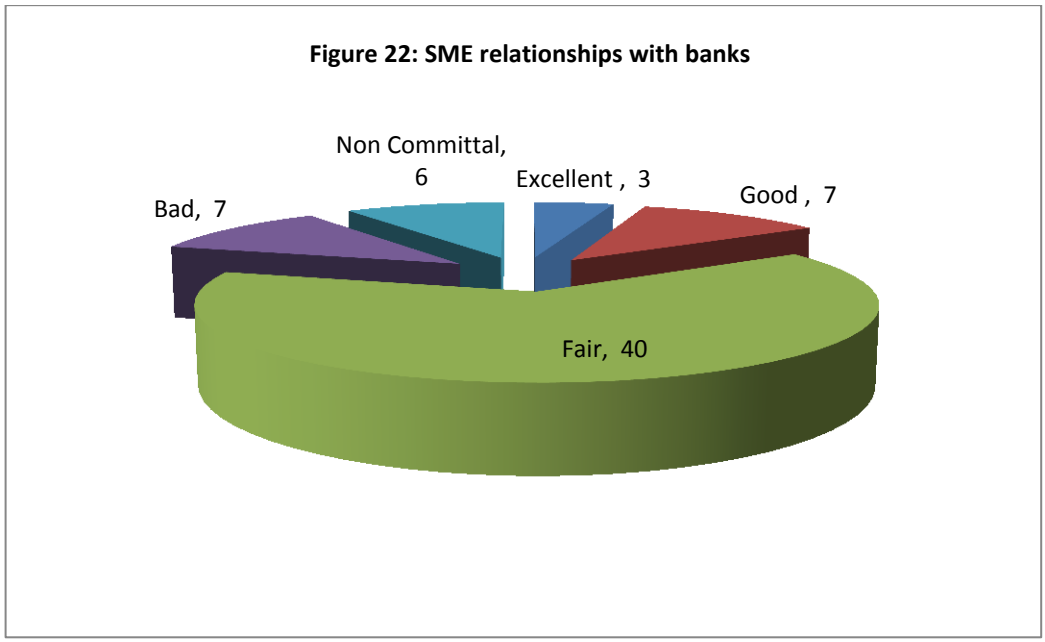
		Easy	Fairly Easy	Difficult	I Don't Know
Source of Influence	**Number**	**3**	**10**	**47**	**3**
Media	**23**				
Friends or Relatives	**17**				
Actual Experience	**13**				
Accountant's Advice	**1**				
Business Networks	**4**				

Source: 2015 survey on manufacturing SMEs in the Khomas region

4.6.4 Perception on Relationship with Banks

The last question relating to SME perceptions of access to bank finance looked at how the respondents viewed their relationship with their respective banks. Figure 22 shows responses of the SMEs. On a four-tiered scale where 'Excellent' is the most

superior response and 'Bad' is the worst response, the majority of responses at 63 percent indicated that they retain a fair relationship with their banks. There was a tie on response rate for the 'good' and 'bad' ranks at 11 percent, whereas only three respondents stated that they have an 'excellent' relationship with their banks making for five percent of the responses. Six respondents were non-committal.



Source: 2015 survey on manufacturing SMEs in the Khomas region

4.7 Linking Access to Finance and Employment Creation

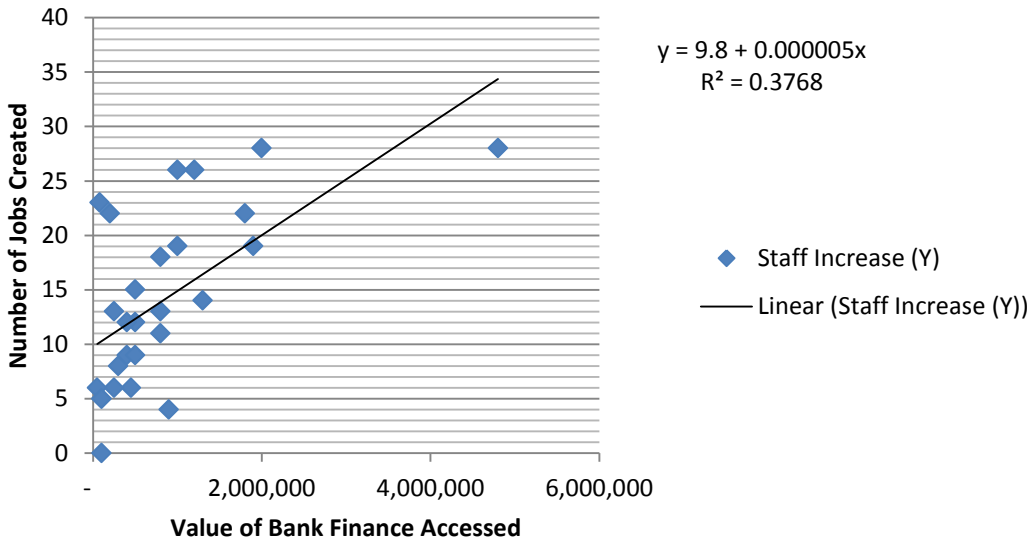
The thesis is premised on the construct that access to bank finance has a bearing on the ability of manufacturing SMEs to create employment in the Khomas region. Access to bank finance by manufacturing SMEs is the independent variable and employment creation in the Khomas region is the dependent variable. This section will attempt to establish the nature of the relationship between the two variables.

4.7.1 Bivariate Linear Relationship

Manufacturing SMEs which participated in the survey provided valuable historical data to help establish the relationship between the two variables in the Khomas region. Fifty respondents indicated that they had applied for a bank loan in the past two years, with varying degrees of success. A total of thirty loan applications with a value of NAD 22.9 million were successful. Three successful loan applicants did not utilise the loans and the remaining twenty-seven successful loan applicants registered direct employment creation of 379 jobs in the last two years.

This historical data were subjected to statistical analysis using simple linear regression. The aim was to establish if there exists a linear relationship between access to finance by SMEs and employment creation in the Khomas region over the past two years. The results are given in Figure 23 with more detailed information found in Annexure 9.

Figure 23: Bivariate linear relationship between access to finance by SMEs and job creation



The scatter diagram is littered with dots concentrated in a generally positive direction. In other words, the concentration of dots (which represent the number of jobs created) are moving upwards from left to right in tandem with increases in bank loan usage. The interpretation is that there exists a positive linear relationship between access to finance by manufacturing SMEs and employment creation in the Khomas region. Stated in other terms, more employment can be created by manufacturing SMEs in the Khomas region if they are able to obtain more bank finance. This interpretation is confirmed by the positive line of best fit embedded on the scatter diagram by the statistical package SPSS. It is plotted in such a way that it follows the general direction of the dots.

The regression straight line can be expressed in equation form using the detailed working shown in Annexure 8 as follows: $\mathbf{y = 9.8 + 0.000005}\boldsymbol{x}$**.** With this regression equation, it is possible to estimate the impact of employment creation in the Khomas region, given any amount of bank loans invested by manufacturing SMEs. It is deduced from the equation that any level of job creation (which is represented by '**y**') can be estimated by multiplying the amount of dollars invested by SMEs (represented by '***x***') to the coefficient 0.000005 and then adding the constant 9.8 to the product. The constant assumes that in the scenario where there is no investment made by SMEs in the Khomas region due to lack of access to finance, employment can still grow by a rounded-off figure of 10 jobs per annum.

4.7.2 Determining the Strength of the Linear Relationship

Using the SPSS statistical analysis tool, Pearson's Correlation Coefficient is calculated at 0.61 (see Annexure 9). The coefficient validates results of the simple linear regression analysis because it bears a positive sign, indicating a positive linear relationship between access to finance by SMEs and employment creation. Pearson's Correlation Coefficient also tells of the strength of that positive linear relationship. At a coefficient value of 0.61, there is a strong positive linear relationship between access to finance by SMEs and employment creation in the Khomas region. This means that as more SMEs in the Khomas region increasingly access finance, they will in turn increase their level of employment in the region.

4.7.3 Determining the Level of Influence of the Independent Variable

The next step is to establish the level of influence on the dependent variable by varying the independent. Looking at Figure 23, regression analysis plotted the line of best fit on the scatter diagram and returned some formulae. One of the statistical measures returned is the Coefficient of Determination (R^2) with a value of 0.38 (see also Annexure 9). It seeks to determine the extent of the relationship between the two variables. The interpretation of the coefficient is that the increase in employment levels attributable to manufacturing SMEs is explained, to the extent of 38 percent, by their ability to access and utilise bank finance. Conversely, 62 percent of increases or decreases in employment levels attributable to the respondents, are explained by factors other than access to bank finance.

4.7.4 Multivariate Regression Analysis

In the previous section it was explained that 38 percent of changes in the employment created by manufacturing SMEs in the Khomas region can be explained by SMEs obtaining bank loans for their business growth needs. The remaining 62 percent in employment changes can be explained by factors other than bank finance. The multivariate regression model introduced in section 3.8 and explained in detail in Annexure 10, will help to explain some of the factors.

The model decomposes the independent variable into component parts. These component parts are identified as bank loans, SME perceptions about the support from banks, SME perception about bank credit as a constraint to business growth, SME perception about their relationships with banks, SME perceptions about the ease of accessing bank credit, finance charges on bank loans and the number of conditions attached to each loan accessed by SMEs. Table 11 gives a summary of the correlation coefficients of the multiple independent variables to employment creation. It is compiled using output of regression analysis from SPSS software given in Annexure 11.

Table 11: Correlation coefficients of the independent variables

Variable	Correlation Coefficient (R)
Bank Loans	0.614
Perception of Bank Support	0.354
Perception of Credit Constraint	-0.168
Perception on Bank Relations	0.102
Perception on Ease of Credit Access	0.200
Bank Loan Interest Rates	0.089
Number of Loan Conditions	-0.124

Whereas bank loan availability to SMEs has a strong positive linear relationship to employment creation, the perception of bank support to SMEs, perception of ease of access to credit and the perception of SME bank relations have positive but weak linear relationships to employment creation. The level of bank interest rates on loans is near to zero and therefore shows a near non-linear relationship to employment creation by SMEs in the Khomas region. Finally, the perception of credit constraints and the aggregate number of conditions attached to loans issued have very weak negative linear relationship to employment creation.

Output from multivariate regression analysis shows Pearson's Correlation Coefficient at a value of 0.72. The Coefficient of Determination is given as 0.52 and the Standard Error of Estimate (SEE) is 6.6 (refer to Annexure 11). Pearson's Correlation Coefficient using multivariate analysis is marginally higher, remains positive and much stronger than the same measure using bivariate analysis. The Coefficient of Determination (R^2) also shows the measure is stronger using multivariate analysis than when using bivariate analysis. The measure of 0.52 shows that the increase in employment levels attributable to manufacturing SMEs can be explained 52 percent by the influence of the disaggregated independent variables of access to finance. Conversely, 48 percent of increases or decreases in employment, are explained by factors other than the independent variables. The last measure of SEE shows reliability of the model for us in forecasting. The smaller the value compared to the mean of the observed points, the more reliable is the measure.

Multivariate regression output from SPSS software was also used to apply the regression model as follows:

$$\mathbf{y} = 1.9 + 0.000005x_1 + 1.17x_2 + 0.25x_3 - 4.58x_4 - 1.72x_5 + 1.12x_6 + 7.81x_7 + 6.56$$

The coefficients of the model are interpreted as follows:

1. The intercept is β_0 and equal to 1.9. This means that that with zero access to finance, SMEs in the Khomas region can still create 2 jobs over the period of two successive years
2. The amount of bank credit available to SMEs has a positive linear relationship to employment creation. The coefficient is β_1 and is determined at 0.000005. Because the measure is almost zero, it means there have to be significant levels of bank loans availed to SMEs, in order for the entities to be able to generate meaningful employment opportunities in the region. Based on the results, about NAD 200,000 has to be invested by an SME in order to generate an additional one job.
3. The interest charged by banks on loans to SMEs is represented by β_2 and it equals 1.17. This means for each additional 100 basis-points increase in the interest rate, the average employment generated by SMEs increases by 117 percent. The result of this coefficient can probably be explained by the fact that average interest rates charged by banks on loans are in the range of 10 to 14 percent. At rates lower than 8 percent, it would be difficult for SMEs to access the bank loans they require and therefore they will not be able to create employment. However, as

interest rates marginally increase, the odds of an SME accessing bank credit are enhanced, and hence more opportunities for creating employment.

4. The number of conditions attached to each loan availed to an SME are given by the coefficient β_3 which is equal to 0.25. This means with each additional condition attached to the loan terms, there is a 25 percent chance for increase in the employment created by SMEs. Banks attach many conditions to the loans they issue as one way of safeguarding the quality and value of their loan books. The more such conditions, the more willing are banks to issue loans. When SMEs are able to access more loans, they are able to create more employment opportunities as they grow their businesses.
5. The perception of lack of bank credit as a constraint to SME business growth is given by the coefficient β_4 which was valued at -4.6. Holding other variables constant, this means SMEs that view credit as a constraint to their growth objectives, on average employ about five people less than those firms that do not view credit constraints as a hindrance to business growth.
6. The perception on bank relations by SMEs is represented by β_5 whose value is -1.72. Holding other variables constant, this means for every unit increase in improved bank relations, there is an average reduction in employment by SMEs of two jobs. The result shows that despite SMEs receiving funding from banks, the majority regard their overall bank relations negatively and are therefore not likely to increase their employment levels.
7. The perception that SMEs hold regarding the ease of access to bank finance is represented by β_6 with a value of 1.12. Holding other variables constant, this

means SMEs rating ease of access by one unit more of measure, will on average employ one person more than those SMEs rating ease of access by one unit less.

8. The perception by SMEs on the willingness of banks to support SMEs with credit is given as β_7 and valued at 7.8. Holding other variables constant, this means SMEs that believe banks are willing to support their growth, will on average employ eight more people than those SMEs holding an alternate view.
9. The standard error of estimate attempts to measure the proximity of all the observed points falling on the regression line. A small value for the standard error of estimate shows the model's fit is excellent and it is likely to be an effective analytical and forecasting tool. The standard error of estimate is given as 6.6, and it is relatively small in comparison to the mean of the dependent variable which is calculated at 14. Therefore, the model is suitable for use in forecasting employment levels in the Khomas region because the standard error is relatively small.

4.8 Plotting the Finance Environment of Khomas Region

It is pertinent to understand the financial environment in which SMEs operate and establish whether the environment is structured to promote the growth of SMEs through fairly priced financial products, sufficient dissemination of information to SMEs and support programmes to aid their growth. Improving access to finance and stimulating demand for that finance are therefore critical elements in building inclusive financial systems for SMEs.

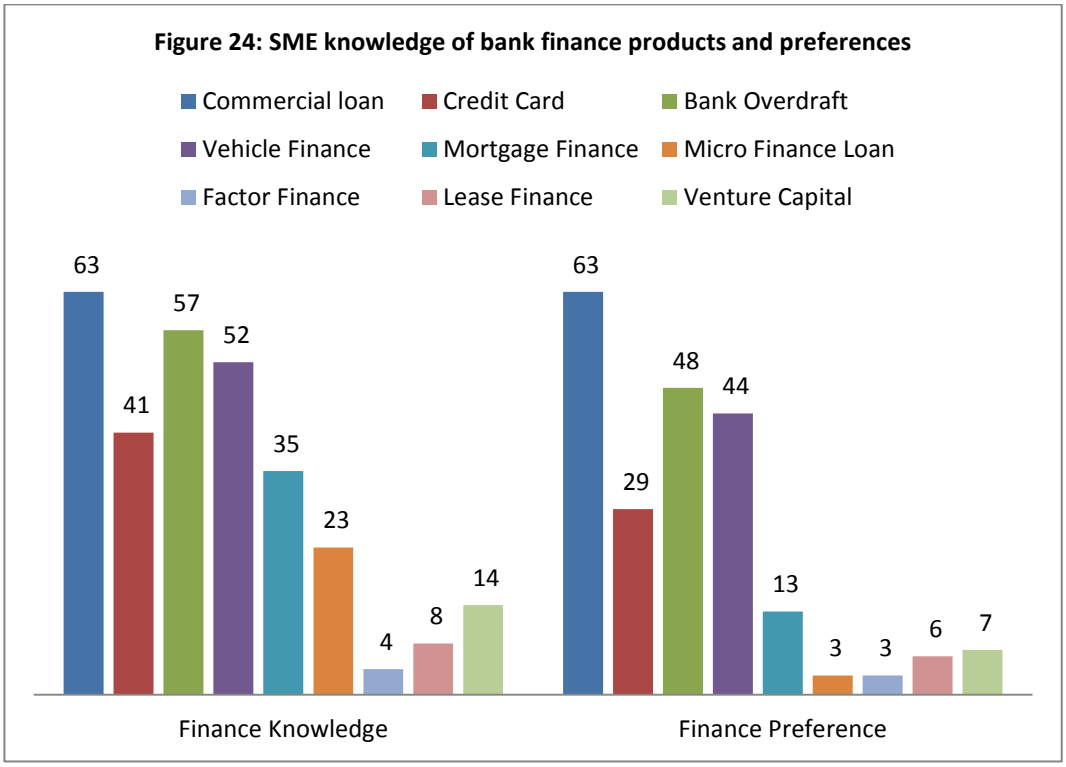
4.8.1 SME Knowledge of Financial Products

In line with the SME life cycle theory, firms often depend on internal and informal sources of finance in the early stages of their development and external sources become more important as firms grow in size. It is therefore imperative that financial markets are well developed in terms of their scope and depth, with sufficient capital as well as financial products to support bank lending. Furthermore, the users of financial services need to be fully aware of the financial products available on the local market in order to optimally utilise the same.

The survey posed questions to respondents testing their understanding of financial products available on the local market, as well as their preferences for those financial products. The results of analysis are shown in Figure 24. It can be seen that commercial bank loans are the most commonly known finance instrument on the market, with all SMEs claiming knowledge of the product. The second most known product is bank overdraft at 90 percent, followed by vehicle finance at 83 percent, credit card at 65 percent and mortgage finance at 56 percent. The remaining finance products were little known among the survey respondents.

When the same respondents were asked about their preferences for the various bank finance instruments, all respondents expressed a preference for using commercial bank loans. Bank overdraft is preferred by 76 percent of the respondents and vehicle finance by 70 percent of respondents. The credit card, mortgage finance, lease finance and venture capital products command less than 50 percent approval ratings

among the survey respondents. Worse still factor finance and micro-finance loans attract preference ratings of five percent apiece.



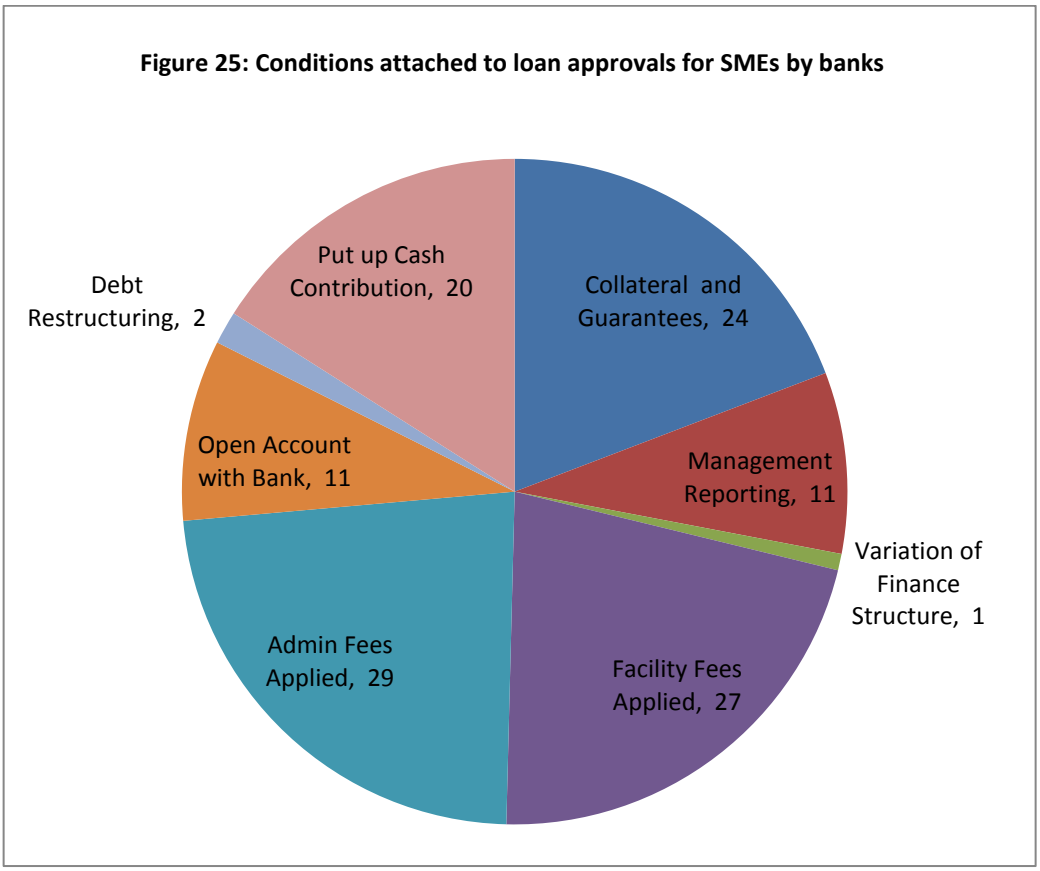
Source: 2015 survey on manufacturing SMEs in the Khomas region

4.8.2 A Look at Loan Conditions

In evaluating the financing conditions that enhance financial inclusion, it is important to ascertain the inclusiveness of bank operations. SME respondents who applied for bank loans that were approved over the past two years were requested to provide feedback as to whether additional loan conditions were attached. Eight possible conditions were suggested, and each respondent was free to select as many conditions as applicable. Figure 25 shows output of the data analysis. The pie-chart shows that loan conditions mostly imposed by banks are: charging of facility and

charging of administrative fees (100 percent), the requirement for collateral and guarantees (89 percent), the requirement for the applicant to put a up cash contribution on the loan (74 percent), and the requirement to open a bank account and provide regular management reports (41 percent). Two SMEs reported the requirement for restructuring the debt and one reported the conditionality to vary the finance structure.

Figure 25: Conditions attached to loan approvals for SMEs by banks



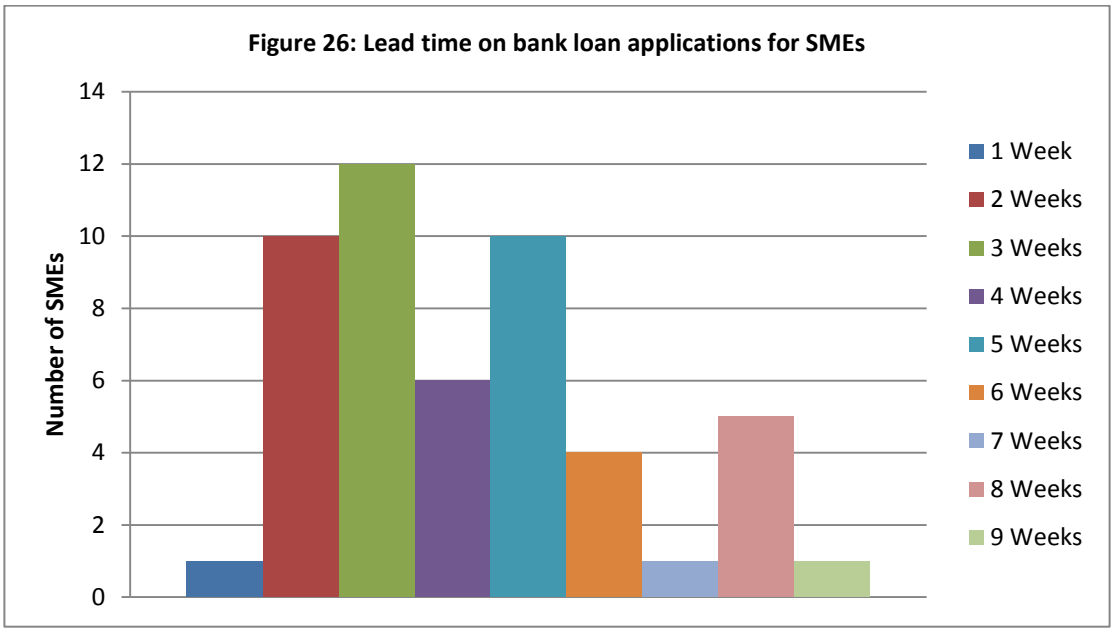
Source: 2015 survey on manufacturing SMEs in the Khomas region

The respondents were asked further questions to determine whether the conditions attached to the approvals were reasonable to enable them to implement their projects. It is worth noting that all SMEs that had their loans approved were able to fully

utilise them. This could be an indicator that the appetite for loans to implement growth plans is high among the SMEs. When asked how many missed their loan repayment schedules, thirteen SMEs answered to the affirmative. The reasons given for missing the repayments were varied with two respondents citing high interest rates, three blaming the short-term nature of the loan, four giving the excuse of high monthly instalments, and four stating that there was a downturn in business opportunities post loan approval.

4.8.3 Lead Time for Loan Applications

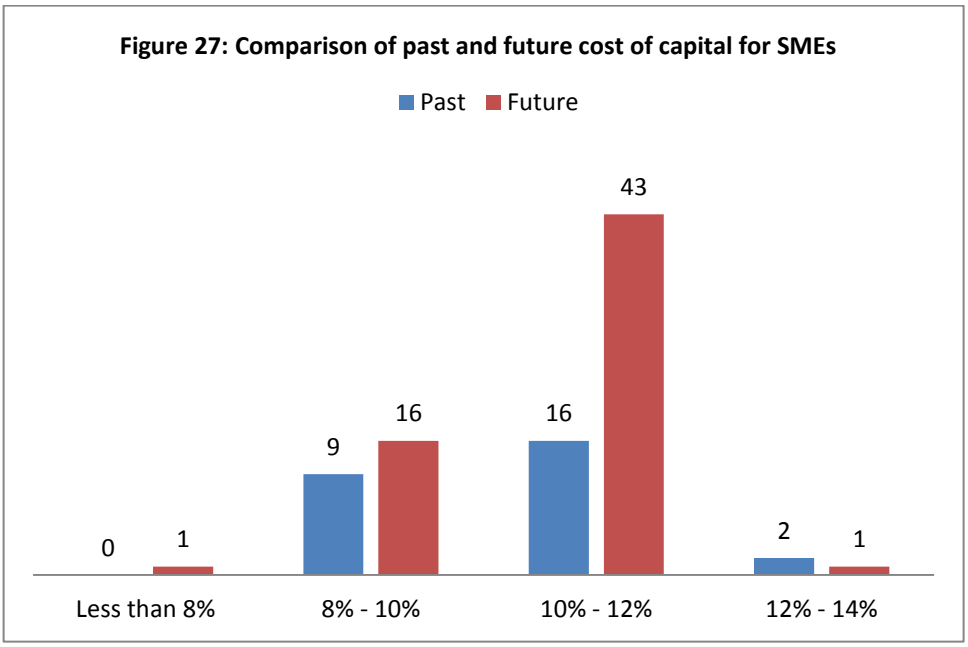
In order to evaluate the state of financial inclusion of SMEs in the Khomas region, it was necessary to examine the length of time it takes SMEs to receive responses for their loan applications. Figure 26 gives the distribution of lead times on loan applications among the 50 loan applicants. Applying descriptive statistics, the mean lead time on loan applications is approximately four weeks, with a standard deviation of two weeks. This is interpreted to mean that it takes an average four weeks from the time a loan application is lodged with the bank to the time the bank gives its response, whether that response is a full approval, conditional approval or rejection. With a standard deviation of two weeks, it means the lead time on loan applications fluctuates around the mean by two weeks.



Source: 2015 survey on manufacturing SMEs in the Khomas region

4.8.4 Interest Rate on Loans

Interest rates are also known as the cost of capital. They indicate the level of risk that banks attach to SMEs when considering their loan applications. Too high a cost of capital discourages SMEs from seeking bank financing, and only the risk-taking SMEs will be willing to take up loans at punitive interest rates. Figure 27 shows comparative figures on interest rates that were charged on SMEs that successfully applied for bank loans versus acceptable interest rates on future loan needs.



Source: 2015 survey on manufacturing SMEs in the Khomas region

It is observed that over 93 percent of respondents who accessed loans in the past paid cost of capital of between eight to twelve percent. In the future outlook, around 97 percent of respondents said they were willing to pay interest rate on loans ranging between eight to twelve percent. Based on data provided by the respondents, the eight to twelve percent range appears to be reasonable within the Khomas region's financial market for SMEs.

4.9 Promoting Financial Inclusion of SMEs

Data used to establish reasons for the exclusion of SMEs in accessing finance was obtained partly from the survey on SMEs in the Khomas region and partly from structured personal interviews done with five banking institutions in Windhoek. These banking institutions are Bank Windhoek, DBN, FNB Namibia, SME Bank and Standard Bank Namibia.

The responses from banking institutions were scrutinised using inductive strategy approach in order to discover patterns that may exist. Particular attention was given to the number of occurrences of each response across the banks. From the analysis, it was found all banks have already adopted the 2015 SME policy guidelines on defining an SME. All other policy recommendations are being assimilated into the systems used by the bank to interface with SMEs.

4.9.1 Bank Policies for Dealing with SMEs

All five financial institutions have in place internal policy guidelines that institutionalise the need to fund the growth and development of SMEs. This is a sign of the banks' commitment to the development of SMEs in the Khomas region. The need to institutionalise SME funding mechanisms in bank operations is borne from two sources; namely the bank's legal mandate as in the case of SME Bank and DBN, or out of corporate social responsibility in the case of the other three traditional commercial banks that responded. With the exception of SME Bank whose niche market is working with Namibia SME entities, each of the commercial banks interviewed have a dedicated SME department. In the case of DBN, with effect from 01 January 2016, the bank is scaling down on its engagement with the SME sector. The DBN will no longer deal with SME funding as that mandate now lies solely with its counter-part state institution, the SME Bank. This signals the end of the tripartite agreement between DBN, FNB and Bank Windhoek, wherein FNB and Bank Windhoek would receive funds from DBN to support Namibia's SME sector, and using their retail networks, disburse loans to eligible SMEs. From 1 January 2016,

any SME approaching DBN for a loan will not be given preferential treatment, but rather subjected to the same credit criteria applied on large firms.

4.9.2 SME Mentorship and Support Programmes

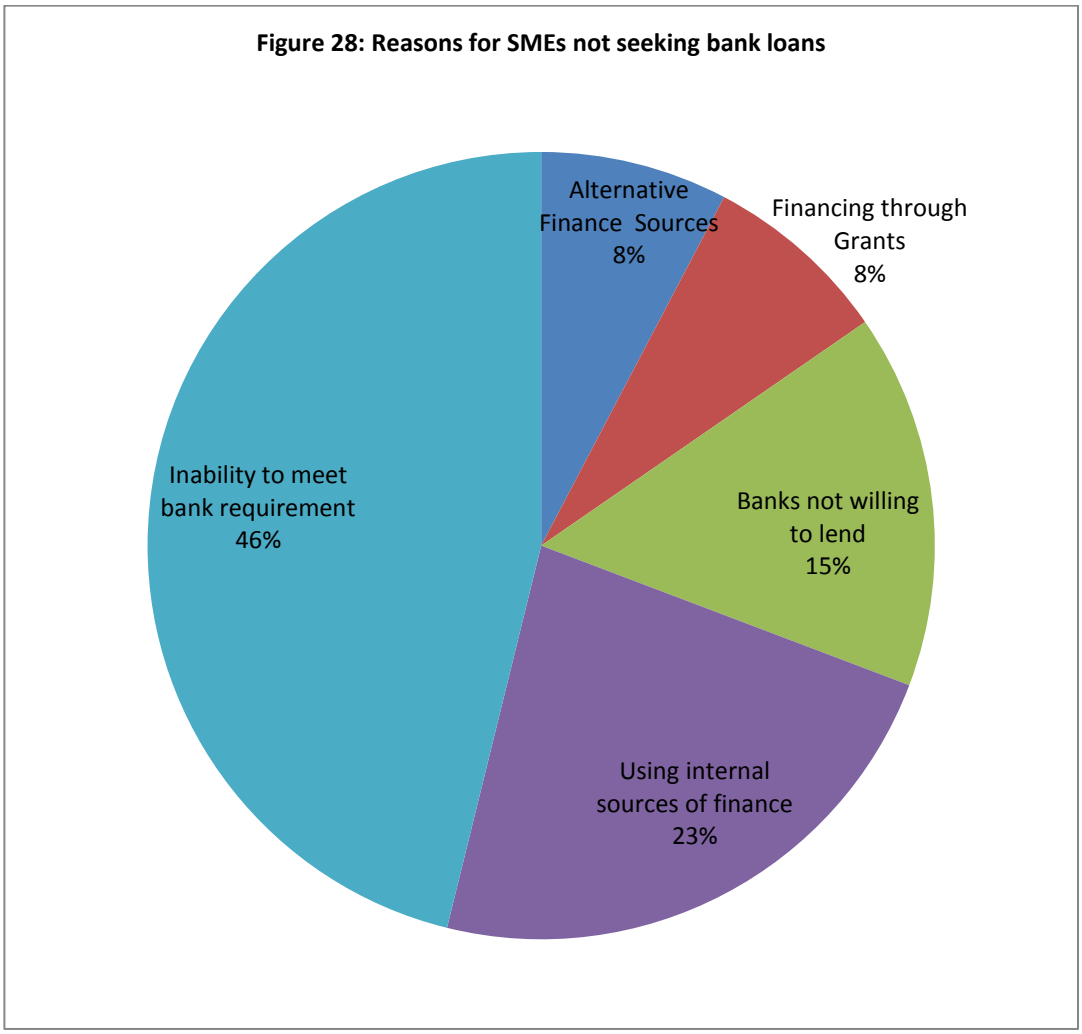
The various bank mandates to assist SMEs as given in section 4.9.1, have resulted in all the banks instituting mentorship programmes to help build the organisational capacities of SMEs, so that they can borrow funds and be able to repay the same as per loan covenants. In the past three years, the mentorship programmes have benefited a total of over 250 SMEs in the Khomas region. While some banks have sections within their SME departments to mentor targeted SMEs, the broader mentorship programme is implemented through engagement of third party organisations like SME Compete and Business Financial Solutions who specialise in capacity building initiatives for SMEs. One programme that stands out for special mention is a fund called Namibia Procurement Fund Capitalisation Agreement. This fund is capitalised to the tune of NAD 50 million and is used to provide bridging finance to SMEs who hold substantial contracts with large corporate entities. The Namibia SME Expo is another sterling example of how banks have been supporting the development of SMEs in Namibia. The Expo is the result of a tripartite agreement between DBN, FNB and Bank Windhoek meant to provide a platform for SMEs to network and identify business opportunities for their growth.

Overall, the banks estimated that mentorship programmes have benefited over 300 SMEs both directly and indirectly over the past three years.

4.9.3 Stimulating Demand for Finance

Over the past three years 459 SMEs benefitted from bank financing, to the amount of approximately NAD 385 million. Measured as a percentage of the dollar value, SMEs account for about 31 percent of the total loan book of banks. Financial instruments used to fund the SMEs included traditional commercial bank loans, credit card facilities, bank overdraft, vehicle financing, mortgage finance, factor finance and lease finance. The most used form of finance was the commercial bank loan, while there was no record among the bank respondents of micro-finance and venture capital being given to SMEs. This is probably because there are many non-financial institutions specialising in issuing these finance instruments, rendering it non-cost effective for the banks to offer these types of loans as well.

The foregoing paragraph reflects only on SMEs that applied for bank finance. There is another segment of SMEs which have never requested for bank finance. In the survey of manufacturing SMEs in the Khomas region, data shows that of the 63 SMEs surveyed, thirteen have never applied for a bank loan from the time they commenced operations. This means 21 percent of the respondents could have also contributed to employment creation if they had used bank loans to fund their growth.



Source: 2015 survey on manufacturing SMEs in the Khomas region

According to Figure 28, 46 percent of the respondents have not bothered to seek a bank a loan because they consider themselves not meeting the requirements to obtain a loan. A further fifteen percent think that banks are not entirely willing to lend money to SMEs. These responses are cause for concern as by implication, 61 percent would have otherwise sought bank loans if they were convinced that the financial infrastructure in place can be relied upon for a fair outcome to their loan applications.

4.9.4 Information Dissemination to SMEs

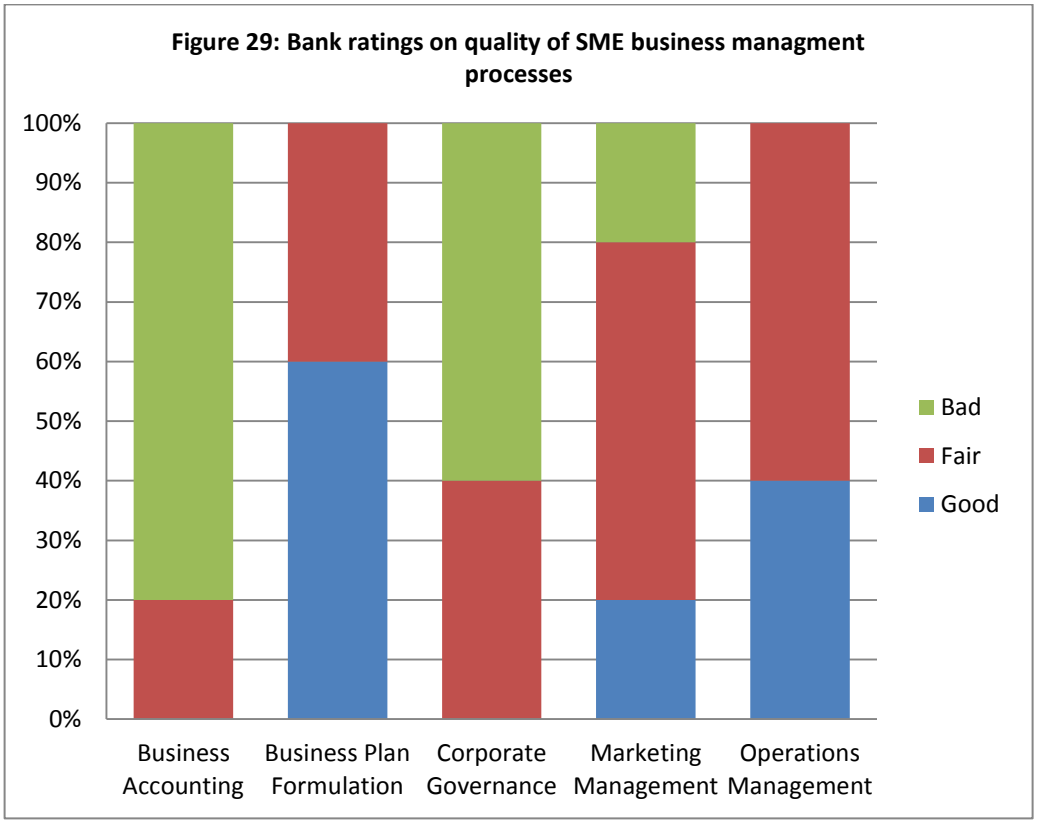
An important aspect of the engagement by banks with their SME clientele is to have in place effective communication mechanisms with which to constantly interact. All banks interviewed have dedicated SME departments which act as the banks' interface platform with SMEs. In addition, the banks make use of their corporate affairs department to disseminate information to the SME market, whether through the mainstream or social media. Other special purpose mechanisms include participating at SME expos, funding periodicals like the SME Gazette, and funding events that showcase the successes of outstanding SME entities. A good example is the Namibia SME Expo.

4.9.5 Perceptions on Relations with SMEs

The study also attempted to measure the perception of banks regarding their relations with SME clients. When the question was posed to them on how they regard their relations with SMEs, the overall response was rated as 'good'. The ranking was measured on a three-tier scale of "Good, Fair, Bad". Banks stand ready to aid SMEs in their growth, even if it has to be demonstrated through committing more funds to the SME sector, subject to SMEs playing their role in being responsible users of credit.

Notwithstanding the perception of banks regarding their relationships with SME clients in the Khomas region, banks feel that SMEs remain a high risk segment of their loan books. Poor management practices and inadequate financial control were given as the causes of the high risk placed on SMEs. Figure 29 shows the responses

from banks regarding their perception on the quality of business management practices used by SMEs approaching them with loan applications.



Source: 2015 survey on manufacturing SMEs in the Khomas region

These perceptions by banks have a bearing on the calculation of risk attached to loans offered to SMEs. The worst bank ratings on SME business management processes are on business accounting and corporate governance. This creates difficulties for financial institutions as they need accurate historical information from potential borrowers in order to evaluate their future capacity to repay the loan. To address this risk, banks indicated that they resort to insisting on collateral from the

SME client, or to a lesser degree on requiring the SME to put up a cash contribution as a condition to the approval of the loan.

This analysis is corroborated with results given in section 4.4.4 showing the educational profile of SME employees in the Khomas region. In that section it was demonstrated that 86 percent of the workforce of SMEs which participated in the survey are educated up to trade certification. The results indicated that SMEs are staffed by people, who are otherwise good in their respective technical fields, but far less so at business management.

Taking another look at section 4.6, it is seen that SMEs hold negative perceptions about the role and commitment of banks in supporting the growth of the SME sector. However, SMEs do not entirely blame the banking sector for their inability to access all the finance they require for business growth. When respondents were requested to suggest what they think SMEs are failing to do, and therefore should do, in order to improve their chances of obtaining bank loans more easily, interestingly, only 25 respondents blamed the banks entirely for hindering SMEs from accessing finance. This number represents 40 percent of survey responses. The remaining 60 percent of responses apportioned the blame between banks and SMEs themselves.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study explores the relationship that exists between access to finance by SMEs in the Khomas region and the resultant impact on employment creation. This chapter provides a summary of the study, gives conclusions and offers recommendations for further action. The recommendations are given with a view to making conditions easier for SMEs to access loan finance from banks so that they can have a greater impact on employment creation in the region.

5.2 Summary

The study was designed to explore the impact of access to finance by SMEs on employment creation in the Khomas region of Namibia. The research objectives were identified as follows:

1. To find out the nature of the link between access to finance by manufacturing SMEs in the Khomas region and employment creation.
2. To measure the full extent to which manufacturing SMEs in the Khomas region can contribute to employment creation if they are able to access finance.
3. To identify measures to improve access to finance for manufacturing SMEs in the Khomas region.

The first step in addressing the objectives was to review literature in the form of empirical studies, journals, textbooks and periodicals. The aim of reviewing literature was to provide theoretical background to the study. The literature reviewed first looked at the definition of key terms like SME, access to finance, employment creation, unemployment, and labour force. The following sections looked at the unemployment problem in Namibia, the importance of SMEs in employment creation, financial inclusion, the SME financing gap, and causes of the SME financing gap. Finally, the literature review also explored what empirical studies say about the link between access to finance and employment creation by SMEs, before looking at ways of improving access to finance for SMEs.

Having obtained a theoretical background to the study, fieldwork was done by means of collecting data in order to address the three research objectives. The research design used a mixed-methods approach that combined quantitative and qualitative data. Before the main survey, a pilot study was done on twelve SMEs in Windhoek with the aim of refining the questionnaire's design. In applying the quantitative approach, data was collected by administering the questionnaire in a survey of manufacturing SMEs in Windhoek. The convenience sampling technique was used and the survey yielded a 62 percent response rate on the sample size. To obtain qualitative data, structured personal interviews were conducted with five banks in Windhoek that operate a dedicated SME department.

After completing data collection procedures through the survey of manufacturing SMEs and structured personal interviews with banks in Windhoek, data was collated,

inputted and analysed using the SPSS software. To present the data, Excel software was used so as to produce quality charts and tables.

5.3 Major findings

The analysis of data using SPSS software yielded important findings that address the research objectives. The study was applied on a sample of SMEs in the Khomas region and the results of data analysis were used to make inferences and generalisations about the impact of SMEs creating employment in the Khomas region when they are able to access finance. The following paragraphs provide the summary of major findings:

1. There exists a positive linear relationship between access to finance by manufacturing SMEs and employment creation in the Khomas region. This linear relationship is represented by the equation: $\boldsymbol{y = 9.8 + 0.000005x}$. Using this equation it is possible to estimate the impact of any given level of bank finance on employment creation by SMEs in the Khomas region. For instance, consider that in the survey of 63 SMEs, 61 of these indicated that they will require external bank finance in the future amounting to NAD 178.7 million. By substituting NAD 178.7 million for the independent variable $\boldsymbol{x}$ in the bivariate least squares equation, it is possible to determine that the 61 SMEs will be able to generate approximately 903 jobs within two years of accessing finance. It does appear that access to finance by SMEs does not result in an exponential growth in employment levels in the region.

2. Using multivariate regression analysis, the Correlation Coefficient is 0.72. This shows that the linear relationship between the composite measure of access to finance by manufacturing SMEs and employment creation is not only positive, but also strong.

3. Using multivariate regression analysis, the Coefficient of Determination is measured at 0.52. This means access to bank finance by SMEs over the past two years explains 52 percent of the increase in employment created over the same period. Conversely, 48 percent of the employment created by SMEs over the past two years is explained by factors other than bank finance.

4. The multivariate regression model gave a standard error of estimate value of 6.6 in comparison to the mean of 14 jobs created by SMEs. Thus the standard error of estimate is determined to be relatively small. Furthermore, Annexure 11 gives the value of F as 2.953. With the rejection region of 2.54, the F value is large enough to justify that most of the variation in employment creation by SMEs is explained by the multivariate regression equation. It is therefore determined that the model's fit is suitable as a tool for forecasting employment levels in the Khomas region as a result of SMEs accessing finance.

5. There were 79 percent survey respondents who stated that they had used personal finances to start-up their operations and 16 percent stated that they financed their start-up with bank loans. After starting operations, 74 percent said they currently use external finance to fund their operations. Of this number, most of the respondents indicated they use trade credit as a source of external finance

compared to bank loans. Bank loans used by SMEs equate to about 71 percent of supplier credit. By inference this means SMEs in the Khomas region struggle to access finance from banks and resort to using trade credit.

6. The loan approval rating among the 50 SMEs who applied for bank credit stands at 36 percent. Conversely, the bank loan rejection rate stands at a staggering 64 percent.

7. Ninety-two percent of the SMEs whose loans were approved reported using the proceeds for business growth project. This means there is more likelihood that bank loans acquired by SMEs are rightly being used to create employment opportunities in the Khomas region.

8. Responses from 89 percent of the respondents show that SMEs perceive inadequate access to finance as one of the major impediments to their growth. On another perception index, 97 percent of SMEs said they do not agree with the view that banks are supportive to the growth objectives of SME through providing loans. When further asked about their opinion regarding the ease of obtaining bank finance, 75 percent said it was difficult. These perceptions were largely influenced by the media, friends, relatives and actual experiences of SMEs in their loan application encounters.

9. On a four-tier scale where 'excellent' is the best score and 'bad' is the worst, 63 percent of SME respondents said they enjoyed fair relationships with their banks, 11 percent said they had bad relations, an equal ratio said they had good

relations, while 5 percent said they maintained excellent relationships with their banks.

10. Commercial bank loans are the most commonly known finance product by SMEs. The second most known product is bank overdraft at 90 percent of respondents, followed by vehicle finance known by 83 percent respondents, credit card known by 65 percent respondents and mortgage finance known by 56 percent respondents. The remaining finance products are little known among the survey respondents. A similar, though subdued, trend was exhibited when respondents were asked to make known their preference for the various financial products available on the market. This probably indicates that there is no depth in the financial markets, as respondents showed little knowledge and interest in some financial products.

11. SMEs whose loan applications were successful reported that banks normally attach conditions to approved loans. The most commonly used conditionality by banks are; charging of facility and charging of administrative fees, the requirement for collateral and guarantees, the requirement for the applicant to put up a cash contribution on the loan, the requirement to open a bank account and provide regular management reports.

12. All SMEs whose loan applications were approved fully utilised those loans, but 54 percent said they had at some time missed their scheduled repayments. Reasons cited for missing loan repayments included high interest rates, the short

term nature of some loans, high monthly instalments, and downturn in business opportunities post-loan approval.

13. The mean lead time for bank loan approvals was determined at four weeks with a standard deviation of two weeks. This means the lead time on loan applications can deviate from the mean by two weeks.

14. The survey shows that 93 percent of the respondents had accessed loans in the past two years and paid cost of capital of between eight to twelve percent. In the future outlook, around 97 percent of respondents indicated they were willing to pay interest rates ranging between eight to twelve percent. Based on data provided by the respondents, the eight to twelve percent range appears to be reasonable within the Khomas region's financial market for SMEs.

15. All banks interviewed said they have policies that are tailored to serve the needs of their SME clientele. This is supported by SME departments found within their organisational structures.

16. All banks run SME mentorship and support programmes. The mandate to run these programmes is derived from corporate responsibility and for some, from their founding charters.

17. Over the past three years 459 SMEs benefitted from bank financing that amounted to approximately NAD 385 million. Measured as a percentage of the dollar value, SMEs account for about 31 percent of the total loan book of the five banks. It is also observed that 21 percent of SME respondents have never

bothered to seek a bank loan. If these financially excluded SMEs could have successfully made loan applications it would have increased the contribution of SMEs to employment creation in the Khomas region. This probably indicates that some SMEs are excluded from taking part in the financial markets.

5.4 Conclusions

Having gone through the list of major findings, the study is concluded by showing how the research objectives have been addressed.

1. The first objective sought to find out the nature of the link between access to finance by manufacturing SMEs in the Khomas region and the employment they generate. Using results of both bivariate and multivariate regression analysis it is shown that there exists a positive linear relationship between the two variables. The bivariate results were confirmed on a scatter diagram with a line of best fit sloping upwards from left to right (refer to Figure 23).

   Using multiple regression analysis, access to finance was decomposed into its constituent elements. It was shown that availability of bank credit to SMEs does not yield an exponential growth in employment figures generated by SMEs in the region.

   Other descriptive measures were computed using multiple regression analysis to identify the nature of the relationship between the two variables. These are Pearson's Correlation Coefficient with a value of 0.72, and Coefficient of

Determination with a value of 0.52. Pearson's Correlation Coefficient shows that the two variables have a positive and strong linear relationship. The Coefficient of Determination shows that access to bank finance by the surveyed SMEs in the Khomas region can explain 52 percent variation in employment generated by the SMEs. That means 48 percent of the employment generated by these SMEs can only be explained by other factors besides bank finance.

2. The second objective sought to measure the extent to which manufacturing SMEs in the Khomas region can contribute to employment creation if they are able to access bank finance. Using survey data, an equation was computed that represents the line of best fit as follows: **y = 9.8 + 0.000005x**. The figure constant has a positive sign, proving once again that there is a positive linear relationship between the two variables.

   Using this equation it is possible to measure the extent of the impact of access to bank finance on employment creation. For instance, during the survey, one question posed to respondents was whether they will require bank financing in the future to fund the growth of their businesses. Only two respondents said they will never require bank financing in the future. The remaining 61 respondents said they would require future financing to the amount of NAD 178.7 million. Applying the regression equation, employment creation (y) is estimated by substituting for bank finance (x) in the equation. The result of this mathematical calculation shows that when SMEs access bank finance of NAD 178.7 million,

they will impact employment creation by generating approximately 903 jobs over the next two years.

3. The third objective sought to find ways of improving access to finance for manufacturing SMEs in the Khomas region. Data collected during fieldwork was analysed and it showed that banks have taken practical steps to institutionalise their responsibility to assist SMEs. Notwithstanding, the banks fully recognise that there are many obstacles standing in their way to increase funding to the SME sector. The SMEs that were surveyed also alluded to the fact that banks are not entirely to blame for the restricted financing that they get from banks.

It is worth noting that both suppliers and users of finance concur on the challenges they face to improve financial inclusion of SMEs. Many suggestions were offered by both SMEs and banks to address these challenges and help improve access to bank finance by SMEs.

It is thus concluded, that SMEs indeed have an impact on employment creation in the Khomas region when they access bank finance. However, the size of their impact on employment creation is rather subdued due to the challenges that they face in trying to access bank finance. This therefore calls for coordinated policy and operational interventions by relevant stakeholders to improve conditions for access to finance by SMEs so that in turn, they can create significant employment opportunities in the Khomas region. Having gone through the summary of findings and conclusions, the objectives as set out at the beginning of this thesis have been adequately addressed.

5.5 Recommendations

The recommendations that follow are intended to increase opportunities for access to bank finance by SMEs in the Khomas region, thereby stimulating their ability to generate more employment in the region:

1. The varied SME mentorship and support programmes available on the market need to be transformed to become a single SME Continuing Professional Development (CPD) programme. The CPD programme should be bankrolled by MITSD and run by accredited professional bodies in Namibia, having a 2-year validity on certified SMEs. To enhance the SME CPD programme, its scope will have to widen to include capacity building modules in financial accounting and control, business plan writing, operations management, best practices in corporate governance and how to design sound business systems. Other programmes will include the secondment to SMEs of final-year tertiary students in business studies, so that the students can provide support for the building of SME business management skills. The SME CPD programme will help increase the capacity of SMEs to access affordable loans, operate profitably and be able to repay their loan obligations. The lead player in this regard should be the SME Development department at MITSD, in collaboration with banking institutions, private corporate firms, as well as tertiary education and training institutions.

2. Government of the Republic of Namibia (GRN), through the Ministry of Finance, should establish an SME Credit Guarantee Fund (SME CGF). The SME CGF should be created through an Act of Parliament, with the mandate to provide State collateral for SMEs when they seek to raise bank loans. This fund

will help to address the risk concerns of commercial banks when appraising SME loan applications. This will increase the overall loan success rate of SMEs. To allow for the sustainable operation of this proposed credit guarantee facility, GRN should inject start-up capital of not less than NAD 500 million into the fund, and allow for an independent board of trustees to apply risk management mechanisms to keep the fund revolving and solvent. Part of the risk management mechanisms will call for any SME requiring State collateral, in support of its bank loan application, to hold valid SME CPD certification. This facility will allow GRN to counter the stringent collateral requirement by banks.

3. Bank of Namibia should establish a minimum SME capital ratio for commercial banks as part of its monetary policy instruments. This intervention will require that commercial banks hold SME loans of not less than a statutory minimum percentage on their total loan books. The statutory minimum ratio will support operationalisation of the proposed SME CGF because banks will strive to meet the minimum threshold through issuing more loans to SMEs, knowing fully well that the risk attached to these loans is mitigated by State collateral.

4. The role of SME Bank as a quasi-government institution should be strengthened so that the bank plays a lead role in providing bank loans to SME. As a government policy measure implemented by MITSD, SME Bank should be directed to use less stringent credit criteria in processing SME loan applications. This would mark a departure from the approach used by the traditional commercial banks when dealing with SME loan requests. Furthermore, GRN should inject required additional into the SME bank on condition that at least 95

percent of the injection is earmarked for on-lending to SMEs. This measure will make more finance accessible to SMEs.

5. Government should enact an Act of Parliament that provides for the establishment of an SME Manpower Development Fund and the statutory requirement for Namibian private and quasi-government institutions to contribute towards a manpower development levy. The levy will be calculated at a predetermined percentage of the total payroll costs of the targeted contributing institutions. The fund will then be used to partly reimburse the payroll costs of SMEs, based on a fixed dollar amount applied to the number of jobs created for unskilled, semi-skilled and technical labourers. This statutory intervention will encourage SMEs to generate employment opportunities that mostly require technical and unskilled employees, because these form the bulk of the present labour force in the Khomas region.

6. The study found that the labour force of Khomas region is mostly constituted of people who are not highly skilled, with more strength in technical skills and little in management and administration skills. To address this shortcoming in the medium- to long-term, vocational and tertiary institutions should establish SME departments within their Commerce faculties with the support of increased government funding. Where SME departments already exist, these should be restructured to offer business management courses that impart skills in business and financial management for small businesses. The primary target of these SME departments should be any person working for an SME. This intervention will serve to build the capacity of SMEs to be able to internally prepare accurate and

'fairly presented' financial reports, management accounts, cashflow projections and business plans in support of their applications for bank loans.

7. GRN should spearhead a taskforce of all professional accounting bodies in Namibia that will develop independent assurance services equating to an external audit suited for the relatively small operations of SMEs. This effort should be complemented by GRN adopting for use in Namibia the International Financial Reporting Standards (IFRS) for SMEs.

8. Using monetary policy measures, BON should subsidise interest rates charged by commercial banks on SME loans by three basis points. This way the bank loans will become cheaper for SMEs to access, and with increased access, SMEs will spur greater economic activity and create more employment opportunities.

9. SMEs in the Khomas region should form a regional association of SMEs, registered with the Ministry of Labour and Social Welfare. The association should be run by an active secretariat and have the mandate to exclusively represent SME interests in the region. The association will speak with one collective voice in the name of Khomas region SMEs, when engaging banks, other financial institutions, tertiary education and training institutions, corporate or government ministries, agencies and offices. This collective voice will give SME issues more weight in national discourse.

5.6 Area for further study

It will be important to do further research and establish the nature of causal factors influencing employment creation. Knowing these factors will make it easier to determine what further policy interventions are necessary to increase the influence of bank finance on employment creation from the present 52 percent. Furthermore, knowing other factors that influence employment creation will help to identify how SMEs in the Khomas region can be capacitated to unleash their full potential for employment creation.

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Annexure 1 – Letter of Introduction from UNAM

Department of Political and Administrative Studies
University of Namibia
26th October 2015

TO WHOM IT MAY CONCERN

Sir/Madam

Letter of Introduction: Mr David Kanonuwa

In partial fulfilment of the requirements of the Masters of Business Administration degree students are required to do research and complete a thesis on a specific topic. Mr. Kanonuwa's research topic is: **EXPLORING THE IMPACT OF ACCESS TO FINANCE BY SMALL AND MEDIUM-SIZED ENTERPRISES ON EMPLOYMENT CREATION IN THE KHOMAS REGION OF NAMIBIA**.

Name and surname: *David Kanonuwa*
Student number: *200640402*
ID number: BN525769 (p/p)
Date of birth: 18-02-1975
Course of study: *Masters in Business Administration*
Contact details: Cell: *+264 81 2100245*
E-mail: davekanon@yahoo.com

I would appreciate your granting him access to your records for research purposes.

Thank you

P Mvan Rooyen

…….
Piet van Rooyen
(Professor)

Annexure 2 – Letter to NCCI

The Chief Executive Officer
Namibia Chamber of Commerce and Industry
P.O. Box 9355
Windhoek 29 October 2015

Dear Sir

REQUEST FOR ASSISTANCE WITH CONTACT DETAILS OF MANUFACTURING SMES IN WINDHOEK FOR PURPOSES OF CONDUCTING AN ACADEMIC RESEARCH

I refer to the above subject.

By way of reference, my name is David Kanonuwa, a student of Namibia Business School at the University of Namibia. I am currently writing a thesis in partial fulfilment of the requirements of the Master in Business Administration specialising in Finance. The topic I am researching on is titled: **EXPLORING THE IMPACT OF ACCESS TO FINANCE BY SMALL AND MEDIUM-SIZED ENTERPRISES ON EMPLOYMENT CREATION IN THE KHOMAS REGION OF NAMIBIA.**

I am at the stage where I need to survey at least 100 SMEs in Windhoek. I am of the considered view that your well respected institution (and indeed an esteemed Partner of the Namibia Business School) is well positioned to assist me with a listing of SMEs and their contact details to enable me to extract a sample and conduct a survey purely for purposes of my academic research.

Be assured of my ethical pledge to the University of Namibia, that all the work carried out as part of the data collection fieldwork and resultant data analysis will be treated in the strictest of confidence. The results will be presented at a merged level, so designed as to ensure that it will not be possible to identify any single individual or business in the results.

I have also attached to my email a "Letter of Introduction" from my research supervisor, as well as a copy of the research instrument that will be used in the survey of subjects.

Allow me to thank you in advance for your assistance as it will enable me to complete the research in time and add to the list of those making the School's alumni that stand tall in commerce and industry.

Yours faithfully

David Kanonuwa
Student # 200640402

Annexure 3 – Letter to NMA

The Chief Executive Officer
Namibia Manufacturers Association
P.O. Box 3325
Windhoek 29 October 2015

Dear Sir

REQUEST FOR ASSISTANCE WITH CONTACT DETAILS OF MANUFACTURING SMEs IN WINDHOEK FOR PURPOSES OF CONDUCTING AN ACADEMIC RESEARCH

I refer to the above subject.

By way of reference, my name is David Kanonuwa, a student of Namibia Business School at the University of Namibia. I am currently writing a thesis in partial fulfilment of the requirements of the Master in Business Administration specialising in Finance. The topic I am researching on is titled: **EXPLORING THE IMPACT OF ACCESS TO FINANCE BY SMALL AND MEDIUM-SIZED ENTERPRISES ON EMPLOYMENT CREATION IN THE KHOMAS REGION OF NAMIBIA.**

I am at the stage where I need to survey at least 100 SMEs in Windhoek. I am of the considered view that your well respected institution (and indeed an esteemed Partner of the Namibia Business School) is well positioned to assist me with a listing of SMEs (as per NMA definition) and their contact details to enable me to extract a sample and conduct a survey purely for purposes of my academic research.

Be assured of my ethical pledge to the University of Namibia, that all the work carried out as part of the data collection fieldwork and resultant data analysis will be treated in the strictest of confidence. The results will be presented at a merged level so designed as to ensure that it will not be possible to identify any single individual or business in the results.

I have also attached to my email a “Letter of Introduction” from my research supervisor, as well as a copy of the research instrument that will be used in the survey of subjects.

Allow me to thank you in advance for your assistance as it will enable me to complete the research in time and add to the list of those making the School’s alumni that stand tall in commerce and industry.

Yours faithfully

David Kanonuwa
Student # 200640402

Annexure 4 – Questionnaire for survey of SMEs

RESEARCH INSTRUMENT - THE SME "DEMAND SIDE" OF FINANCE

SECTION A - LOCATION OF SME					
Katutura - Incubation Centre	1	Katutura – Other	5	Windhoek North Industrial Area	9
Katutura – Red Cross Centre Area	2	Khomasdal - SME Centre	6	Windhoek South Industrial Area	10
Katutura – Menarovanda Area	3	Khomasdal – Gammamsburg Area	7	Prosperita Industrial Area	11
Katutura – Soweto Market Area	4	Windhoek Town	8	Lafrenz Industrial Area	12

INFORMED CONSENT	**MANUFACTURING SEGMENT**	**RESULTS**	
I, the undersigned enumerator, hereby confirm that I understand the entirety of the concept. I further state that the respondent has has wilfully agreed to participate in this survey.	Food & Beverage Processing	Completed	1
	Chemical Processing	Not Available	2
	Construction	Postponed	3
	Textile Industry	Refused	4
	Engineering	Partly completed due to time	5
	Agricultural Production	Respondent incapacitated	6
		Other	7
…… **Enumerator's Signature**			

Good morning/afternoon. My name is _____. I am conducting a survey on behalf of a student at the Namibia Business School of the University of Namibia. Please see the letter of authorisation from the University of Namibia.

May I kindly confirm that you are the person with the primary responsibility on financial matters of the business.

The survey we are conducting is trying to see the ability of SMEs in the Khomas region to create employment, if they are able to obtain all the finance they require from financial institutions.

STATEMENT OF RESEARCH ETHICS

1. The purpose and results of the survey are purely for advancing the cause of this academic research.
2. Results of the survey will be reported at a merged level only.
3. It will not be possible to identify any single individual or business in the results.
4. At no point will the raw data of this survey be provided to any third party.
5. All information collected will be kept in the strictest of confidence

Date: _____ 2015

SECTION B - CHARACTERISTICS OF THE SME RESPONDENT					
		TICK APPLICABLE			
		YES	NO	N/A	COMMENTS (IF APPLICABLE)
B1	Is the Business Registered?				
B2	What is the registering authority				
B3	What is the form of business				
	Sole proprietorship				
	Partnership				
	Close Corporation				
	Proprietary Limited				
	Other (Specify)				
B4	How many owner(s) does the business have?				
B5	When did the business start operating (year)?				
B6	Where did the finances come from to start-up the business?				
B7	At the start, how many people were employed?				
B8	How many employees were permanent?				
B9	Today, how many people are employed today?				
B10	How many employees are permanent?				
B11	How many employees are:				
	Skilled				
	Semi-skilled				
	Unskilled				
B12	How many current employees are educated up to:				
	Doctorate				
	Master degree				
	Bachelor degree				
	Diploma				
	Trades / General Certificate				
	Grade 12				
	Grade 10				
	No formal education				
B13	What is the annual income of the business?				
	Less than N$300,000				
	N$300,001 – N$3,000,000				
	N$300,000,001 – N$10,000,000				

		TICK APPLICABLE			
		YES	NO	N/A	COMMENTS (IF APPLICABLE)
B14	Does the company use outside bookkeepers?				
B15	Does the business perform any of the following?				
	Maintain management accounts				
	How regular?				
	Compile AFSs statements				
	Are they audited?				
	Maintain existing business plans				
	How often is it updated?				
	Estimate cashflow projections				
	How often?				
B16	In the past two years, did the business ever have to retrench its staff?				
B17	If so, how many?				
B18	What was the reason for the retrenchment?				
B19	In your opinion, what is the biggest challenge impeding the growth of your business?				
	Tight market for products				
	High cost of labour				
	Unavailability of skilled labour				
	High staff turnover				
	Outdated business technology				
	Inadequate finance for investment				
	Restrictive business environment				

SECTION C - ACCESS TO FINANCE					
		TICK APPLICABLE			
		YES	NO	N/A	COMMENTS (IF APPLICABLE)
	General				
C1	Does your business operate a bank account(s)?				
C2	With which bank(s)?				
C3	Is the bank account(s) in the business' name?				
C4	If not, in whose name/title is the account?				
C5	How do you rate your business' relationship with the bank?				
	Excellent				
	Good				
	Fair				
	Bad				
	Financing Options				
C6	Does the business ever use external finance?				
C7	If so, where does the business borrow finance?				
	Personal savings of owner				
	Profit savings of the business				
	Selling assets of the business				
	Loan from relatives / friends				
	Raising a loan from the bank				
	Selling business equity				
	Government loan / subsidy				
	Other (Please specify)				
C8	Does the business ever use supplier credit?				
C9	How much supplier credit is used by the business on average/month?				

		TICK APPLICABLE			
		YES	NO	N/A	COMMENTS (IF APPLICABLE)
	Bank Finance				
C10	Looking at bank financing, in your opinion, how do you rate the ease of getting a bank loan?				
	Easy				
	Fair				
	Difficult				
	I do not know				
C11	How did arrive at you decision in C10?				
	Through the media				
	Heard from relatives/friends				
	Actual experience				
	My accountant's advice				
	My business networks				
	I do not know				
	Other (Please specify)				
C12	Do you know any of the following bank finances?				
	Commercial bank loan				
	Credit card				
	Bank overdraft				
	Vehicle finance				
	Mortgage finance				
	Micro finance				
	Factor finance				
	Lease finance				
	Venture capital				
C13	Given a choice, which type of bank finance would you prefer to use. You can choose as many?				
	Commercial bank loan				
	Credit card				
	Bank overdraft				
	Vehicle finance				
	Mortgage finance				
	Micro finance				
	Factor finance				
	Lease finance				
	Venture capital				

		TICK APPLICABLE			
		YES	NO	N/A	COMMENTS (IF APPLICABLE)
	Accessing the Finance				
C14	In the past two years, did the business ever seek a bank loan? (If "NO" then go to C37)				
C15	If C13 is to the affirmative, what was the size of the loan				
C16	With which bank was the application made?				
C17	What was the purpose of the loan required?				
	New business venture				
	Business expansion				
	Business mortgage loan				
	Cashflow or working capital loan				
	Asset financing				
	Debt restructuring				
	Other (Please specify)				
C18	Did you seek help of a professional consultant to assist with the application?				
C19	Did the bank at any time ask for additional information?				
C20	Were you able to provide the additional information so requested by the bank?				
C21	How long did it take for the bank to give you an answer?				
C22	What was the response of the bank?				
	Loan was approved in full (to C23)				
	Loan was approved partially (to C22)				
	Loan was not approved (to C31)				
	Loan approved, but didn't take it up				
	Reasons:				

		TICK APPLICABLE			
		YES	NO	N/A	COMMENTS (IF APPLICABLE)
C23	If approved partially, how much was approved?				
C24	What was the interest rate charged on the loan?				
C25	If approved were any additional conditions attached to the loan such as:				
	Need for collateral or other guarantees				
	To submit regular management accounts				
	Different finance structure given				
	Facility fees charged				
	Other administration fees charged				
	Open and maintain account with bank				
	Convert overdraft to loan				
	Requirement to put up cash				
	Other (Please specify)				
C26	From approval date, was the loan fully utilised by the business?				
C27	If C25 is negative, why has the business not fully utilised the loan facility?				
C28	In the past 12 months, has the business ever miss any scheduled loan repayment?				
C29	If the answer for C27 is affirmative, what could have been the cause? Choose from the list below:				
	The term of the loan is very short				
	Monthly repayment is high				
	The interest rate is high				
	Business has been low				
	Other (Please specify)				
C30	Since the loan was approved, did the business increase its workforce?				
C31	If C29 is to the affirmative, how many additional jobs were created?				

		TICK APPLICABLE			
		YES	NO	N/A	COMMENTS (IF APPLICABLE)
C32	If the loan applied for in C14 was not secured, what were the reasons given by the bank for the rejection? Choose any of the following				
	Poor credit rating				
	Already too many loans / debt				
	Inadequate repayment capacity				
	Lack of own contributing capital				
	Insufficient collateral / guarantee				
	Insufficient historical information				
	No loan history				
	No reasons given				
	Other (Please specify)				
C33	Were you informed by the bank of the option to appeal its decision?				
C34	Do you agree with the reasons given by the bank for not giving the loan?				
C35	How many other times has the business applied for a bank loan?				
C36	How many of those applications were successful?				
C37	What was the highest loan ever asked for?				
C38	If never applied for a bank loan, give reasons from the list below:				
	Did not need it				
	Had existing finance arrangement				
	Inability to meet bank requirements				
	Using internal sources of finance				
	Raised finance from grants				
	Too expensive to borrow				
	Know banks are not willing to lend				
	Do not trust banks with private info.				
	Other (Please specify)				

		TICK APPLICABLE			
		YES	NO	N/A	COMMENTS (IF APPLICABLE)
	SME Projections				
C39	Looking into the future, will you ever require bank financing to fund the business' growth?				
C40	How much loan would the business require?				
C41	What would the finance be used for? Choose from the list below:				
	New business venture				
	Business expansion				
	Business mortgage loan				
	Cashflow or working capital loan				
	Asset financing				
	Debt restructuring				
	Other (Please specify)				
C42	What interest rate would you be willing to pay for the loan?				
C43	If the business then obtains the bank finance it applies for, how much additional employment would the business create due to its expansion?				
C44	In your own view, are banks supporting SMEs enough with loans for business growth?				
C45	In your own opinion, what do you think banks should do to assist SMEs get loans easily?				
C46	In your own opinion, what do you think SMEs are failing to do (and therefore should do) to improve their chances of getting bank loans easily?				

Annexure 5 – Questionnaire for interviews with banks

RESEARCH INSTRUMENT - THE SME "SUPPLY SIDE" OF FINANCE

Hallo. My name is David Kanonuwa. I am a student of the Namibia Business School of the University of Namibia. I am conducting a survey as part of the process to complete my thesis, in partial fulfilment of the requirements of a degree of the Master in Business Administration.

The survey that I am conducting on the "SME Supply-Side of Finance" aims to identify the present support that Namibian banks offer to SMEs in Namibia generally, and those from the Khomas region in particular. Your cooperation in completing this questionnaire will go a long way in assisting me to complete my thesis.

STATEMENT OF RESEARCH ETHICS

1. The purpose and results of the survey are purely for advancing the cause of this academic research.
2. Results of the survey will be reported at a merged level only.
3. It will not be possible to identify any single individual or business in the results.
4. At no point will the raw data of this survey be provided to any third party.
5. All information collected will be kept in the strictest of confidence

		YES	NO	N/A
B1	What criteria does your bank use to classify SMEs?			
B2	Does your bank have in place policies or guidelines designed specifically to support SMEs?			
B3	Does your bank have SME support services like mentorship programmes?			
B4	How many SMEs have benefitted from such SME mentorship programmes in the past three years?			
	1 – 10			
	11 – 20			
	Above 21			

		YES	NO	N/A
B5	If your bank provides such SME support programmes, is the offering out of the following reasons?			
	Bank mandate			
	Social Responsibility			
	Both			
B6	Is there any other platform that the bank communicates with SMEs? Please specify.			
B7	How do you rate your banks' relationship with SMEs?			
	Good			
	Fair			
	Bad			
B8	Based on the SMEs your bank deals with, how do you rate Khomas region SMEs in the following business functions? Indicate either Good, Fair, Poor.			
	Business Accounting / Financial Management			
	Corporate Governance			
	Marketing management			
	Operations management			
	Business plan formulation			
B9	In the past three years, how many SMEs from the Khomas region accessed finance from your bank?			
	2014			
	2013			
	2012			
B10	In the past three years, what was the aggregate value of finance extended by your bank to SMEs from the Khomas region?			
	2014			
	2013			
	2012			

		YES	NO	N/A
B11	In the past three years, what percentage of your bank's loan portfolio went to SMEs in the Khomas region, vis-a-vis big firms?			
	2014			
	2013			
	2012			
B12	According to your records, which is the most used form of bank finance by SMEs in the Khomas region?			
	Commercial bank loan			
	Credit card			
	Bank overdraft			
	Vehicle finance			
	Mortgage finance			
	Micro finance			
	Factor finance			
	Lease finance			
	Venture capital			
B13	According to your records, what is the greatest impediment to SMEs in the Khomas region accessing finance from your bank?			
B14	In your opinion, what should SMEs do better in order to access more finance from your bank?			

Annexure 6 – Comparison of average annual incomes to job levels

GRAPH /HISTOGRAM=Current_Fixed Employment /PANEL COLVAR=Income COLOP=CROSS.

Graph

Notes

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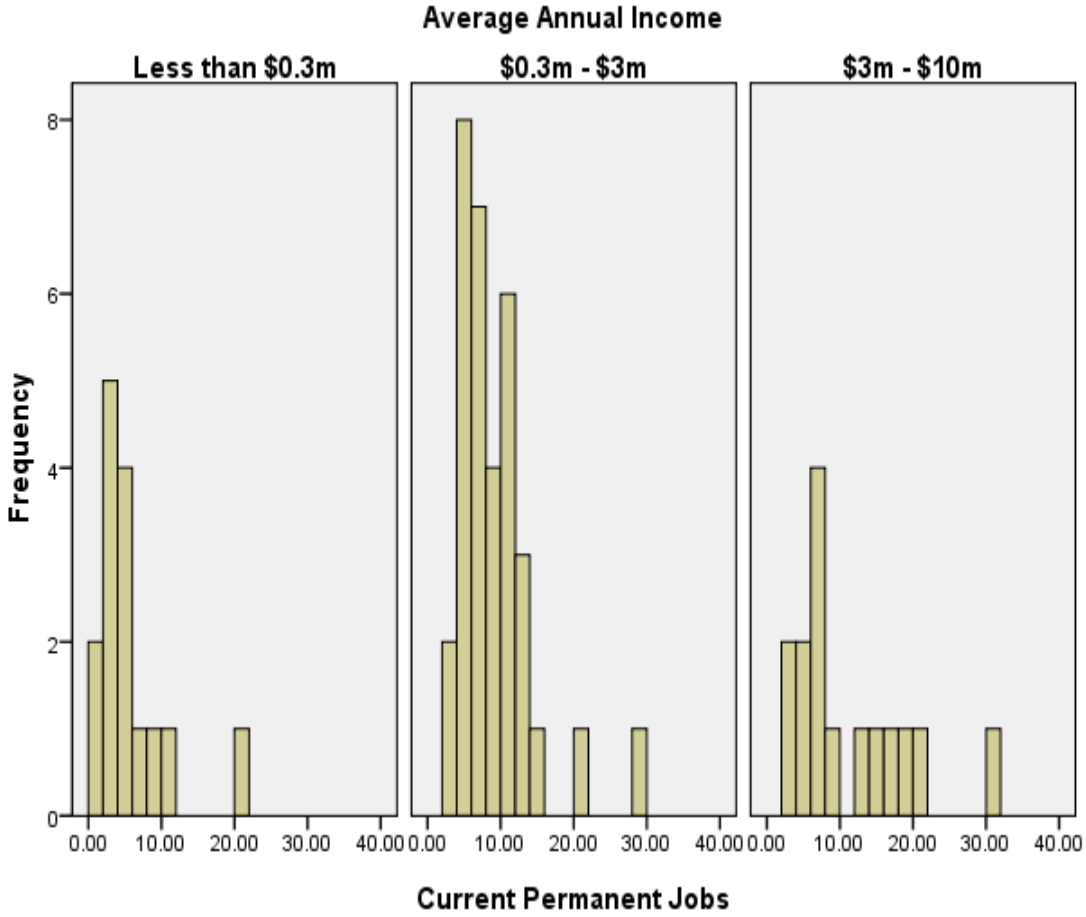


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[MEAN] BY Income   /CATEGORIES VARIABLES=Income ORDER=A
KEY=VALUE EMPTY=INCLUDE.
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Custom Tables

Notes

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	Average Annual Income		
	Less than $0.3m	$0.3m - $3m	$3m - $10m
	Mean	Mean	Mean
Current Permanent Jobs	5.27	8.79	10.87

Comparison of average annual income to total current jobs					
Annual Income	Current Jobs	Annual Income	Current Jobs	Annual Income	Current Jobs
≤ NAD 0.3 m	3	NAD 0.3 m - NAD 3 m	5	NAD 3.1 m - NAD 10 m	7
≤ NAD 0.3 m	3	NAD 0.3 m - NAD 3 m	6	NAD 3.1 m - NAD 10 m	9
≤ NAD 0.3 m	4	NAD 0.3 m - NAD 3 m	7	NAD 3.1 m - NAD 10 m	10
≤ NAD 0.3 m	5	NAD 0.3 m - NAD 3 m	9	NAD 3.1 m - NAD 10 m	13
≤ NAD 0.3 m	6	NAD 0.3 m - NAD 3 m	9	NAD 3.1 m - NAD 10 m	14
≤ NAD 0.3 m	7	NAD 0.3 m - NAD 3 m	10	NAD 3.1 m - NAD 10 m	16
≤ NAD 0.3 m	7	NAD 0.3 m - NAD 3 m	10	NAD 3.1 m - NAD 10 m	18
≤ NAD 0.3 m	7	NAD 0.3 m - NAD 3 m	10	NAD 3.1 m - NAD 10 m	28
≤ NAD 0.3 m	9	NAD 0.3 m - NAD 3 m	11	NAD 3.1 m - NAD 10 m	29
≤ NAD 0.3 m	9	NAD 0.3 m - NAD 3 m	12	NAD 3.1 m - NAD 10 m	29
≤ NAD 0.3 m	12	NAD 0.3 m - NAD 3 m	12	NAD 3.1 m - NAD 10 m	33
≤ NAD 0.3 m	13	NAD 0.3 m - NAD 3 m	14	NAD 3.1 m - NAD 10 m	33
≤ NAD 0.3 m	26	NAD 0.3 m - NAD 3 m	14	NAD 3.1 m - NAD 10 m	39
≤ NAD 0.3 m	27	NAD 0.3 m - NAD 3 m	14	NAD 3.1 m - NAD 10 m	43
≤ NAD 0.3 m	43	NAD 0.3 m - NAD 3 m	14	NAD 3.1 m - NAD 10 m	50
		NAD 0.3 m - NAD 3 m	18		
		NAD 0.3 m - NAD 3 m	19		
		NAD 0.3 m - NAD 3 m	19		
		NAD 0.3 m - NAD 3 m	19		
		NAD 0.3 m - NAD 3 m	19		
		NAD 0.3 m - NAD 3 m	19		
		NAD 0.3 m - NAD 3 m	21		
		NAD 0.3 m - NAD 3 m	21		
		NAD 0.3 m - NAD 3 m	21		
		NAD 0.3 m - NAD 3 m	24		
		NAD 0.3 m - NAD 3 m	24		
		NAD 0.3 m - NAD 3 m	24		
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		NAD 0.3 m - NAD 3 m	29		
		NAD 0.3 m - NAD 3 m	29		
		NAD 0.3 m - NAD 3 m	31		
		NAD 0.3 m - NAD 3 m	33		
		NAD 0.3 m - NAD 3 m	39		
Total Jobs	**181**	**Total Jobs**	**595**	**Total Jobs**	**371**
Average Jobs	**12**	**Average Jobs**	**18**	**Average Jobs**	**25**

Annexure 7 – Employment created by surveyed SMEs

Anniversary	Capital	Jobs at inception	Current jobs
Jan-01	Personal savings	22	50
Jan-02	Personal savings	4	9
Apr-02	Personal savings	7	19
Jul-02	Personal savings	4	14
Aug-03	Personal savings	1	6
Aug-03	Personal savings	9	21
Sep-03	Personal savings	3	9
Jan-04	Personal savings	3	16
Mar-04	Personal savings	3	29
Jan-05	Personal savings	13	19
Dec-05	Personal savings	11	33
Jan-06	Personal savings	1	10
Mar-06	Bank loan	17	39
Apr-06	Personal savings	4	9
Jun-06	Personal savings	17	31
Jan-07	Personal savings	7	13
Jun-07	Personal savings	6	14
Mar-08	Personal savings	6	9
Mar-08	Bank loan	9	28
Jun-08	Personal savings	9	33
Nov-08	Personal savings	8	10
Jan-09	Personal savings	11	33
Jan-09	Personal savings	15	29
Jan-09	Personal savings	16	19
Feb-09	Personal savings	5	27
Apr-09	Personal savings	12	18
May-09	Personal savings	7	19
Jun-09	Personal savings	10	21
Dec-09	Bank loan	7	18
Feb-10	Bank loan	6	24
Jun-10	Bank loan	13	26
Aug-10	Personal savings	2	3
Sep-10	Personal savings	4	10
Oct-10	Personal savings	10	14
Dec-10	Personal savings	5	19
Jan-11	Personal savings	2	7
Jan-11	Personal savings	5	14

Feb-11	Personal savings	9	9
Jun-11	Personal savings	5	13
Jun-11	Personal savings	1	5
Jul-11	Business grant	3	7
Jul-11	Loan from friends	4	12
Sep-11	Personal savings	10	21
Oct-11	Personal savings	14	29
Nov-11	Personal savings	5	11
Jan-12	SME Grant	2	6
May-12	Personal savings	9	14
May-12	Bank loan	20	39
Jun-12	Bank loan	9	24
Jan-13	Personal savings	6	29
Mar-13	Business savings	15	43
Jun-13	Personal savings	3	7
Jun-13	Bank loan	3	12
Jun-13	Personal savings	3	24
Jun-13	Bank loan	17	43
Aug-13	Personal savings	3	5
Aug-13	Personal savings	6	12
Jan-14	Personal savings	4	7
Feb-14	Personal savings	4	10
Jun-14	Personal savings	1	7
Jun-14	Bank loan	6	29
Sep-14	Personal savings	1	3
Sep-15	Personal savings	4	4
		461	**1,147**

Annexure 8 – Computing 'Line of Best Fit' ($y = a + bx$)

SME #	Bank Loan (X)	Staff Increase (Y)	X * Y (N$'000)	X² (N$' Million)	Y²
1	1,300,000	14	18,200	1,690,000	196
2	450,000	6	2,700	202,500	36
3	500,000	12	6,000	250,000	144
4	4,800,000	28	134,400	23,040,000	784
5	800,000	18	14,400	640,000	324
6	400,000	9	3,600	160,000	81
7	2,000,000	28	56,000	4,000,000	784
8	250,000	6	1,500	62,500	36
9	250,000	13	3,250	62,500	169
10	500,000	9	4,500	250,000	81
11	50,000	6	300	2,500	36
12	100,000	5	500	10,000	25
13	100,000	5	500	10,000	25
14	1,800,000	22	39,600	3,240,000	484
15	1,200,000	26	31,200	1,440,000	676
16	400,000	12	4,800	160,000	144
17	300,000	8	2,400	90,000	64
18	800,000	11	8,800	640,000	121
19	1,000,000	19	19,000	1,000,000	361
20	500,000	15	7,500	250,000	225
21	200,000	22	4,400	40,000	484
22	100,000	0	-	10,000	-
23	1,000,000	26	26,000	1,000,000	676
24	80,000	23	1,840	6,400	529
25	800,000	13	10,400	640,000	169
26	1,900,000	19	36,100	3,610,000	361
27	900,000	4	3,600	810,000	16
∑	**22,480,000**	**379**	**441,490**	**43,316,400**	**7,031**
A	N =		27		
B	**∑Y / N =**		14		
C	**∑X / N =**		832,593		
D	**N * [∑X*Y] =**		11,920,230	Thousands	
E	**∑X * ∑Y =**		8,519,920	Thousands	
F	**N * ∑X² =**		1,169,542,800	Millions	
G	**[∑X]² =**		505,350,400	Millions	
H	**D - E =**		2,613,330	Thousands	
I	**F - G =**		664,192,400	Millions	
J	**b = H / I =**		**0.0000051195**		
K	**a = B - (C * J) =**		**9.7746**		

Therefore: $y = 9.8 + 0.00005x$

Annexure 9 – SPSS Output on Bivariate Regression Analysis

```
REGRESSION   /DESCRIPTIVES MEAN STDDEV CORR SIG N   /MISSING LISTWISE   /STATISTICS
COEFF OUTS R ANOVA CHANGE   /CRITERIA=FIN(3.84) FOUT(2.71)   /NOORIGIN
/DEPENDENT Employment_Creation   /METHOD=ENTER Bank_Credit
/SCATTERPLOT=(Employment_Creation ,*ZPRED)   /RESIDUALS HIST(ZRESID).
```

Regression

Notes

	Output Created	30-Mar-2017 00:55:16
	Comments	
Input	Data	C:\Users\David\Documents\BRA 30Mar.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	63
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on cases with no missing values for any variable used.

	Syntax	REGRESSION /DESCRIPTIVES MEAN STDDEV CORR SIG N /MISSING LISTWISE /STATISTICS COEFF OUTS R ANOVA CHANGE /CRITERIA=FIN(3.84) FOUT(2.71) /NOORIGIN /DEPENDENT Employment_Creation /METHOD=ENTER Bank_Credit /SCATTERPLOT=(Employment_Creation,*ZPRED) /RESIDUALS HIST(ZRESID).
Resources	Processor Time	0:00:01.107
	Elapsed Time	0:00:01.123
	Memory Required	1356 bytes
	Additional Memory Required for Residual Plots	584 bytes

[DataSet1] C:\Users\David\Documents\BRA 30Mar.sav

Descriptive Statistics

	Mean	Std. Deviation	N
Jobs Created	14.0407	8.10547	27
Bank Loans	$832,592.5926	$972,698.83311	27

Correlations

		Jobs Created	Bank Loans
Pearson Correlation	Jobs Created	1.000	.614
	Bank Loans	.614	1.000
Sig. (1-tailed)	Jobs Created	.	.000
	Bank Loans	.000	.
N	Jobs Created	27	27
	Bank Loans	27	27

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	Bank Loans [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Jobs Created

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.614[a]	.377	.352	6.52436

a. Predictors: (Constant), Bank Loans

b. Dependent Variable: Jobs Created

Model Summary[b]

Model	Change Statistics				
	R Square Change	F Change	df1	df2	Sig. F Change
1	.377	15.129	1	25	.001

b. Dependent Variable: Jobs Created

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	643.982	1	643.982	15.129	.001[a]
	Residual	1064.183	25	42.567		
	Total	1708.165	26			

a. Predictors: (Constant), Bank Loans

b. Dependent Variable: Jobs Created

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	9.781	1.666		5.870	.000
	Bank Loans	5.116E-6	.000	.614	3.890	.001

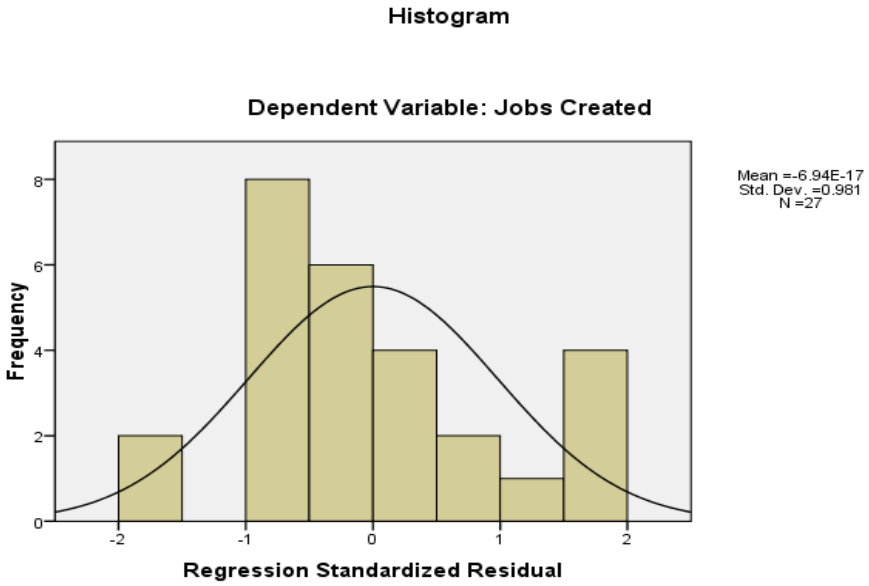
a. Dependent Variable: Jobs Created

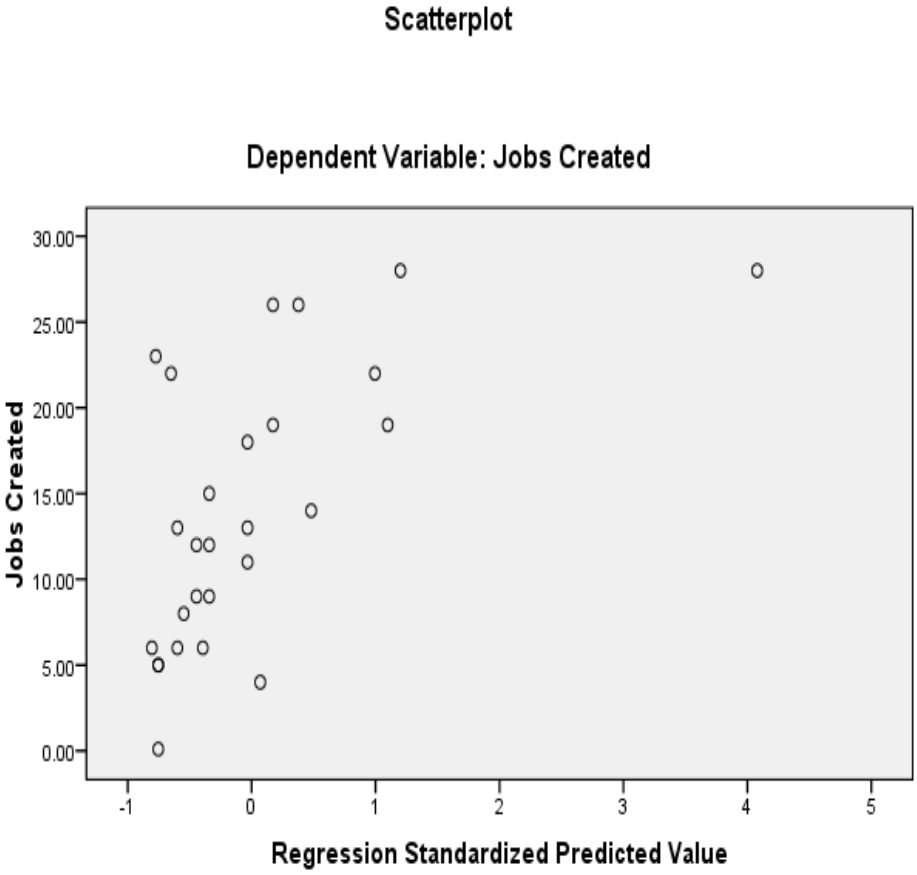
Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	10.0366	34.3399	14.0407	4.97680	27
Residual	-10.38563	12.80989	.00000	6.39766	27
Std. Predicted Value	-.805	4.079	.000	1.000	27
Std. Residual	-1.592	1.963	.000	.981	27

a. Dependent Variable: Jobs Created

Charts


Histogram
Dependent Variable: Jobs Created
Mean =-6.94E-17
Std. Dev. =0.981
N =27
Frequency
Regression Standardized Residual


Scatterplot
Dependent Variable: Jobs Created
Jobs Created
Regression Standardized Predicted Value

Annexure 10: Multivariate Regression Model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + e$$

where: Y = EMPLOYMENT

The dependent variable measured as the log of employees at the end of the year 2015

X_i = ACCESS TO FINANCE

The independent variable and measured by multiple variables as follows:

X_1 = Bank Credit. Number of firms with access to bank finance and the amount of finance obtained

X_2 = Loan Interest. Interest rate applied on each SME bank loan

X_3 = Loan Conditions. Conditions attached to SME loans

X_4 = Credit Constraint. SME perceptions on inadequate bank finance as business growth constraint

X_5 = Bank Relations. SME perceptions about their bank relations

X_6 = Ease of Access. SME perceptions on ease of accessing bank finance

X_7 = Bank Support. SME perceptions on willingness of the banking sector to provide finance to SMEs

β_0 = The Y-intercept

β_{1-7} = Coefficients of the respective independent variables X_1 - X_7

e = Unexplained variance (the error term)

Variable Matrix and Rationale			
Symbol	**Variable Name**	**Definition**	**Expected Sign**
		Dependent Variable	
Y	Employment Level	Variable for log of number of people employed by SMEs at the end of 2015	N/A
		Independent Variable	
X_1	Bank Credit	Scale variable indicating whether the firm had a line of credit from a bank and giving the amount of the loan.	+
X_2	Loan Interest	Ordinal variable on a scale of 9% - 13% indicating the average rate of interest applied on bank loans accessed by SMEs.	-
X_3	Loan Conditions	Ordinal variable on a scale of 1 - 8, showing the number of conditions attached to each loan given to SMEs.	-
X_4	Credit Constraint	Dummy variable indicating whether SMEs consider lack of bank finance as a business growth constraint. The "yes" response represents existence of the credit constraint and the "no" response represents non-existence of the constraint.	-
X_5	Bank Relations	Ordinal variable indicating the opinion of SMEs regarding their relationship with banks. Variable measured on scale of 1 - 4, with 1 being "bad" and 4 being "excellent."	+
X_6	Ease of Access	Ordinal variable indicating whether SMEs consider it easy to access finance from banks. Variable measured on scale of 1 - 3, with 1 being "difficult" and 3 being "easy."	+
X_7	Bank Support	Dummy variable indicating whether or not SMEs consider banks in the Khomas region as being supportive enough to SMEs. The "yes" response shows SME perception of bank support and the "no" response shows SME perception of no support.	+
Source: Adapted from Kurdyla (2013)			

Annexure 11: SPSS Output on Multivariate Regression Analysis

```
GET   FILE='C:\Users\David\Desktop\New Folder\NBS MBA Finance\Multivariate Reg
Analysis.sav'. SAVE OUTFILE='C:\Users\David\Desktop\New Folder\NBS MBA
Finance\Multivariate Reg Analysis.sav'  /COMPRESSED. REGRESSION   /DESCRIPTIVES MEAN
STDDEV CORR SIG N   /MISSING LISTWISE   /STATISTICS COEFF OUTS CI(95) R ANOVA
CHANGE   /CRITERIA=PIN(.05) POUT(.10)   /NOORIGIN   /DEPENDENT Employment_Created
/METHOD=ENTER Bank_Credit Bank_Support Credit_Constraint Bank_Relations
Ease_of_Access Interest Credit_Conditions   /RESIDUALS DURBIN HIST(ZRESID).
```

Regression

Notes

	Output Created	30-Mar-2017 01:46:56
	Comments	
Input	Data	C:\Users\David\Desktop\New Folder\NBS MBA Finance\Multivariate Reg Analysis.sav
	Active Dataset	DataSet2
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	63
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on cases with no missing values for any variable used.

	Syntax	REGRESSION /DESCRIPTIVES MEAN STDDEV CORR SIG N /MISSING LISTWISE /STATISTICS COEFF OUTS CI(95) R ANOVA CHANGE /CRITERIA=PIN(.05) POUT(.10) /NOORIGIN /DEPENDENT Employment_Created /METHOD=ENTER Bank_Credit Bank_Support Credit_Constraint Bank_Relations Ease_of_Access Interest Credit_Conditions /RESIDUALS DURBIN HIST(ZRESID).
Resources	Processor Time	0:00:00.592
	Elapsed Time	0:00:00.608
	Memory Required	3540 bytes
	Additional Memory Required for Residual Plots	280 bytes

[DataSet2] C:\Users\David\Desktop\New Folder\NBS MBA Finance\Multivariate Reg Analysis.sav

Descriptive Statistics

	Mean	Std. Deviation	N
Jobs Created at Dec 2015	14.0407	8.10547	27
Bank Loans	$832,592.5926	$972,698.83311	27
Perception of Bank Support	.0741	.26688	27
Perception of Credit Constraint	.8519	.36201	27
Perception on Bank Relations	2.2963	.82345	27
Perception on Ease of Credit Access	1.5556	.69798	27
Bank Loan Interest Rates	10.3333	1.10940	27
Number of Loan Conditions	5.0000	1.00000	27

Correlations

		Jobs Created at Dec 2015	Bank Loans	Perception of Bank Support
Pearson Correlation	Jobs Created at Dec 2015	1.000	.614	.354
	Bank Loans	.614	1.000	.198
	Perception of Bank Support	.354	.198	1.000
	Perception of Credit Constraint	-.168	.038	.118
	Perception on Bank Relations	.102	.291	-.104

	Perception on Ease of Credit Access	.200	.298	-.023
	Bank Loan Interest Rates	.089	-.161	-.087
	Number of Loan Conditions	-.124	-.207	-.144
Sig. (1-tailed)	Jobs Created at Dec 2015	.	.000	.035
	Bank Loans	.000	.	.161
	Perception of Bank Support	.035	.161	.
	Perception of Credit Constraint	.201	.425	.279
	Perception on Bank Relations	.307	.070	.303
	Perception on Ease of Credit Access	.159	.066	.455
	Bank Loan Interest Rates	.330	.211	.334
	Number of Loan Conditions	.269	.150	.237
N	Jobs Created at Dec 2015	27	27	27
	Bank Loans	27	27	27
	Perception of Bank Support	27	27	27
	Perception of Credit Constraint	27	27	27
	Perception on Bank Relations	27	27	27

	Perception on Ease of Credit Access	27	27	27
	Bank Loan Interest Rates	27	27	27
	Number of Loan Conditions	27	27	27

Correlations

		Perception of Credit Constraint	Perception on Bank Relations	Perception on Ease of Credit Access
Pearson Correlation	Jobs Created at Dec 2015	-.168	.102	.200
	Bank Loans	.038	.291	.298
	Perception of Bank Support	.118	-.104	-.023
	Perception of Credit Constraint	1.000	-.234	-.118
	Perception on Bank Relations	-.234	1.000	.639
	Perception on Ease of Credit Access	-.118	.639	1.000
	Bank Loan Interest Rates	-.255	.056	.099
	Number of Loan Conditions	-.212	.093	-.165
Sig. (1-tailed)	Jobs Created at Dec 2015	.201	.307	.159

	Bank Loans	.425	.070	.066
	Perception of Bank Support	.279	.303	.455
	Perception of Credit Constraint	.	.120	.278
	Perception on Bank Relations	.120	.	.000
	Perception on Ease of Credit Access	.278	.000	.
	Bank Loan Interest Rates	.099	.390	.311
	Number of Loan Conditions	.144	.322	.205
N	Jobs Created at Dec 2015	27	27	27
	Bank Loans	27	27	27
	Perception of Bank Support	27	27	27
	Perception of Credit Constraint	27	27	27
	Perception on Bank Relations	27	27	27
	Perception on Ease of Credit Access	27	27	27
	Bank Loan Interest Rates	27	27	27

	Number of Loan Conditions	27	27	27

Correlations

		Bank Loan Interest Rates	Number of Loan Conditions
Pearson Correlation	Jobs Created at Dec 2015	.089	-.124
	Bank Loans	-.161	-.207
	Perception of Bank Support	-.087	-.144
	Perception of Credit Constraint	-.255	-.212
	Perception on Bank Relations	.056	.093
	Perception on Ease of Credit Access	.099	-.165
	Bank Loan Interest Rates	1.000	.000
	Number of Loan Conditions	.000	1.000
Sig. (1-tailed)	Jobs Created at Dec 2015	.330	.269
	Bank Loans	.211	.150
	Perception of Bank Support	.334	.237
	Perception of Credit Constraint	.099	.144
	Perception on Bank Relations	.390	.322
	Perception on Ease of Credit Access	.311	.205

	Bank Loan Interest Rates	.	.500
	Number of Loan Conditions	.500	.
N	Jobs Created at Dec 2015	27	27
	Bank Loans	27	27
	Perception of Bank Support	27	27
	Perception of Credit Constraint	27	27
	Perception on Bank Relations	27	27
	Perception on Ease of Credit Access	27	27
	Bank Loan Interest Rates	27	27
	Number of Loan Conditions	27	27

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Number of Loan Conditions, Bank Loan Interest Rates, Perception on Bank Relations, Perception of Bank Support, Perception of Credit Constraint, Bank Loans , Perception on Ease of Credit Access[a]	.	Enter

a. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.722[a]	.521	.345	6.56164

a. Predictors: (Constant), Number of Loan Conditions, Bank Loan Interest Rates, Perception on Bank Relations, Perception of Bank Support, Perception of Credit Constraint, Bank Loans , Perception on Ease of Credit Access

b. Dependent Variable: Jobs Created at Dec 2015

Model Summary[b]

Model	Change Statistics					Durbin-Watson
	R Square Change	F Change	df1	df2	Sig. F Change	
1	.521	2.953	7	19	.028	2.115

b. Dependent Variable: Jobs Created at Dec 2015

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	890.118	7	127.160	2.953	.028[a]
	Residual	818.047	19	43.055		
	Total	1708.165	26			

a. Predictors: (Constant), Number of Loan Conditions, Bank Loan Interest Rates, Perception on Bank Relations, Perception of Bank Support, Perception of Credit Constraint, Bank Loans , Perception on Ease of Credit Access

b. Dependent Variable: Jobs Created at Dec 2015

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	1.931	16.846	
	Bank Loans	5.211E-6	.000	.625
	Perception of Bank Support	7.806	5.021	.257
	Perception of Credit Constraint	-4.582	3.863	-.205

Perception on Bank Relations	-1.719	2.190	-.175
Perception on Ease of Credit Access	1.116	2.532	.096
Bank Loan Interest Rates	1.165	1.229	.160
Number of Loan Conditions	.253	1.412	.031

a. Dependent Variable: Jobs Created at Dec 2015

Coefficients[a]

Model		t	Sig.	95.0% Confidence Interval for B	
				Lower Bound	Upper Bound
1	(Constant)	.115	.910	-33.328	37.190
	Bank Loans	3.491	.002	.000	.000
	Perception of Bank Support	1.555	.137	-2.703	18.315
	Perception of Credit Constraint	-1.186	.250	-12.668	3.503
	Perception on Bank Relations	-.785	.442	-6.302	2.863

Perception on Ease of Credit Access	.441	.664	-4.183	6.416
Bank Loan Interest Rates	.948	.355	-1.407	3.737
Number of Loan Conditions	.179	.860	-2.703	3.209

a. Dependent Variable: Jobs Created at Dec 2015

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	6.6244	30.9353	14.0407	5.85109	27
Residual	-10.66429	12.09928	.00000	5.60922	27
Std. Predicted Value	-1.268	2.887	.000	1.000	27
Std. Residual	-1.625	1.844	.000	.855	27

a. Dependent Variable: Jobs Created at Dec 2015