Graduate School of Development Studies

Private Sector Development Financing and Support for Small and Medium Enterprises

Case Study of The Development Bank of Namibia

A Research Paper presented by:

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In partial fulfilment of the requirements for obtaining the degree of
MASTERS OF ARTS IN DEVELOPMENT STUDIES

Specialization:
Economics of Development
(ECD)

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The Hague, The Netherlands
December 2010

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List of Acronyms

BEE	Black Economic Empowerment
BON	Bank of Namibia
CAR	Capital Adequacy Ratio
CBS	Central Bureau of Statistics
CSO	Civil Society Organization
DAC	Development Assistance Committee
DBN	Development Bank of Namibia
FDI	Foreign Direct Investment
FNB	First National Bank
GDP	Gross Domestic Product
MDG	Millennium Development Goals
M2	Broad Money Supply
NEPRU	Namibia Economic Policy Research Unit
NDC	Namibia Development Cooperation
NDF	Namibia Development Fund
NDP	National Development Goals
NHE	National Housing Enterprises
NHIES	Namibia Household Income & Expenditure Survey
NPC	National Planning Commission
SAP	Structural Adjustment Programs
SACU	Southern African Custom Union
SME	Small and Medium Enterprises
SWAPO	South West Africa People's Organization

Dedication

This work is dedicated to my family; my beloved parents, my seven sisters and three brothers as well as my niece Glory and nephew Panduleni Jnr. Special dedications to our lovely last born sister Megameno, I am still waiting for that day when you will obtain your Masters Degree Nkelo.

Acknowledgment

First, I would like to thank God for bringing me this far and for granting me this great opportunity to learn, upgrade my skills and most importantly for the strength and good health.

Second, I would like to thank my Supervisor, Professor Peter de Valk, for his guidance and support throughout the entire process of producing this research paper. I would also like to thank my second reader Dr. Howard Nicholas, for his support and for encouraging me to do my best. I will forever be grateful.

Third, I want to thank the staff members at the Development Bank of Namibia, especially Dr. Michael Humavindu, who never got tired of my emails asking for assistance and guidance.

Fourth, I would like to thank my parents, who never get any credit but who I think are the most hardworking people I know, everything that is good in me, I owe to them. The values of hard work, courage, honesty, faith and a sense of empathy they taught me will guide me for a lifetime. To my brothers and sisters, you are the rock of my life, we may not have it all but we have each other, if we keep our eyes fixed on the horizon there is nothing we cannot achieve, this work is dedicated to you.

Special appreciations to the Dutch Ministry of Foreign Affairs and the Dutch government in general for funding my studies and all expenses involved.

Lastly, to everybody who assisted me during this research process and throughout my studies in The Netherlands, I thank you from the bottom of my heart. To all my professors, classmates and friends at ISS, there has never been a better association than this and I will miss you all.

The work continues, the hope endures and the dream lives on.

Thank you and may God bless you all.

Abstract

The study investigates the impact made by the Development Bank of Namibia (DBN) on employment creation through the provision of loans to the private sector including Small and Medium Enterprises (SMEs). The Development Bank of Namibia extended its first loans in 2005; the study therefore evaluates the impact made for the period 2005 – 2009. Using the data on the investment made during the period under review simple descriptive statistics were applied in analysing the impact made. The results obtained suggest that the impact made in terms of job growth and employment creation is relatively small given the liquidity position of the bank as well as the devastating rates of unemployment in Namibia. Fewer new jobs were created in relation to the total number of the unemployed in Namibia, which suggest a rather slow pace. The slow pace therefore indicate that more work need to be done if the sky-rocketing unemployment rates in Namibia are to be brought to a minimum possible. The study then took a closer look at the sectoral spread of loans, which showed that most of the loans have gone into the non-traded sector which may indicate symptoms of the Dutch disease problem, and concluded on this front that policies should stimulate competitive enterprises in the traded sector for long term economic growth.

The study then went further behind the numbers to explore some if the factors that may have accounted for such a slow pace in the job creation, these includes but not limited to, education level of entrepreneurs, the colonial past, entrepreneurship development in Namibia, issues of interest rates and availability of bankable projects as well as the resource curse problem. The education level of entrepreneurs was found to be low with a small percentage of them having attained tertiary education level. Of course, much of this can be due to different factors such as the cost of education, availability of formal training institutions, the marginal return to investing in education and so on, however due to time constraints and availability of data these factors are not thoroughly investigated in this paper. Moreover, part of the explanation for less education attained and entrepreneurship development in Namibia can be found in the colonial past where most Namibians were denied opportunities for formal education during the colonial era.

While there are several studies done in Namibia mostly on the access to finances for SMEs especially by the Namibia Economic Policy Research Unit, to the best of my knowledge, there has never been a study looking at job creation and definitely not with a particular focus on an institution such as the Development Bank of Namibia, which makes this study focus particularly unique. And while the DBN may have carried out internal impact evaluation efforts, the external nature and thus critical approach of this study makes it interesting to read.

Relevance to Development Studies

The study contributes to numerous current debates on the role of the private sector in development efforts with an emphasis on the role that small business can play in many developing economies especially in employment creation. Development is a multidimensional process and therefore requires joint efforts and collaboration between the public and private sector and civil societies if meaningful and desirable change is to be realised. However, development must mean something in ordinary people's lives, an economy only prosper if it lifts up everyone and not just the privileged few. The study is quite reverent to today's development thinking in the sense that it emphasises that change must start in the lives of the people at the grass root level and on how their government can support them and help them be self reliant.

The study emphasised on the need to stimulate entrepreneurship and support Small and Medium Enterprises. Although the focus here is on the specific case study of the Development Bank of Namibia on its impact on job creation over the last five years, the study perpetuate the need for critical evaluation of government interventions, programs and efforts geared toward development. Small businesses act as coping mechanisms for many working families especially those living in rural areas and faced with many challenges including agricultural shocks. With the extra income that small business owners earn from their businesses, they can send their children to school, pay for their medication and even save for retirement. Other than that, small businesses create jobs that many of these rural families rely on.

The study is based on simple common sense logic; government should not replace the private sector as the true engine of economic growth, job creation and development. It should not do what individuals and businesses can do for themselves but government should do what they cannot do for themselves, and while government cannot guarantee profits for businesses, it can knock down barriers that stand in their way of progress. This include making sure that businesses can get the loans they need to invest, expand and grow and create more private sector jobs. For true creativity, innovation and ingenuity lies within the private sector.

Keywords

Economic Development, Development Banking, Private Sector, Entrepreneurship, Employment Creation, Investment, Small and Medium Enterprises

CHAPTER ONE: Introduction

1.1 Introduction

The Namibian government has over the past twenty years made efforts to tackle major problems that the country has faced since independence. Reducing unemployment has been one of the top priorities of the democratically elected government and different mechanisms have been adopted to deal with this problem. The establishment of The Development Bank of Namibia (DBN) is one of the efforts that entails to tackle poverty and unemployment in Namibia especially among the previously disadvantaged Namibians. The bank provides finances for private sector start-ups and expansions, Enterprise development finance, trade finance and financing of Small and Medium Enterprises and aims to contribute to economic development and job creation in the economy. Five years since the bank first opened its doors; I felt it's important to carry out a critical evaluation of the impact made by this institution in terms of contributing to job creation and thus reducing unemployment with emphasis on the private sector including Small and Medium Enterprises. The research combines the SMEs sector and the private sector in general partly because of the nature of the available data for which the breakdown of the two is unavailable. Moreover, recognising that there is a thin line between the two the SMEs sector is part of the private sector, so it still makes sense to look at the two.

The main objective of the study is to analyse whether there has been any significant impact made with regard to job creation through the provision of loans by this institution. The study is relying on the data obtained from the bank on the investments made during the past five years and uses descriptive statistics on the number of jobs created as well as looking t the sectoral spread of loans over the past five years. Both the demand and supply side of the loans will be theoretically analysed in this regards. By investigating the impact made, the study will go deeper behind the numbers of jobs created and try to understand the dynamics of several factors that may have accounted for the impact made.

While jobs creation is at the core of the study, factors that influence investment in the private sector are worth exploring in order to understand the dynamics of development financing in Namibia. Most of these factors are discussed in chapter two. The number of jobs created over the past five years will be a good indicator of the impact made and the study will emphasis on the new permanent jobs created as opposed to temporally and retained jobs in order to evaluate the net impact of the finances in terms of contributing to employment creation. Entrepreneurship development is another area that has to be taken into consideration in this regard since it provides an understanding of the demand side of the investment. This then helps us understand the availability of bankable projects from the perspective of the bank. Bankable projects in this case are restricted to projects and businesses that are viable, sustainable and at minimal risk possible. The impact mentioned in the research question refers to the long term lasting change in terms of employment creation; this is why the study will emphasise more on the permanent jobs created.

The sectoral spread of loans and the resource curse argument provide background information of the investment made over the years in terms of financial support for development purposes. The main findings from the study reveals that the impact made (in terms of new jobs created) is relatively small given the enormous number of people unemployed in the country according to the latest statistics from the Namibia Labour Force Survey (2004). The sectoral spread indicates that most of the loans have been extended to the non-traded sector indicating symptoms of the Dutch disease problem and could also indicate shortage of bankable competitive projects outside the booming sectors. The research also found out that entrepreneurship in Namibia is constrained by a number of factors such as lack of education and the unavailability of bankable projects.

1.2 Background

Despite having recorded positive economic growth for most part of the last two decades after achieving independence in March 1990, Namibia remains a lower middle income country with significant number of people unemployed, underemployed and living in poverty. Unemployment, poverty, income inequality and HIV/AIDS are some of the major challenges that the government has been faced with for far too long. Most of these challenges can be attributed to the colonial past under the South African minority colonial regime that has for too long exploited the Namibian people leaving behind such an ugly legacy. It is precisely for this legacy that the government is partnering with Civil Society Organizations (CSOs) to embark on policies such as Black Economic Empowerment (BEE) to ensure that the previously disadvantaged Namibians including women and girls have equal opportunities and can achieve their full potentials.

The Namibian economy has for a long time depended on the primary industry such as mining and agriculture making up the largest contribution to the Gross Domestic Product (GDP), NPC, (2007). Over the last few years, the economy has diversified into new industries and by 2007, agriculture, mining and government accounted for just over a third of GDP (Sherbourne, 2009). He suggested that it is because of this diversification that the economy did not collapse after the mining industry was heavily affected by the recent global economic recession as the demand for minerals went down dramatically. Given the dependency on the primary industry, it will be interesting to find out how resources are being allocated through the DBN across sectors in the economy. This is important because the sectoral allocation will to some extend give us an idea of where most of the investment are being directed and probably this will give us an idea where most of the jobs are being created.

With a relatively small population estimated at 2 million in 2007(CBS 2007), there are still many Namibians unable to find work and many young people standing at traffic lights for unskilled and low paid work. And because many of these workers find themselves in the informal sector of the economy, they are vulnerable to abuse as employers pay them the lowest possible wages and violate workers rights. The growing size of the informal sector, estimated to be at 150 000 employees, Hahl and Mohamed (2002) is a great concern for the government at the moment as this does not only lead to problems of over-crowding and crimes but the government loses out on the revenue from tax collection as many people in the informal sector are paid under the table. As a result the government cannot meet the demand for public services for a growing population.

One strategy to give people some source of income and to tackle unemployment and poverty in Namibia and many other developing economies is to stimulate entrepreneurship and enable people to start their own business, become self reliant, invest and grow. When people are self employed in their own business, this lessens the burden on the national budget and reduce government expenditures on coping mechanisms such as unemployment allowance and other social transfers. However, while the government cannot solve all problems that small Entrepreneurs face such as investment shocks, it can do what they cannot do for themselves, making sure that the markets are functioning perfectly, and creating conducive environment for them to grow and prosper. The importance of small business cannot be overemphasised. Apart from creating jobs and providing incomes to families, small business act as coping mechanisms for many families especially in rural area where many people depend on agricultural production and are exposed to numerous agricultural shocks. With income generated from these businesses families are able to pay for their children's education, pay for medical expenses and save for retirement.

It can be argued that much of the success of small businesses and the private sector in general depend on the efficiency of the financial markets and financial institutions; of course this is not to say that there are no small businesses that depend on their own savings and/or other sources of finance. In the literature review chapter of this paper, issues concerning the development banks and development banking will be discussed in general. The discussion will start with the history and the shift to development banking at the end of the Second World War and will outline some of the pros and cons of doing development banking while emphasising on the functionality and usefulness of development banking. The literature on Entrepreneurship in developing countries will be analysed and this is one of the driving force of investment from the demand side. The main question that many scholars in this field are asking is the degree to which Entrepreneurship in many developing countries is developed such that it can replicate the successes of earlier examples, de Aghion, (1999).

1.3 Indication of the Research problem

According to the Namibia Household Income and Expenditure Survey (NHIES) conducted by the Central Bureau of Statistics (CBS) in 2003, the rate of unemployment in Namibia is estimated at 36 percent and 21 percent in broad and strict terms respectively given that the economy just went through an economic recession, I would argue that this has increased over the past two years. Poverty reduction, inequality and unemployment are significant challenges the government faces today. The progress report on the second Millennium Development Goals (MDGs) in 2008 indicated that 28 percent of households in Namibia are still being considered as Poor and 4 percent severely poor. Namibia has the highest income inequality in the world with the gini-coefficient of 0.65, CBS (2003).

One strategy of addressing poverty and unemployment and achieving economic prosperity in Namibia is through investing in the private sector. A stronger and a more stable private sector can guarantee a stronger and stable economy. In fact, the private sector should be the engine of job growth and innovation in the economy if prosperity is to be achieved. Since independence in 1990, the government has deliberately (probably for political reasons) used the public sector, central, regional and local parastatals as the means of creating formal employment. As a result, the public sector is overstretched leading to inefficiency and duplication of government programs. Moreover the extent to which this can be done depend mostly on its ability to generate enough revenue required to pay for the overstretched public sector, and therefore on public sector growth, Sherbourne, (2009: 64).

A vibrant private sector requires a strong financial sector which in turn requires strong and stable financial institutions. The emphasis in this regard is on the banking sector. Efficiency in the banking sector is a key contributor to macroeconomic stability, which is necessary for economic growth and is important for the effectiveness of monetary policy. The Namibian commercial banking sector comprises of four main commercial banks, First National Bank (FNB), Standard Bank, Ned Bank and Bank Windhoek making up a total asset value of N$36.5 billion as at 31 December 2007, Sindano (2009). The commercial banking system is dominated mainly by the South African controlled banks whereby FNB and Standard bank hold 62% of total assets and receive 60% of total deposits and loans.

However, commercial banks in Namibia have been criticized by Genesis Analytic (2003) as not being “enthusiastically entrepreneurial” especially when it comes to extending credit to Small and Medium Enterprises and the private sector in general.

Despite excess liquidity in the financial system, credit extended to the private sector declined from 83% to 72% of total banking assets. Within private sector credit, more than 30% goes to mortgage advances and this, together with other private loans like instalment credit, make up just less than 60% of total credit extended to the private sector. In comparison, the business sector only received about 40% of credit and, in fact, this has been declining from 40% in 1996 to 36% in 2000, Bank of Namibia (2001, 56) this shows less credit extended to the business sector in relation to other lines of credit such as mortgages.

In 2004, The Development Bank of Namibia was established. This state owned institution fosters, empowers and finances bold new ventures. The bank provides finances for private sector start-ups and expansions, Enterprise development finance, trade finance and Small and Medium Enterprises among other functions. A report by Genesis Analytic (2003) stressed that the establishment of the Development bank of Namibia (DBN) which replaced and merged the activities of the former Namibia Development Cooperation (NDC) and Namibia Development Fund (NDF) will provide more funding to the private sector and thus minimize the problem of access to finances for many small businesses all across the country. It is therefore against this background that I find the necessity to investigate and explore the provision of development financing to the private sector through the Development Bank of Namibia with emphasis on the extent to which it contribute to job creation in the economy.

1.4 Policy Relevance and Justification

Financial support for small and medium enterprises is a topic of significant research interest to academics and an issue of great importance to policy makers around the globe, Berger and Udell (2004). In their discussion, Berger and Udell argued that the current framework presents an oversimplified model that overlooks some important distinctions across national financial institutions structures and lending infrastructures and the way in which these elements of financial system affect SMEs credit availability. This study is highly significant as Policy Makers can use the findings in formulating policies related to resources reallocation. It touches on a whole range of policies that government peruses and it will provide a clear insight of the monetary policies. Both monetary and fiscal policies have an impact on the operation of the private sector. An increase in government expenditure on new roads or railways may reduce transportation cost for Entrepreneurs but it may also result in high tax rates, as more revenue will be required to compensate for expanded public spending. Moreover, monetary policies targeted on interest rates have huge impact on demand and supply of financial services.

Low interest rates on lending have the potential to boost up the private sector and allows it to expand and create more jobs in the economy. While high interest rates on lending will discourage borrowing and thus shrink the private sector. Although the prime emphasis here is on the development banking, it will be unwise to turn a blind eye on some of the macroeconomic variables such as inflation that influence investment in general. These variables will be explored in chapter two. Unemployment is at the core of this study, for a small economy like Namibia with such sky rocketing rates of unemployment, it is vital that policies are formulated is such a way as to reduce unemployment through income generation projects and most importantly encouraging ordinary people with good ideas but less finances to start their own business that create jobs in the economy, thus strengthening the private sector.

1.5 The Research Question

This research paper will answer the following main question:

- Is there any significant impact made by the development Bank of Namibia in terms of private sector job growth in the economy through the provisions of loans both on large and small scale?

To answer this question the study will explore several issues such as:

- Factors that may influence private sector financing both from the supply and demand side
- Number and nature of new jobs created over the five year period
- sectoral spread of loans and the resources curse problem
- Entrepreneurship and availability of bankable project

1.6 Empirical Strategy and Methodology

The paper employs quantitative measures for empirical analysis in carrying out the case study of the provision of private development financing from this long awaited institutions in order to answer the research question. Descriptive statistics will be run to analyze frequencies of sectors that have received loans through the Development Bank of Namibia. Job creation is at the core of analysis, as I will be interested in finding out how this institution has contributed to unemployment reduction. It will also then be very interesting to look at the general job growth in the private sector although we cannot confidently attribute these growths primarily to the financial services provided.

On the theoretical part, the study will retrieve and review much of the literature related to the research question at hand in line with the study objectives. Theories on development banks and development banking, job creation and support for Small and Medium Enterprises, entrepreneurship and private sector, sectoral allocation and the Resource Curse problem will be reviewed. These theories will be reviewed in chapter three. Although cross-country comparison is somehow questionable due to different institutions and macroeconomic policies between countries, the study relies on these literatures to explore and compare the Namibian private sector investment situation with those of other countries especially the members of the Southern African Customs Union (SACU), of which Namibia is a member.

1.7 Limitations of the Study

One major limitation encountered in this study is the time constraint which made it impossible for me to collect primary data which could enhance the findings and give weight to the conclusions made. Such primary data could be direct interviews with the loans recipients (the business community) in order to get the full demand side of the loans provisions. With time, I could as well interview the staff members at the DBN especially those involved in the approval and allocations of loans in order to capture the supply side of the loans. However I am confident that the theories reviewed will provide a clear picture on these issues. Another limitation is the missing of some observations in the data obtained which could enrich the findings of the study. In the same vein, although data on all submitted proposals for loans (including the rejected ones) were requested, this was not accomplished. Although, efforts were made to minimise this effect, I was not very successful in that regards. However, I trust that the available data would still give an indication of the true picture especially with regards to the number of jobs created.

1.8 Organisation of the Research Paper

The rest of the paper is organised as follows: Chapter two reviews the banking sector and provide context on macroeconomics environments in Namibia that can influence private sector investment. The chapters discuss the Namibian context in terms of employment environment, and entrepreneurship. It also provides an overview of the private sector in Namibia. Chapter three reviews the literature on the research questions and studies related to private sector investment. Chapter four presents and analyse the data as obtained from The Development Bank of Namibia and chapter five entails the conclusions, policy implications and suggest the area of further research.

CHAPTER TWO: Macroeconomics Environments in Namibia and the Banking Sector

2.1 Introduction

This chapter will provide an overview on the Namibian macroeconomic environment in line with the research question outlined in the previous chapter. The chapter is purposely structured like a parachute; it starts narrow and folds out along the way. At the beginning, the chapter will give an indication of the employment situation in Namibia; from here it will acquaint us with the entrepreneurship development in Namibia before it branches out to the private sector in Namibia as a whole and the financing of this sector. The chapter will then tie things up at the end with the discussion on the Namibian commercial banking sector and shed lights on some of the macroeconomic variables. The main idea of the last section is to provide context in which the banking business is being done. It is important for us to understand what has been the variability or the dynamics in some of the important variables such as inflation, interest rates, money supply, as well as the balance of payment during the period of the existence of the bank (since 2005). The review of these variables is important since these variables have a great influence on investment behaviours of individuals and businesses.

2.2 Employment Situation in Namibia

Although the Namibian economy has been doing well over the past two decades, the effort to create employment opportunities for the growing labour force and the underemployed population has not been fast enough. After independence, the public sector employment grew massively, partly since the reconciliation policy meant that existing public employees would not be dismissed, Sherbourne (2009). Employment creation has however been on the top agenda of the government, reflected in the National Development plans and vision 2030. The table below will provide us with a clear understanding of employment situation in Namibia, relative to the work force and population size. Notice however that these data are provided by three main data sources, namely the 1991 and 2001 Namibia Housing and Population Census (PHC), the 1993/94 and 2003/04 Namibia Household Income and Expenditure Survey (NHIES) and the 1997, 2000 and 2004 Namibia Labour Force Survey (NLFS).

Table 1.
Employment figures in Namibia

	1991 PHC	1993/4 NHIES	1997 NLFS	2000 NLFS	2001 PHC	2004 NLFS
Total Population	1,409,920	1,398,107	1,560,419	1,669,640	1,830,330	1,727,697
15 years and over	821,533	795,471	931,384	888,009	1,100,425	888,348
Economically active	479,779	434,678	498,324	541,447	594,849	493,448
Economically inactive	340,965	353,802	421,824	346,157	432,883	393,880
Employed	387,254	350,280	401,203	431,849	409,581	385,329
Unemployed	91,765	84,398	97,121	109,598	185,258	108,119

Source: PHC, NHIES and LLFS (1991-2004) Sherbourne, 2009

From the table, it can be observed that as the population size has been increasing over the years, the number of people unemployed has been increasing as well. Moreover both the number of economically active population and those that considered not economically active has been growing with the population over the years. While population growth is influenced by factors such as fertility, mortality and migration, there could be several reasons that may account for the increase in the number of unemployed population. Factors such as colonial past which denied equal opportunities for many Namibians as well as education and training and lack of entrepreneurship could explain the increase in the rate of unemployment observed. The issue of entrepreneurship and education level of entrepreneurs in Namibia will be discussed in the next section.

2.3 Entrepreneurship and Entrepreneur's Education Level

SMEs promotion is viewed by the government as one instrument to reduce poverty and unemployment in Namibia. "The objective of Namibia's SME Policy is to promote the growth of the SME sector in order to increase employment, incomes, and its contribution to GDP. This is to be achieved by an increased rate of new business formations, a reduction of business failures and growth of businesses with capacities to employ others (MTI 2006, 4), all of which are to be engaged in manufacturing activities such as food processing, woodwork, textile and garment production, agro based products processing, and petrochemicals, among others", Rosendahl (2010).

Although the country has had some setbacks in the past rooted in the previous colonial administration, attempts remained isolated and often guided by social policy interest, rather than by a belief that SMEs can play a genuine economic role, Dahl and Mohamed (2002). Although there seems to be no clear and distinct definition of "entrepreneurship", Tonin et al (1998) defined an entrepreneur based on three main important components (i) ability to minimize risks related to profit making, (ii) managerial coordination, this means that the entrepreneur should be someone with the capacity to coordinate different aspects of the business such as production, accountancy, pricing and marketing and (iii) innovation, closely related to the role of strategic planning and decision making in changing social and economic environments.

Namibia, like many other countries have had its own difficulties trying to arrive at a working definition of what an entrepreneur is and what is categorised as SMEs. The categorisation of business into small and large is purely subjective and contextualised. The table bellow provides some of the adopted definitions by various institutions in the Namibian context. The table is an indication of how problematic it is to construct an operational definition suited to different purposes.

Table 2.
Main characteristics of some definitions of formal & informal/small business

Institution	Term	Definition
MTI	Small business	Less than 10 employees, capital less than N$ 250 000
MLHRD	Informal business	Less than 5 employees, lack of registration, low income and productivity, unfixed working hours, little labour relationship
Namoya/Norval 1992	Informal business	Unlicensed, subsistence orientation, complimentary income, self employment
CSO	Informal business	Not registered under company
NNRCCI	Micro-enterprise	Employing 1-3 persons, annual turn over less than N$ 15 000
NNRCCI	Small enterprise	Employing 4-10 persons, annual turn over less than N$ 60 000
Common wealth study	Small enterprise	Less than 10 employees

Source: Hansohm 1996- through Sacharia et al (1999)

The components described by Tonin 'et al.' (1998) at the beginning of this section are summed up into what is known as "entrepreneurial spirit" some of which is naturally given to entrepreneurs but a portion of it requires formal education and training, an issue which I will discuss later in this section but before we get there, let us have an idea of the level to which entrepreneurship is established in Namibia. The tale bellow provides us with the number of SMEs in Namibia across three main sectors (manufacturing, service and trade) from the baseline survey conducted by the Ministry of Trade and Industry (MTI) 1998-2000.

Table 3.
Number of SMEs in Namibia as at 2002

Sector	Number of SMEs
Manufacturing	7,235
Service	4,207
Trade	18,359
Total	29,801

Source: MTI baseline survey (1998,1999,2000)

Although, the data may seem a bit old, it gives us an idea of how big or how small the SME sector was about 10 years ago. However I would argue that this number may have doubled over the last ten years. It is interesting how big the trade sector is, but if one look at the breakdown (not given in this table) about 8,020 of the trade sector SME are basically small shops followed closely by general dealers and bottle stores making up about 3000 each Dahl and Mohamed (2002). The manufacturing sector, with 7,235 SMEs at the time was mainly made up of the beer/liquor breweries making up 5,698 of the SMEs in that sector Dahl and Mohamed (2002). It will be interesting to see the education level of the entrepreneurs involved in these businesses as that will help explain some arising issues about entrepreneurship in Namibia. Let me introduce you to the table bellow, which shows the education level of entrepreneurs especially those in the informal business

Table 4.
Education level of Entrepreneurs in the informal business

Business sector	Sex	No primary education	Primary education	Secondary education	Tertiary education
		%	%	%	%
Retail trade	F	10	23	65	2
	M	11	11	70	7
Manufacturing	F	29	7	64	
	M	33	17	33	17
Service	F		4	79	17
	M		14	59	27
All business	F	10	16	68	6
	M	33	15	58	15
All business	Total	11	15	63	10

Source: NEPRU/NCCI (2002)

As discussed earlier, the education and training level of entrepreneurs play a major role in their operations and success. Only 2 percent (female) and 7 percent (male) entrepreneurs in the retail trade sector have acquired tertiary education. This is relatively small compared to those with secondary education (65 and 70 percent respectively). Overall, we can conclude that the percentage of entrepreneurs with tertiary education both (males and females) is relatively low compared to those with primary and secondary education. According to the findings from a survey carried out by Mierlo and Bruhns (2001), 50 percent of the business respondents indicated that they had acquired their skills through trial and error and/or by observing how others did their trade, Dahl and Mohamed (2002). But what could explain such low enrolment in formal education for most of these entrepreneurs? Of course the answer to this question will require thorough and depth research as issues such as availability of formal education institutions, cost of education and the return of investing in education among others have to be taken into account. Moreover the legacy left from the previous colonial administration which denied many people from enrolling in formal education could as well account for such a low enrolment.

2.4 The Namibian Private Sector

After achieving independence on 21st March 1990, the newly democratically elected South West Africa People's Organization (SWAPO) government immediately embarked on a new struggle for economic development. However, it is important to note that the new government inherited a country faced with high levels of poverty, high unemployment, and high income inequality all resulting from the troubled colonial past.

Job creations became one of the priorities for the government. In his book, "Guide to the Namibian Economy, 2009" Robin Sherbourne stated that "Employment creation has been a key national development objective in Namibia since independence, highlighted by the Government first in the Transitional National Development Plan, then in the subsequent first, second and third National Development Plan (NDP) and Vision 2030" (Sherbourne, 2009). The public sector however has been the biggest employer in the economy, retaining all civil servants from the colonial administration and hiring new ones after independence, this can however be linked to the political cost.

The private sector however only started growing later in terms of job growth and new investments. The OECD's Development Assistance Committee (DAC), a forum for selected member states to discuss issues surrounding aid development and poverty reduction in developing countries defined a private sector as "A basic organizing principle for economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk-taking set activities in motion" Schulpen and Gibbon (2001).

The private sector can achieve this expanding and branching into new ventures and through innovation, creativity and perfect competition. What government can do though is to make sure that the environment is conducive for everyone one who works hard to get ahead, that the "rules of the game" are in place and adhered to, there are no barriers that prevent Small Entrepreneurs to grow and prosper and making sure that markets are functioning properly.

The major sectors upon which the Namibian economy depends include: agriculture, fishing, mining, manufacturing, construction, electricity, water, tourism, transport and telecommunication. "Mining has historically formed the bedrock of the Namibian economy accounting for a large proportion of the country's Gross Domestic Product (GDP) and export and contributing significant revenues, both directly and indirectly to government coffers", Sherbourne (2009).

The economy has always depended on the primary industries (agricultural and forestry, fishing and fish processing and mining) which recorded a growth rate of 12.8 percent in 2006 compared to the secondary industry(manufacturing, water and electricity and construction) and the tertiary industry (retail trade, hotels and restaurants, transport and communication, business services, financial intermediation and so on) which recorded 9.1 percent and 5.4 percent respectively in the same year, National Planning Commission (2007).

Table 5
Contribution of different industries to the GDP from 1996 to 2000

Contribution to GDP by sector					
Industry	**1996**	**1997**	**1998**	**1999**	**2000**
Agriculture and forestry products	7.2	6.4	5.3	6.0	6.2
Fishery products	4.6	4.3	5.5	5.3	5.4
Mining and quarrying	11.3	11.4	10.8	10.5	14.4
Manufacturing	9.8	10.9	12.0	11.2	11.3
Electricity and water	2.3	2.4	2.7	2.9	2.6
Construction	3.3	2.9	3.1	2.6	2.2
Construction	9.6	10.0	10.2	10.0	9.6
Hotels & Restaurants	1.6	2.0	2.1	1.9	1.9
Transport and communication	7.2	7.2	6.5	6.7	6.4
Financial intermediation	3.5	4.0	3.8	4.0	3.6
Real estate and business services	11.3	10.7	10.6	10.9	10.4
Community, social and personal services	1.0	0.9	0.9	0.9	0.9
Producers of government services	25.1	24.8	24.3	25.0	22.8
Other producers	2.2	2.2	2.1	2.1	2.0

Source: Bank of Namibia

From the table above, we can observe that even in the late 90s, the mining industry contributed more to GDP after the producers of government services. This is followed closely by manufacturing and real estate and business service.

2.5 Financing the Private Sector

SMEs form a large part of the private sector in many developed and developing countries. However, while cross county research sheds doubts on a causal link between SMEs and economic development, there is substantial evidence that small businesses have larger growth constraints and have less access to formal source of external finances, potentially explaining the lack of their contribution to growth (Beck and Kunt, 2006). The contribution of SMEs to overall growth has been undermined due to in many developing countries probably due to their smallness and thus contributes less to the GDP. In their discussion Beck and Kunt (2006) stated that the efforts targeted to support small firms are usually based on the premises that (i) small firms are the engine of economic development and (ii) markets and institutional failures impede their growth, thus justifying the need for government interventions. There are however sceptical views that question the efficacy of pro-SME policies. Access to financing is one of the major problems hindering progress and the expansion of the private sector in Namibia. Investment in the private sector is crucial for economic development and growth as a vibrant and innovative private sector can contribute significantly to reducing unemployment and poverty alleviation. "In a sense, one could also say that at present there is a consensus among bilateral and multilateral aid agencies as well as in parts of the academic arena that the private sector is the main engine of economic growth", Schulpen and Gibbon (2001).

However, the private sector ability to grow and contribute greatly to economic growth depends on the efficiency of the country's banking sector in terms of credit allocation for development financing, which in this context refers to long term investment that helps create jobs and provide income and thus reducing poverty. Efficient credit markets are therefore crucial as they provide access to finances for both the private as well as the public sector.

A study done by the Namibian Economic Policy Research Unit (NEPRU), (2005) revealed out that, "the effect of concentration on efficiency in the Namibian banking sector was robust across all three measures (alternative profit X-efficiency, profit before tax per employee and a macroeconomic measure - the interest rate spread between deposit and lending rates) between 1998 and 2003", Adongo 'et al.' (2005). The study revealed that "Although there is no overall consistent picture across all three measures of the robustness of the variable capturing a bank's risk, risk management in general and small business credit scoring in particular can contribute to reducing the costs of the banking sector in Namibia to the extent that it assists banks in automating the credit and risk management process. This should have an indirect impact on the Namibian banking sector's efficiency". In his forward statement in the FinMark Trust report of 2004, the then Governor of Bank of Namibia Mr. Tom Alweendo stated that,

> "A well-functioning and inclusive financial sector is thus essential to economic growth and poverty reduction. Without economic growth, we will not achieve the Millennium Development Goals. Financial services enable the poor to increase and diversify their incomes, build human, social and economic assets and generally improve their lives. Access to loans and deposit services has enabled millions of people to work their way out of poverty, by helping them manage risks and build economic security", FinMark (2004).

The government has established several institutions in an attempt to facilitate and accelerate provision of finances especially to small scale enterprises. However the performance of many of these institutions have been relatively poor due to their smallness and duplications of activities leading to less impact in addressing access to finances for the poor. The newly established Development Bank of Namibia is believed to be the solution to problems associated with many of these schemes. Providing reasons of lack of collateral and perceived high cost of small transactions, commercial banks have been hesitant to serve small business in Namibia, FinMark Trust (2004). It is thus on these ground that the establishment of the Development Bank is believed to issue non-high collateralized loans at a relatively lower interest rate and on a longer repayment period.

2.6 The Namibian Banking Sector

The Namibian Banking sector is made up of four main commercial banks, namely; First National Bank, Standard Bank, Bank Windhoek and Ned Bank with a total asset valued at 36.5 billion at the end of 2007, Sindano (2009). The sector also comprises of a growing rage of state-owned financial institutions starting with Agricultural Bank and the National Housing Enterprise (NHE) added to by the Development Bank of Namibia, Sherbourne (2009). A report by the IMF revealed that Commercial banks in Namibia are well capitalized and very profitable.

The report stressed that the banking sector has become more resilient in recent years with sector-wise Capital Adequacy Ratio (CAR) estimated to be at 15 percent at the end of 2005 and return on equity ratio at 28 percent. Although the Namibian banking sector has been doing well over the years, there has been criticism that the banks are doing less to extend their services to the marginalized and desperate population. The report by Genesis Analytics (2003) emphasized four main criticisms to the commercial banks in Namibia:

- High market concentration with little effective competition: The Namibian market is relatively small making it difficult for effective competition due to the number of limited players in the market; however the market is highly concentrated leading to high cost of capital for Entrepreneurs and this may crowd out entrepreneurship.
- Banks are "enthusiastically entrepreneurial". This reefers to the fact that commercial banks in Namibia are viewed to be too reluctant to lend especially to Small and Medium Entrepreneurs "Despite excess liquidity in the financial system, credit extended to the private sector declined from 83% to 72% of total banking assets. Within private sector credit, more than 30% goes to mortgage advances and this, together with other private loans like instalment credit, make up just less than 60% of total credit extended to the private sector. In comparison, the business sector only received about 40% of credit and, in fact, this has been declining from 40% in 1996 to 36% in 2000. This is an indication that most of the credit from the commercial banks is increasingly going towards less productive activities", Godana (2001: 63).
- Disproportionately decrease of real interest rates on deposit, providing little or no incentive for saving and leading to less utilization of the saving facilities.
- Insufficient rural representation in terms of bank branches throughout the country.

However, the report also highlighted some of the reasons from the supply side (the banks perspective) on limited access to finances especially for the poor. These reasons include: (a) lack of collateral required by banks upon approval of loans, (b) transaction cost, involving the time spend scrutinizing and evaluation proposals and recovering non-performing loans which can be costly from the bank's perspective and the fact that the Namibian population is widely spread geographically making it difficult to provide services for everyone and (c) general economic growth and lack of bankable projects have made it difficult for banks to extend their services.

2.7 Understanding the Dynamics of Macroeconomic Variables and their Impacts on Investment

Macroeconomic variables such as inflation, interest rates, and money supply have a significant impact on investment and growth. During the last two decades, Namibia has enjoyed macroeconomic stability as a result of the implementation of market oriented reforms, Sherbourne, (2009). It is these sound macroeconomic policies and high returns from the mining sector that has sustained the economy since independence yielding solid growth characterised by substantial external account surplus and improved fiscal position. But for effective investment and sustained economic growth to be achieved, a stable macroeconomic environment, stable and efficient financial markets and political stability should endure.

In this section, I am going to closely explore the dynamics of some of the macroeconomic variables and to identify the relationship between them and find answers to the following questions: What determine their levels and variations? And what impact do these levels and variations have on the investment behaviour (both demand and supply of credit to the private sector).

Namibia is a relatively dry country with most part purely desert and a small population scattered across a vast land. With little rainfall received every year, the country struggles to be self-sufficient in terms of food production. Lack of technical know-how and unproductive land are some of the causes of instability on food production in Namibia. It is against this background that Namibia imports most of its food products either from South Africa or from Asian countries. As a consequence, the economy is vulnerable to high levels of inflation resulting from changes in food prices outside its borders. Namibia is also an oil importing country, left with very limited ability to influence the price of fuel required to run the economy. As a result, the country bears huge consequences as a result of dramatic changes in international oil prices. These are the main factors that influence inflation in Namibia.

Ogbokor (2004) who did an empirical study on the impact of Inflation on Namibian growth found out that Inflation could have a negative impact on growth especially if it's not controlled. He also observed that since Namibia imports most of its items, mainly from South Africa, Asia and Great Germany, there is a clear evidence of imported inflation in Namibia, which could negatively impact economic growth. Ogbokor thus recommended that: "Namibia should aggressively pursue an Export-led industrialisation strategy aimed at export diversification" he challenged the government to commit more resources toward the successful implementation of the Export Processing Zone projects and to ensure implementation of incentives designed to attract foreign investors to invest in the Export Processing Zone, especially incentives relating to taxes, Ogbokor (2004).

In its effort to stabilise prices, BON has monopoly on the authority to tighten monetary policies by altering its repo rates accordingly and attempt to control domestically induced inflation which is estimated to contribute about 35 percent to the overall inflation in Namibia, Goamab (1998). In line with its objective of ensuring price stability, the central bank is at liberty to alter its rates as situations so require. It is precisely for this reason that the bank increased its rates by 9 percent basis points in 2006 and even more in 2007 when inflationary pressure kicked in as a result in changes in international prices of food and oil, Bank of Namibia (2007). This explains the relationship between inflation and interest rate, which I will discuss in details here below.

Interest rates on lending play an important role in investment and credit extension to both the private and public sector. We know that high interest rates discourage borrowing and therefore resulting in low investment due to fall in credit demand. Again, on the demand side, excess government borrowing in many cases could crowed out credit extension to the private sector making it difficult for Entrepreneurs to make investment and grow. Government borrows in order to meet the demand of its people, it needs money to build roads, bridges and other infrastructures, building hospitals and schools and provide pension for the senior citizens, all these things that the private sector is reluctant to invest in.

The challenge has always been to have the interest rates on lending and that on deposit which is conducive and suitable for both investment and saving mobilisation. Low Interest rate on deposit discouraging people from holding money in the banks and thus distort saving accumulation which in the long run may hinder investment. Low interest rate on lending on the other hand encourages borrowing and thus stimulates investment. While high interest rates on lending yield high returns for bankers and enable them to mitigate and be able to deal with countless risks involved in the banking business.

The table below provide an indication of the levels and variations of the variables that have a significant impact on the banking behaviour as well as the investment behaviour.

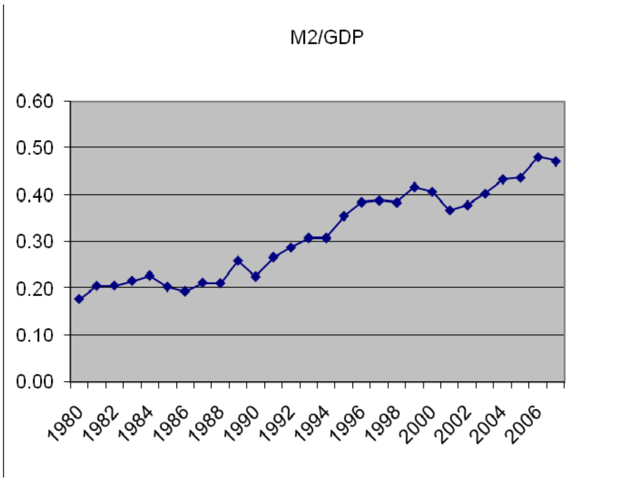
Table 6.
Trends in Money, Prices and Interest Rates

Money, Prices and Interest Rates					
	2005	**2006**	**2007**	**2008**	**2009**
Money supply (M2)(N$ Billions)	17.370	22.512	24.802	29.240	36.548
Money Supply Growth Rate (M2) (%)	9.700	29.600	10.100	17.800	24.900
Inflation rate (from GDP Price Deflator) (%)	7.400	5.800	3.800	3.800	7.800
Interest Rate (%)	7.000	9.000	10.500	9.300	8.600

Source: Country Watch Incorporated

It is important that we consider the supply and demand for money as factors that influence investment behaviours. The area of money supply has received a lot of attention among many scholars as central and an important component of more effective monetary policies in many developing countries. One can argue that monetary policies geared toward money supply contribute to high inflation, something that still receive a lot of attention to this day, however it is out of this paper's scope to prove whether this is actually the case. However in his study, Sindano (2009) found that there is long run relationship between economic growth (proxied by GDP) and financial development (proxied by broadly defined money supply, M2) in Namibia. The graph below shows the degree to which financial intermediation increased between the indicated time period and how the growth in financial sector is positively related to output growth

Figure 1. : M2 as Ratio to GDP



Source: Bank of Namibia & Central Bureau of Statistics

There are many factors that influence households, individuals and businesses decisions to demand money, these may include, wealth and income level, levels and variations of interest rates, opportunity cost for holding money and inflation. However, one can as well argue that the education level of the people in understanding the value for money as well as the availability of financial Institutions such as banks especially in rural areas where many people in many developing countries reside can have an influence in demand for money.

Using the rate of return on the six- month deposit of commercial banks, Ikhide and Katjomuise (1998) found convincing results that the rate of interest is a significant variable in determining the size and composition of the demand for money. They found that "an increase in the rate will lead to a fall for money narrowly defined and to a switch by asset holders to quasi-money" (Ikhide and Katjomuise, 1998). This relationship between interest rate investment decisions has been discussed thoroughly at the beginning of this section.

In summary, this chapter articulated some of the important concepts and areas which are fundamentally important for the purpose of this study. The chapter conveys the seriousness of the unemployment rate in Namibia in absolute numbers relative to its population and labour force. It also shed lights on the development of entrepreneurship in Namibia and shows how this sector is undoubtedly constrained by education and training for entrepreneurs with empirical evidence that only a small portion of the entrepreneurs have attained secondary and tertiary education. The discussion eluted that while there can be many reasons for such a constrained SME sector and less education, much of the explanation can be traced in the colonial past. The chapter ended with a brief discussion on the Namibian private sector and the issues related to the financing of this sector and explained how the government have made effort to make financing within reach for many entrepreneurs which includes the establishment of the Development Bank of Namibia. The sections on the Namibian banking sector expressed some of the critics laid against the Namibian commercial banks when it comes to development financing and indicated how high interest rates and strict collateral requirements have made it difficult for small businesses to acquire the loans they need to invest.

CHAPTER THREE: Literature Review

3.1 Introduction

This chapter will review some of the literatures related to the study and more specifically related to the research questions. In so doing, the focus will be on the methodology used and conclusions made from different studies related to government investment in the private sector and the support of Small and Medium Enterprises as well as entrepreneurship. The first part of the chapter will give an overview and history of private sector investment. This will later translate into the contribution of a vibrant private sector to economic development as well as the role of small business in the economy with emphasis on job creation. The literature on development banking including challenges and usefulness of these institutions will be reviewed. The last part of the chapter will discuss literature on the Resource Curse Thesis, and discuss how natural recourses abundance and concentration on booming sectors at the expenses of other sectors kills other sectors that are necessary for long term economic growth.

3.2 Overview

During the 1960s and 1970s the state was regarded as a prime mover and the only key player in development. In those days, the "state was accorded a central role in planning and managing economic development, in owning resources and in producing goods and services for public and private consumption", Schulpen and Gibbon (2001). This assumption however started loosening following the realisation that development is a multidimensional phenomena and it will take more than just the state to achieve meaningful change and development. It was however, only after the debt crisis of the early 1980s following the oil crisis of the late 70s that the assumption started to disappear limiting the role of the state and recognising that true growth and prosperity requires a vibrant and strong private sector. This however doesn't not mean that the state has no role in development, the facts are in most cases, the state has more resources and more power than the private sector, what it can do though is to mobilise these resources and power, in partnership with the private sector in order to bring about development and poverty reduction.

3.3 Small Businesses and Entrepreneurship

There is no doubt that, of late, entrepreneurship in general has gained its status as a legitimate scholarly research subject enjoying in addition overwhelming interest from scholars across spectrums, Stevenson and Jarillo (2006). Of course we first have to understand what we mean by an entrepreneur from the onset. Many scholars have avoided defining what an entrepreneur is and what they do. The question is who is an entrepreneur? Does anybody who starts their own business qualify to be called an entrepreneur? Is an Entrepreneur necessarily an innovator whether in a big or small firm? These are some of the questions that Stevenson and Jarillo were pondering with, however, Stevenson, 'et al.' (1989) defined Entrepreneurship as "A process by which individuals either on their own or inside organisations pursue opportunities without regard to the resources they currently control" in their definition, they defined "opportunities" as future situations which is deemed desirable and feasible". So in this vein, it is up to entrepreneurs to take advantages of those available opportunities in order to grow.

Moreover, Shane and Venkataraman (2000) added that entrepreneurship is a mechanism by which society converts technical information into products and services as well as a mechanism through which temporal and spatial inefficiency in an economy are discovered and mitigated. This goes back to what I indicated in my introduction, government cannot replace the private sector as the true engine of job growth in the economy. As Smallbone and Welter(2001) stated that "the potential role of SMEs include generating employment and thereby contributing to absorbing labour surpluses which result from economic restructuring, contributing to the development of a diversified economic structure". Studies have shown that true innovation, creativity and ingenuity lies within the private sector, most specifically the business community including Small and Medium Enterprises.

What government can do is that what businesses cannot do for themselves, making sure that small business owners can get loans they need to invest without paying a bribe, ensuring that markets are functioning properly, that investment does not harm the environment, providing tax cuts for small businesses in order for them to grow, making sure that labour laws are adhered to and so on. It is then up to the private sector, including small business to make informed investment decision and take advantage of the opportunities and to live up to their responsibilities. Government cannot guarantee positive results or profit but it can knock down investment barriers that Entrepreneurs face.

Moreover, the issue of credit to the private sector, especially to small businesses has always an interesting one and its analysis has to be looked at from all sides, demand and supply. On the demand side for example, small Entrepreneurs claim that banks are reluctant to lend them the finance they need to invest, Genesis Analytics (2003). Two main issues that come up in this argument are interest rates and collateral required by banks. The issue of interest rates and how it impacts investment behaviours has been thoroughly discussed in the previous chapter. Collateral or securities as they are sometimes called are guarantees that the bank requires from the borrower before a loan is issued. Banking is a risky business, bankers face numerous risks ranging from lending risks, operational risks and market risks, asking for collateral from borrowers enable banks to mitigate lending risks. Small Entrepreneurs argue that the collaterals required from them are too harsh, given their smallness.

On the supply side, banks in general tend to indicate that lack of bankable projects and lack of collateral has been the biggest contributor to low supply of credit to small business, Genesis Analytics (2003). The fact that they are dealing with small borrowers, is already a risk to them. One may argue that small Entrepreneurs are people who could not find employment in the formal sector and are therefore just taking chances in business; this argument stipulates that these Entrepreneurs in most cases lack formal education and dealing with them is quite a risky business. Whether or not this notion is true is however out of the scope of this paper. However it can be argued that small businesses, if they get the support they need, they create jobs, they provide income and this could ultimately lead to poverty reduction in the long-run.

Just as there are criticisms presented against SMEs, there are those like Wilkinson (1999) who argues that small firms provide "close and harmonious" working relations among employees and demonstrate good management with better communications than larger firms. In the same discussion, he recognised the criticism that small firms are "dictatorially run with employees suffering poor working conditions and including inadequate safety conditions" he also raised the notion that many small business do not provide skills improvement trainings for their employees as he puts it: "Training is very limited. In many cases employees are simply asked to watch another employee for a while and then do the job at similar skills level" Wilkinson (1999). However it should be recognised that the success of these businesses depends, among other things, on the availability of human as well as financial capital and on the efficiency and effectiveness of the financial markets.

Moreover, just as supporting small business is vital for job creation and economic growth and prosperity, investing in physical infrastructure such as roads, bridges, railways, sewage systems etc is of equal importance. The necessity and importance of having sound and stable infrastructure development cannot be overemphasised. Out of numerous benefits from investing in physical infrastructures, job creation and long-term economic growth are key benefits. Projects such as roads constructions and renovations run for a long time, several months and sometimes a couple of years. That means more workers are hired during the lifespan of the projects. Moreover, investing in roads, railways and bridges does not only create temporally jobs for the men and women on site but it also create jobs in other service industries and manufacturing industries from where most of the supplies are purchased. Furthermore, the infrastructures built today will help the economy prosper and make it more competitive in the long-run.

3.4 Development Banks and Development Banking

After World War II development banks have come to engage a great deal of attention as an effective instrument for economic development. Although their forms and structure have been diverse, and their objectives and methods of operation vary widely in their range and each country have been to adopt a design suitable to its peculiar, social, political and economic framework in which it has to function, Kaur (1995). According to him, development banks are to function as development institutions fostering investment projects that have favourable impact on the overall economy and they should act as gap fillers, investing in more risky projects and enterprises when the "normal channels" (commercial banks) is deficient. While development banks invest in big projects and infrastructure development such as construction of roads and bridges, they as well invest in small and medium enterprises which commercial banks may find to be too risky to deal with.

Aghion (1999) stated that development banks are government-sponsored institutions concerned primarily with the provision of long term capital to industries. These institutions are known to have played a crucial role in the rapid industrialization process of Continental Europe and Japan. He however argued that in recent years, many of the development banks in developing countries have failed to replicate these success examples for various reasons including poor cost-benefit evaluations, mismanagement and corruption Aghion (1999). While the need for state owned development banks emerged mostly during the reconstruction phase after the second World War, part of the reasons why these institutions were necessary was simply because the existing commercial banks were unwilling to bear the inevitable risks associated with financing of new enterprises and partly because they (commercial banks) lacked the specialized skills required to deal with higher risks involved in long term investment Aghion (1999). As Kaur (1995) stated, development banks operations varied from county to county and in many cases many of the decentralised banks engaged in what came to be known as co-financing, this means, they formed joint venture with private banks in order to use their existing facilities and probably for risk sharing. This is the situation with the Development Bank of Namibia, which has joined with two commercial banks, Bank Windhoek and First National Bank in the SME facility. Aghion (1995) however argued that co-financing induces a free-rider problem in monitoring effort with each bank providing limited effort in knowledge that part of the marginal return in this effort will accrue to the other bank.

Sindano, (2009) found empirically the positive relationship between financial intermediation and economic growth. This relationship is supported across countries both in the developed and developing world. Efficiency in the banking sector has been at the core of these findings. Central Bankers believe that efficiency in the banking sector is a precondition for macroeconomic stability and important for monetary economic policies execution. This is however only possible through effective, efficient and well managed credit allocation, Ngalande (2003).

Credit allocation efficiency is defined as redirecting of mobilized savings to investment opportunities offering the highest returns, Luccheti (*et al* 2001). They did a study on the banking sector in Italy in 2001 that justified that a banking sector's ability to allocate credit efficiently is expected to have positive implications for economic growth. It is thus argued that even if an economy can generate enough savings, such as the Namibian economy, Shiimi and Kadhikwa (1999), its growth potential can be hindered if the domestic financial intermediation mechanism fail to allocate these savings to available investment opportunities efficiently.

However, we should note that while there is this perception that development banks lend a lower interest rates than the commercial banks, the fact that they deal with more risky projects including small entrepreneurs may force them to ask for more tightened collateral in order to mitigate the effect of the risks involved. Again, Development banks, just like any other banks are as well concerned with their financial position as they are not charity institutions per se, so in that vein, they would opt to invest in more viable and more sustainable projects on the market. As the DBN's Development Impact Review report (2010) indicated "It is imperative that that the DBN attains a balance between its development mandate and its financial stability". This is true because on the one hand you have financial demand from different projects and small business while on the other, evaluators at the bank should be concerned with investing in more promising businesses so that the financial position of the bank remains sustainable.

This background on development banking helps us to understand in principle the emergence of development banks following the realisation of the need for reconstruction after the Second World War. It also helps us to understand that development banks are more specialised in long term and risky investment and they invest in both private and public sectors including infrastructure development which the private banks are reluctant to invest in. The section also brought to our attention that for several reasons, development banks engage in co-financing with local private banks so as to share the risks and for facility sharing. All the above can be applied to the Development Bank of Namibia, and institution which invest in development projects geared toward economic development and job creation.

3.5 Resource Curse and the Dutch Disease

One would expect that a country that is rich with natural resource to have economic growth advantage compared to a country that is not naturally endowed with resources. Yes, this statement is true, but as Sachs and Warner (1997) found out, one of the surprising features of modern economic growth is that economies naturally endowed with resources (either from the sea or the soil) have tended to grow slower than economies without substantial natural resources. In their paper, using a sample of 65 developing countries for the period 1970-1990, Sachs and Warner (1997) found an inverse association between natural resource intensity and growth. Interestingly though, this relationship remained significant in cross-country growth regression even when they controlled for other variable that are viewed as vital for explaining cross-country growth. These variables include; initial GDP, openness policy, investment rate, human capital accumulation rate, changes in the external terms of trade, government expenditure ratios, and terms of trade volatility and the efficiency of government institutions.

However, Ding and Field (2005) criticised and questioned the credibility of the work of Sachs and Warner citing that the use of primary export as a proportion of GNP as a measure of resource abundance is misleading. They argue that this idea seems to ignore the distinction between resource dependence and resource endowment. According to them, by using this variable, Sachs and Warner seem to imply that a country heavily dependent on natural resources would be regarded as a naturally resourced-rich country which to them is not a case, since you can have a country like Tanzania, which depends heavily on natural resources but it is not a natural resource rich country. Moreover, a country like the United States has a small primary sector but still regarded as a resource abundant country.

In their paper, Dig and Field (2005) used the Sachs and Warner country data to explore if natural resources abundance leads to slower economic growth rates. In their first approach, they used a relatively simple single-equation model. In the second approach, they used a three equation model that allows for endogenoity in resource dependence and also introduced human capital. The OLS estimations from the first model yield more or less the same results as those of Sachs and Warner, suggesting a strongly negative impact on growth of having a resource dependent economy. However, their findings differ from Sachs and Warner when it comes to a measure of resource endowment; their results yield a positive and significant coefficient of this variable. Suggesting that having an economy that has abundant natural resources appears to have positive growth. So the results seem to suggest that the problem is not being endowed with natural resources but depending on such resources. Surprisingly though, the second model (the three equation model) yield results suggesting that neither resource dependence nor resource endowment have any significant impact on growth, while all other variables were found to be significant, including human capital which has a positive impact.

Going back to the question of whether the problem is just the mere fact of a country being naturally endowed with resources that hinders growth in the long run, Gylfason (2000) discussed four of the main channels of transmission from abundant natural resources to stunted economic development, these channels are: the Dutch disease, rent seeking, overconfidence and neglect of education. In his paper, Gylfason argues that "It is not the existence of natural wealth as such that seems to be the problem, but rather the failure of governments to avert the dangers that accompany the gifts of nature. Good policies can turn abundant natural resources riches into a blessing." He stressed how natural resources abundance usually result in the overvaluation of the currency which in turn lead to exchange rate volatility, he explains how this natural resource boom associated with raw material exports drive up the real exchange rate thus negatively affects other industries and thus leading to slow economic growth in the long-run a symptom of the Dutch disease.

While we are at it, Corden (1984) expressed the need for the protection of the lagging sector from falling further behind as a consequence of the booming sector. He stated that it is quiet natural for governments to try to protect at least part of the lagging sector from the adverse effect of the boom. Three pillars that support his view on this issue are (a) the "social welfare function", arguing for the need to avoid unexpected shocks in real income or rent losses which can occur in these lagging sectors, (b) Employment creation and security in the lagging sector and (c) a version of infant industry argument. The argument to protect the lagging industry is usually framed in moral terms, recognising that many people due to lack of skills and opportunities fall in this sector and it is only fair if governments can do something to protect them and give them the relief they need.

Back to Gylfason (2000), channels such as neglect of education or the failure to invest in human capital and the overconfidence in the booming sector are some of the factors that slow down economic development in many naturally endowed economies. He argues that many people in these countries find themselves locked in low skilled jobs in the natural resources industries such as agriculture and mining, and as a result, they neglect the opportunity to upgrade their skills in formal education as well as investing in their children's education. This in the long run has a negative impact to human capital and lead to more people trapped in poverty traps.

Moreover, Gylfason argues that policy makers in many of the naturally endowed countries are overconfident in their natural gifts and therefore tend to overlook or overrate the need for good policies and good investments; he continues that in fact, many natural resource endowed countries can continue to do well for a certain period of time even with bad policies. Positive models are Asian countries such as Indonesia, Malaysia and Thailand who given their natural resources endowment managed to attain a long-term investment exceeding 25% on GDP on average from 1970- 1990 and per capita GNP growth exceeding 4% per year on average during the same period, Botswana is another example where its expenditure on education relative to income continue to be among the largest in the world. Nigeria, with its oil wealth, per capita GNP today is no higher than what it was at independence, a good example of a slow economic growth in a resource rich country, Gylfason (2000).

In summary, this chapter provided us with a clear understanding of the context in which the basis of this study is tied. It gave a historical background of the shift from public led development to a private driven one. The chapter went deeper into the private sector and outlined how a vibrant private sector can contribute to economic development. Moreover, it deepened into Small and Medium Enterprises and how they contribute to job growth in the economy, which is central to this study. The chapter also provided us with the understanding of the operations of the development banks their usefulness as well as the challenges they face and how they mitigate some of those risks. The last section of the chapter focused on the resource curse problems and raised some very interesting theory tied up in the argument made by Sachs and Warner (1997) at the beginning of the section. The idea that economies naturally endowed with resources tend to grow slower than economies without substantial natural resources. This analysis is relevant given that Namibia is a country naturally endowed with resources mainly minerals such as diamond and uranium with the primary sector having been the backbone of the economy for most part of the last two decades. The main idea here is to investigate the spread of the loans through the Development Bank of Namibia and try to see if the spread somehow suggest any symptoms of the Dutch disease problem in Namibia.

CHAPTER FOUR: Data Presentation and Analysis

4.1 Introduction

This chapter will rely on the data as obtained from the bank in question to make a critical analysis of the investment made to the private sector by this institution throughout its existence. The analysis limits itself to the research question in line with the research objectives and stipulate on factors such education, high interest rates, colonial past, as some of the factors that influence investment. Based on the available data, the analysis will also look at the sectoral allocation of the loans and try to explain why most investment was made in the non-traded sectors, explaining how competitiveness may be undermined by mineral exports and other resources based industries (Resource Curse Thesis).

4.2 Large Scale and Small Scale Funding

In 2005, the first year that the bank extended its loans, seven projects were approved to the tune of N$ 110 million. According to the report released by the bank, these projects are estimated to create 770 new jobs and retain close to 2 200 existing jobs, DBN (2005).

According to the report 55% of the approved projects have significant Black Economic Empowerment ownership, an initiative/product that aims to redress the inequalities of the past by giving previously disadvantaged Namibian citizens economic opportunities previously not available to them. It includes measures such as equal employment opportunities, skills development, business ownership support, and preferential procurement.

Table 7.
The table bellow shows projects supported by DBN in 2005

Project	Investment amount (in million N$)	New jobs	Jobs being retained	Region
Aqua Utilities Corporation	2.74	2		Erongo
CENORED	15	40	60	Otjozondjupa
Namibia Poultry Industry	20	650		Khomas
Namibia Stone Processing	8	32		Erongo
Nampost holdings	15	20		All 13 regions
Ongopolo Mining & Processing	30		892	Oshikoto
Ongwediva Town Council	20	165		Oshana

Source: Development Bank of Namibia

A partnership was commenced with Bank Windhoek and launched on the 23 August 2005 to collaborate on the SME facility, which indicates a good sign of Public-Private Partnership. The decision to partner with a commercial bank is rooted in the idea that since Bank Windhoek already has a wide representation countrywide; it will save DBN a lot of money by using already existing Bank Windhoek braches. And this partnership will also avoid duplications of efforts at national level. At the onset of the partnership, DBN made a commitment of N$ 30 million to the SME sector of which N$ 10 million was advanced to the bank in that year, DBN (2005).

Table 8.
Sectoral Spread of Loans for the Period of 2005

Sector	Amount (N$)
Building and property development	4 026 461
Individuals	152 227
Manufacturing and commerce	41 697 911
Mining	30 046 538
Other	468 703
National value of advance	76 391 840
Contractual Interest suspended	(157 026)
Gross advances	76 234 814
Impairment of advances	16 000 777
Net advances	60 234 037
Short term portion	(37 315 224)
	22 918 813

Source: Development Bank of Namibia

The following observations can be made from the above two table on projects supported in 2005 (table 3) and sectoral spread of loans approved in the same year (table 4): about 770 new jobs were created as a result of the invested amount. According to the Chairperson of the board members of the DBN, the investment on these project is estimated to have retained close to 2 200 existing jobs, however this does not come out clear in the table above due to certain missing information. The sectoral spread of the loans approved in the year under review (table 4.) provides the amount invested in Namibian dollars. From the table, we can see that a large amount was invested in the manufacturing and commerce sector; this is followed by the mining sector. It is surprising to notice that service sectors such as tourism and does not appear in the list. The tourism sector is one sector which Namibia has not yet fully explored and this is one of the sectors with the potential to contribute to economic growth and prosperity.

As at 31 December 2006, DBN recorded a total asset of N$ 535 million, a 39.9% increase from a total asset of N$ 384 recorded at the end of 2005. On a larger scale, the bank approved facilities amounting to N$ 84.65 million creating 441 permanent jobs and 105 temporal jobs, DBN (2006).

Table 9.
Projects Supported in 2006

Project/Company	Amount (N$)	Jobs creation	Region
NHE	30 000 000	169	Oshana
Zambezi River Lodge	10 000 000	55	Caprivi
Jom Construction	500 000	15	Erongo
JCS Fishing	5 500 000	36	Erongo
African Directory Service	1 900 000	25	Khomas
Wedjizuva Pharmacy	500 000	6	Khomas
Envirofill Namibia	1 000 000	8	Khomas
Edu-Loan	4 750 000	21	All 13 regions
PowerCom	30 500 000	106	All 13 regions
Total	**84 000 000**	**441**	

Source: Development Bank of Namibia

In the same year, DBN also celebrated its first anniversary of the partnership with Bank Windhoek through which financing is extended to SMEs. In 2006 though, facilities to the amount of N$ 33.92 million were extended creating 369 jobs. Moreover, in allocating these loans, the bank requires commitment from Entrepreneurs and this may include the provision of collateral/security. Such commitments can take the form of third party collateral; cession of project income and insurance policies; fixed and movable assets; and assets acquired through DBN financing, DBN (2006). The request for collateral and commitment from the borrowers is viewed as a way for enforcing accountability. This is particularly important for the bank since it uses public funds from national resources in its dealings.

Table 10.
Amount Given and Jobs Created Through SMEs Funded in 2006 As Per Region

Amount (N$)	Job creation	Region
552 000	10	Caprivi
1 741 000	23	Erongo
250 000	3	Hardap
21 515 426	168	Khomas
3 873 000	56	Kunene
1 251 517	31	Ohangwena
400 000	27	Omusati
1 913 400	25	Oshana
2 086 622	19	Oshikoto
370 000	7	Otjozondjupa
33 922 965	**369**	

Source: Development Bank of Namibia

Table 11.
Sectoral Spread of Loans for the Period Of 2006

Sector	Amount (N$)
Building and property development	3 732 286
Individuals	95 574
Manufacturing and commerce	72 214 922
National value of advance	76 042 782
Contractual Interest suspended	(1 031 766)
Gross advances	75 011 016
Impairment of advances	(11 662 889)
Net advances	63 348 127
Short term portion	(20963 679)
	42 384 448

Source: Development Bank of Namibia

441 permanent jobs and 105 temporally ones created in 2006 to the tune of about N$ 84.65 millions. This appears to be slow pace given the devastating unemployment rate in the economy. The same can be said to the 369 jobs created through the support of Small and Medium Enterprise. However, a job is just a job and behind those numbers are real people, families trying to support one another, parents saving for their children's education and medication and for retirement. So every job in the economy does matter and at least some progress is made. But at the same time, the investments made only suggest that there is more work that need to be done if the government is serious about the issue of unemployment. From table 7 showing the sectoral spread of the approved loans, much of the investment went into manufacturing and commerce, as you can see, the sectors mining and others have dropped out of the list, indicating that no approval was made in those sectors.

In 2007, an amount of N$ 29.2 million was extended to SMEs creating 317 jobs, while a huge injection of N$ 286 million was extended on a larger scale. So by 31 December 2007, the SME facility in collaboration with the Bank Windhoek mentorship has extended a total of N$ 63 million to SMEs creating about 658 jobs in the economy. At the same time, a total amount of N$ 481.14 million have been injected in the economy on a large sale projects. By the end of 2007, The Development Bank has therefore recorded a total asset of N$ 657 million, an increase of 22.8% from the previous year, DBN (2007).

Table 12.
Sectoral Spread of Loans for the Period Of 2007

Sector	Amount (N$)
Agriculture including fishing	10 544 128
Building and property development	5 672 622
Government and Public authority	46 487 264
Individuals	82 177
Manufacturing and commerce	17 055 940
Mining	15 452 577
Transport and communication	3 277 174
Medical services	12 368 329
Hotel and Tourism	15 040 028
National value of advance	125 980 221
Contractual Interest suspended	(205 350)
Gross advances	125 774 871
Impairment of advances	(4 992 140)
Net advances	120 782 731
Short term portion	(19 780 245)
	101 002 486

Source: Development Bank of Namibia

The year 2008 will go down in the Namibian history as one in which the country began to feel the impact of the global financial crisis. Without going in details, the recent financial crisis started in the summer of 2007 in the United States. What happened is that there was a bubble built up in the housing market due to reckless and irresponsible behaviours of the Bankers in the US and this resulted in the largest financial crisis ever recorded in history since the great depression of 1930. Economists argued that information asymmetry played a major role leading to the crisis and were warning seriously that if governments do not act the crisis might turn into another great depression. So governments, mostly in advanced countries acted, immediately and aggressively, with some of the unpopular steps such as bank bailout, and huge tax cuts in history which left many of them heavily indebted. And because of the steps they took, the world economy is growing again and a depression was avoided.

Substantial effects experienced in Namibia included high inflation, high interest rates and high unemployment. The economy has for many years depended on primary industries such as mining. And due to the fall in demand for primary goods, the mining sector was heavily affected leading to many mine workers being laid off and ultimate high unemployment.

Two important lesson that Namibia can learn from the recent financial crisis: (a) Value adding to local products and (b) diversification. Adding value to local products does not only makes your export expensive thus yielding high return but also help create jobs in the local economy. The country need to invest more in the manufacturing sector in order to boost up its national income and create more jobs. Namibia has enjoyed tremendous benefits from the mining sector during the past two decades since independence, however it is important that the economy is diversified and new industries such as tourism and can be uplifted in order to contribute to the GDP and expand, thereby creating new jobs in the economy.

According to DBN (2008), on 24th July 2008, the bank reached an agreement to a decision to make financing available to SMEs at the interest rates equal to the Central Bank's rates, the lowest rates on the market. This was done in order to improve SMEs access to financing and foster growth and prosperity in the sector. As a result, by 31 December, 44 Entrepreneurs were supported totalling to an amount of N$ 30.5 million which created 446 jobs in the economy. Moreover, First National Bank (FNB), a commercial bank that has been in business for many years and has braches all over the country joined the DBN-Bank Windhoek partnership giving Entrepreneurs more access to services.

On a larger scale, DBN approved 81 projects in 2008 to the tune of N$ 467.76 million. This investment is expected to create 1 617 new jobs and retain 3 235 existing ones. Moreover, 1 282 temporary jobs are being created as a result of such an investment DBN (2008). The approved projects cover all 13 regions of the country and across key economic sectors such as construction, fishing, services, mining, transportation and tourism. In line with the BEE initiative, 75% was invested in the private sector of which 42% went toward fostering BEE DBN (2008).

In 2009 an amount of N$ 87 million was extended to 128 SMEs, creating about 996 jobs. Total approvals comprised of 65 facilities amounting to N$ 427.10 million in 2009. At 53 per cent, the bulk of the funding went towards the public sector. The funding in 2009 is set to create 5,551 job opportunities, with new jobs to account for 18 per cent of the total, DBN (2009).

Table 13.
Sectoral Spread of Loans for the Period of 2008 and 2009

Sector	Amount (N$) 2008	Amount (N$) 2009
Agriculture including fishing	37 771 591	108 336 359
Building and property development	42 815 758	78 544 049
Government and Public authority	82 177 574	57 489 474
Individuals	899 906	
Manufacturing and commerce	30 411 881	34 236 947
Mining	17 342 448	23 267 430
Transport and communication	4 033 863	187 097 401
Medical services	24 586 037	24 324 312
Financial Institutions	106 479 762	139 999 968
Hotel and Tourism	28 954 920	33 080 818
Other		17 015 393
National value of advance	375 473 731	721 392 150
Contractual Interest suspended	(1 647 964)	(4 573 622)
Gross advances	373 825 749	716 818 488
Impairment of advances	(25 343 575)	
Net advances	348 482 174	
Short term portion	(81 842 880)	
	266 639 294	

Source: Development Bank of Namibia

In 2007- 2009, we can observe from the sectoral spread that loans to government and public authority are more followed by the loans extended to the manufacturing and commerce sector. The large extension of loans to the government could crowd out private sector investment, and thus may explain the less impact made in the private sector. We see that the loans extended for medical services exceed those extended to the mining sector. This is quite in contrary to the idea of the resource course transmission channels regarding negligent of investment in human capital as outlined by Gylfason (2000).

4.3 Bridging Finance

This is a financial assistance given as working capital to Enterprises that have been awarded tenders or contracts by recognized and well managed Institutions. The facility was initiated in 2005. The funds are given at the minimum of N$ 150 000 and a maximum of 3 million and the interest rates are determined on a project to project basis

Table 14.
Projects Supported Through the Bridging Finance Facility In 2006

Industry	Sector	Amount (million N$)	New Jobs	Jobs Retained	Temp Jobs	Region
Tertiary	Business Services	1.90		20	5	Khomas
Tertiary	Business Services	1.00	2		8	Khomas
Tertiary	Health	0.50	1	5		Khomas
Secondary	Construction	0.50	5	10		Erongo, Omusati Oshikoto

Source: Development Bank of Namibia

As it can be seen from the table, most of the jobs seem to have been retained in the business service and construction sector. We can also observe that there is little impact in the health sector as far as job creation is concerned. Of Corse much of this has also to do with the demand but this can be interpreted as negligent of the investment in human capital which can have negative consequence in the long run.

Table 15.
Projects Supported Through the Bridging Finance Facility In 2007

Industry	Sector	Amount (N$, Million)	Temp Jobs	Region
Secondary	Construction	0.50	150	Oshikoto
Secondary	Construction	0.50	150	Oshikoto
Secondary	Construction	0.42	150	Oshikoto
Secondary	Construction	0.50	150	Oshikoto
Secondary	Construction	0.50	150	Oshikoto
Secondary	Construction	0.50	75	Caprivi
Secondary	Construction	0.50	75	Caprivi
Secondary	Construction	0.50	13	Caprivi
Secondary	Construction	0.25	50	Erongo
Secondary	Construction	0.30	50	Caprivi
Secondary	Construction	0.25	8	Caprivi
Secondary	Construction	0.31	60	Kunene

Source: Development Bank of Namibia

It is interesting that most of the approved loans for contractual work in 2007 went into construction, which was mainly road construction. In fact, one can say that 100% of the loans under this facility went into construction that financial year. Again, this is an indication that most of the loans from the bridging finance were invested in the non tradable sector. However, the number temporally jobs created are quite significant. No permanent jobs or jobs retained in that regard, which does not surprise me since construction work are temporal in general, they raise and fall at some point. While infrastructure development through constructions of new roads and bridges is vital for long term economic growth, this is not an area where one can make a significant impact in terms of job creation.

Table 16.
Projects Supported Through the Bridging Finance Facility In 2008

Amount(in million N$)	Industry	Sector	New Jobs	Jobs Re-tained	Temp Jobs
9.48	Tertiary	Business service	143	31	13
43.04	Secondary	Construction	822	70	578
100.00	Tertiary	Financial Intermediation	882		
1.05	Secondary	Manufacturing	8	4	4
101.05	Tertiary	Wholesale	890	4	4
254.62			2745	109	2854

Source: Development Bank of Namibia

Apart from the financial intermediation, where the loans are dealt with through the line of credit with two local banks, FNB and Bank Windhoek, we can see that most of the loans went to the tertiary industry in the wholesale sector creating quiet a number of jobs amounting to 890 new jobs. Moreover, the construction sector continue to enjoy most of the bridging finance, receiving N$ 43.04 million and as usual creating most of the temporal jobs.

Table 17.
Projects Supported Through the Bridging Finance Facility In 2009

Amount(in million N$)	Industry	Sector	New Jobs	Jobs Re-tained	Temp Jobs
10.95	Tertiary	Business service	19	50	36
27.48	Secondary	Construction	242	67	1066
0.20	Secondary	Manufacturing	2	5	0
38.63			**263**	**122**	**1102**

Source: Development Bank of Namibia

The table above shows that most of the loans from the bridging finance facility continue to be poured into the construction sector; this could probably be due to more demand from the road construction sector. As it can be seen, the sector borrowed an amount of N$ 27.48 millions and created over a thousand jobs, however most of these jobs are temporal indicating a less net addition to overall job growth in the long-run. The manufacturing sector received the least amount and fewer jobs were created in that sector.

4.4 Overall Analysis and Discussion

4.4.1 Employment Creation

With regard to employment creation as a consequence of the effort made by DBN through the support of Small and Medium Enterprises as well as investment in large scale economic activities and infrastructure development, the acceleration of job growth seems to have been rather slow. This is relative to the unemployment rate which stands at about 36% according to the Central Bureau of Statistics (2004) as well as the actual number of unemployed people estimated at 108,119 according to the Namibia Labor Force Survey (2004) and again given the fact that the bank is well capitalized recording respectable net profits over the years, DBN (2008: 10). Much of the slow pace in job growth has is observable in the annual job growth rate, which remained low for most of the times. According to the DBN Developmental Impact Review Draft Report (2010), the funding approved during the period 2005-2009 is estimated to have provided 20, 426 jobs with new jobs accounting for 32% of the total which are roughly 6000 jobs in about five years. This is illustrated in the table below

Table 18.
Indicative employment impact (2005 – 2009)

Employment	No. of jobs	Percentage
New jobs	6,485	32%
Jobs retained	7,733	38%
Temporary jobs	6,208	30%
Jobs provided	20,426	100%

Source: Development Bank of Namibia

Looking at the new jobs created (6,485) and given the number of people unemployed in 2004 (108,199) and the unemployment rate in Namibia estimated at 36%, CBS (2004), it is clear that at this pace, the efforts will not contribute much to the solution of unemployment problem in Namibia and the realization of the country's vision 2030 thereof. Of course we have to take the retained jobs in consideration as the bank seems to claim that these jobs would otherwise not be there should the loans not have been extended to these projects, but again this is not net addition of jobs to the job market Temporal jobs on the other had are temporal as the name suggest, which means many of them may have lapsed already by the end of the period under review.

There are many reasons that could explain the slow job growth given the investment made by the Development Bank over the last five years. One of these factors could be education for entrepreneurs which is necessary for entrepreneurship development. As Gylfason (2000) put it: "More and better education is a prerequisite for rapid economic development around the world. Education stimulates economic growth and improve people's lives though many channels: increasing efficiency of labour force, fostering democracy, improving health and enhancing equality" Entrepreneurship is a profession that just like other professions needs continuous upgrading and new skills. Again, entry into this profession requires of course entrepreneurial skills but also basic formal trainings. In many instances small Entrepreneurs lack formal education and thus without sound business proposals, they are unable to get the loans they need to invest. In chapter two, we saw the education attainment of Entrepreneurs in

Namibia with only 10% of entrepreneurs in all business having acquired tertiary education, given the large number of 29,801 entrepreneurs in the country at the time. The percentage of females and males entrepreneurs in the retail trade sector with tertiary education is only 2 and 7 percent respectively, which is very small given a large number of 18,589 entrepreneurs in this sector. However, much of the lack of formal education and skills can to some degree be attributed to the colonial past. Before independence, many Namibians were unable to get formal education. As a result, they were unable to get loans to start businesses and had no opportunities. It is precisely for this reasons that the Development Bank of Namibia is committed to the BEE initiative in order to support and give Previously Disadvantaged Namibians opportunities that were in the past not available to them.
Rosendahl (2010) outlined that "The legacies of apartheid policies have nurtured a highly skewed distribution of assets and opportunities, and this has to date not been overcome", he argued that "The private sector remains divided into a small number of large, profitable and mainly white businesses, and a large number of very small, unproductive, low-skilled and mainly black businesses. The economic structure is geared mainly toward the extraction of resources with limited value-addition and limited linkages to the rest of the economy. Small businesses face barriers to growth due to the large size of the country, its low population density, and limited purchasing power of the large part of the population, leading to high transaction costs and preventing economies of scale, amongst others" Rosendahl (2010). In his view, the legacy left by the colonial administration continues to negatively define the state of the Namibian economy, faced with multiple problems and challenges.

Another factor that could result in low investment, especially in SMEs could be lack of bankable projects. Banking is a risky business and just like many other development banks, the DBN is not a charity institution, but a banking institution. While carrying out its mandate of accelerating development, the bank has to be concerned about its financial sustainability. The bank has to invest in businesses that are sustainable and that show the potential to grow and become self sustainable. Sustainability is important both for projects and for the bank. Moreover, in line with its objective of job creation, the bank is looking to invest in business that can create jobs, and of course businesses that are engaged in environmental friendly activities. So without these businesses (due to many factors, including lack of education), investment is likely to be minimum. Other factors such as interest rates may also play a role in the demand for loans from the development bank, although for many big projects, interest rate are determined on a project basis, moreover, since it was only later in 2007 when the bank decided to extend loans at the rate equal to the central banks rates, which will probably be the lowest on the market. The effect of interest rate is well explored in chapter two of this paper.

4.4.2 Facility Approvals

The table below shows the approvals per facility since the bank started operations in 2005 to 2009. From the table, we can see that 46% of the approved loans went to the corporate sector facility. Apart from credit extension to private entities setting up new business or simply expanding existing ones, this facility also includes preference share finance, Franchising finance, and equity finance, which then makes it difficult to determine which how much was allocated to what product. A small portion of the loans went to the SME facility, this probably reflect some of the issues I discussed earlier, ranging from lack of education (training and skills) for entrepreneurs, low demand due to high interest rates or lack of collateral required, as well as lack of bankable sound projects. In general many SMEs use labour intensive production methods and thus hire more workers even when less are supported, However, the small amount(N$ 267.1 million) invested over the last five years could be too low to support that argument given the financial position of the bank.

Table 19.
facility approvals for the period 2005 – 2009

Approvals per facility	N$ mil	Percentage
Corporate Sector	663.71	46%
SME	267.1	19%
Public Sector	507.98	35%
Total	1438.79	100%

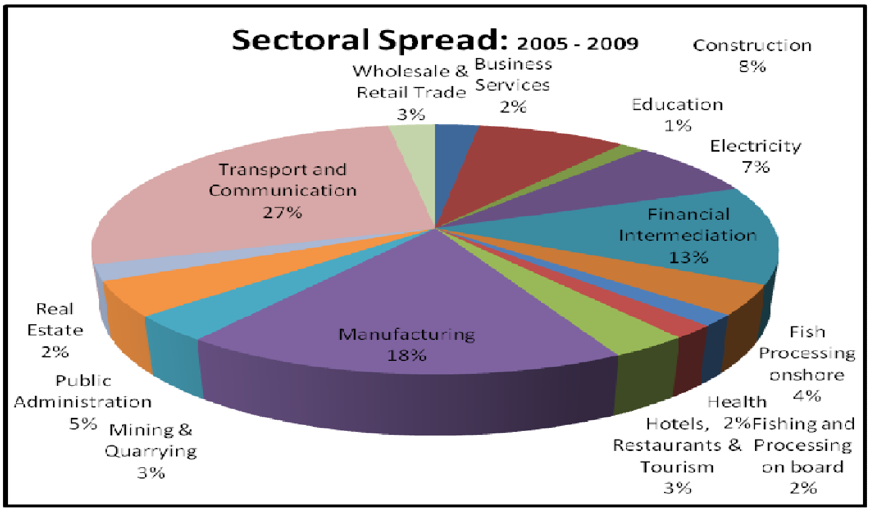
Source: Development Bank of Namibia

4.4.3 Sectoral Spread of Loans

Keep in mind that Namibia is a resource rich country, naturally gifted with minerals such as diamonds and uranium. For many years, the economy has always depended on the primary industry which consists of agriculture and forestry, fishing and fish processing, as well as mining. Mining has been the backbone of the economy since independence contributing the largest to the GDP, exports and revenues. It was only in 2007, when the primary industries recorded a negative growth of 0.9 percent compared to the growth rate of 12.8 percent recorded in 2006, the fall was due to the contraction in diamond output NPC (2007). The secondary industry consists of manufacturing, electricity and water and construction while the tertiary industries consist of wholesale and retail trade, repair, hotels and restaurants, transport and communication, financial intermediation, real estate and business services and so on.

Given the sectors as listed above under their respective industries, we have seen how in the previous sections the annual sectoral spread of loans through the Development Bank of Namibia for the past five years. Just to refresh your mind, what we observed was that most of the loans have been extended to the construction sector, manufacturing sector, and in some cases to the health sector. Now let us look at the overall sectoral spread for the period 2005- 2009 as indicated in the pie chart bellow.

Figure 2.
Sectoral spread of loans by DBN (2005-2009)



Source: Development Bank of Namibia

The figure presented above does not surprise us; this is what we have been observing in the annual sectoral allocation of loans over the past five years in section 4.2 of this chapter. Much of the investment made in the transport and communication sector came as a result of a huge investment made in 2009, amounting to about N$ 187 million. We also saw that there were quiet a number of loans extended to the manufacturing sector as well as to the construction sector, again suggesting emphasis on the secondary industries. Financial intermediation refers to the loans extended to the SME sector through the line of credit agreement with the two commercial banks.

The investment made over the past five years tells an interesting story. The first observation I can make is that most of the loans finances went predominantly into the non-traded sectors and not in the traded sector. This indicates the symptoms of the Dutch disease problem. Given the fact that Namibia is a resource rich country with a booming mining sector, upon which the lagging sector depends. The lagging sector here refers to the trade sectors outside the booming sectors. We should however not confuse this with a government overall budget, this is the operations of the development bank, and for example a small investment in education and health (as observed in the pie chart above) does not necessarily suggest that government as a whole is neglecting these sectors. Much of the work and budgets for these sectors is done through their respective ministries.

CHAPTER FIVE: Summary, Conclusion and Policy Implications

For most part of the last two decades, the Namibian economy has recorded positive economic growth. However, unemployment has been sky rocketing for most part of this period. The problem of unemployment has been the priority on the government's agenda since independence in 1990. There are many ways though which government can reduce or mitigate the effect of unemployment, but ignoring it altogether is not one of them. Much explanation on the current situation in Namibia has to do with what happened during colonization, where most Namibians were denied opportunities to go to school, to acquire loans and start businesses and become self employed as many were expected to work as forced labour or contract workers and earned less.

The Development Bank of Namibia was established in 2004 and extended its first loans in July 2005. This long awaited institutions replaced and merged some of the activities formally used to be carried out by the NDC and NDF. Given the criticisms laid against these two institutions, there were high expectations from the newly launched bank from the onset. The main objective of the bank is to invest in sound and sustainable projects that are environmental friendly and create jobs, and ultimately to be the champion of economic development through partnership with the private sector and international organisations. The emphasis was placed on previously disadvantaged Namibians.

The main objective of this study was to investigate and analyse the investment done by this institution with emphasis on the financing of projects in the private sector including Small and Medium Enterprises and see how this impact job creation. The logic is simple; a strong economy requires a vibrant private sector. It is only though harnessing the ingenuity, creativity and innovation of the private sector that we can tackle many of the problems such as unemployment, income inequality and extreme poverty in many developing countries including Namibia.

Of course some effort has been done at the bank since it first opened its doors in 2005, but the output produced does not indicate convincing sound impact as far as job creation is concerned. Over the last five years, only about 20 thousand jobs have been created, with new ones accounting to only 6,485, about 6,208 of the jobs created are temporally jobs, most probably in the construction sector. With unemployment rate estimated at 36% in 2004 and the number of the unemployed estimated at 108,119 according to the Namibia Labour Force Survey (2004) and probably higher now, given the recent global economic recession which negatively affected the mining sector resulting in many mine workers losing their jobs, the pace at which the bank is moving in this regard is not convincing in other words, job creation has been relatively slow. The investment in Small business has been low (19%) given the number of SMEs in the country and thus did not create as many jobs indicating a small impact. Much of this slow impact can be explained by many factors such as education, colonial past, and supply and demand for loans and so on. From chapter two, we see how the entrepreneurship development in Namibia is constrained by lack of education and training for many entrepreneurs. What we observed is that the education level of many entrepreneurs is very low, with only a few have attained tertiary education.

With regard to sectoral spread of approved loans, the impressions given form figure 2 in the previous chapter as well as from the tables in section 4.2, is that the emphasis has been on the secondary industries, supporting sectors such as communication and transport, manufacturing and commerce, and construction, basically the main conclusion is that much of the investment went into the non-traded sector. This may indicate the problem of the Dutch disease problem and one can as well argue that this indicate a shortage of bankable competitive projects outside the booming sector and this could in part explain the impact made. Moreover, keeping in mind the booming primary industry that has sustained the economy for too long, diversity is key. Part of the reason why the Namibian economy did not collapse as a result of the recent economic recession is because our banking system was not heavily affected and also because of the economic diversity. Sherbourne (2009) argued that "the economy has become less dependent on mining and agriculture and has diversified its exports so that the variety of goods and services sold abroad and the markets in which they are sold have increased". The investment in manufacturing portray a good move in terms of encouraging value addition to the locally made products which will ultimately yield more returns from the markets and increase Namibia's competitiveness in the future, given that those are export oriented businesses.

The study on private sector development financing and support for SMEs has a great deal of policy implications especially in many developing countries. The private sector should be the engine of job growth and there is therefore a need to harness the potential creativity and ingenuity of the business community, including small business to grow and contribute to economic development. In the Namibian case, based on the findings and discussions aroused from this paper, policies must me formulated in such a way that they stimulate and encourage entrepreneurship most importantly policies should stimulate competitive enterprises in the traded sector. The idea is that that someone with a good idea but less money can acquire financial assistance in order to start a business for income and create private sector jobs.

However, based on the findings of the study, policies geared toward providing education and training to entrepreneurs is of paramount importance and should be encouraged. As discussed in the paper, entrepreneurship is a career, and like other careers it needs continuous skills upgrading in these changing times. Policies should also encourage a favourable investment environment for small business owners with less collateral required by banks. A reasonable interest rates environment should also endure in order to encourage investment. Based on the sectoral spread of loans, policies should be designed in such a way that they stimulate competitive enterprises in the traded sector if they economy is to be competitive in the long run.

Due to time constraint and limited data, there are several important factors which are not thoroughly explored in this paper. Further work still need to be done in the area of private sector development financing and support for SMEs. This will require a more detailed investigation from both demand and supply side. There is need to hear from the loans recipients themselves (business owners) as well as interviews with staff members at the bank involved in the loan approval and monitoring and evaluation process. Future research may also need to explore further the resource curse and Dutch Disease problem by going into more details on issues which are not thoroughly explored in this paper such as export-GDP ratio as well as exchange rates and volatility and make projections on how these are likely to affect Namibia's long term economic growth and competitiveness.

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