

**Impact of Microfinance Grants on Rural Development:  
A case study of Kavango East Regional Council**

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## **ABSTRACT**

This study looked at the impact of microfinance grants on rural development in the Kavango East Region administered by the Kavango East Regional Council. The Kavango East Region is the poorest region in Namibia, with an unemployment rate that is higher than the national rate. With these statistics as background, the microfinance grant was proposed as a vital tool in alleviating the poverty-stricken region and curbing the high unemployment rate. Poverty alleviation through asset accumulation and food security, financial inclusion through opening of business banking accounts, business growth and diversification were variables considered to indicate rural development. The literature indicates that microfinance has both positive and negative impacts on poor people's income by increasing and decreasing their incomes, respectively. Available evidence also indicates minimal proof that microfinance impacts job creation and should, therefore, not be promoted as a means to achieve long-term goals.

A qualitative research methodology using the descriptive survey design was used to collect data. The analysis of the study shows that microfinance grants have not positively impacted rural development as anticipated; beneficiaries have not registered growth or diversification in their businesses. However, there has been a positive impact on financial inclusion variable as business banking accounts were opened. Overall, the positive impacts of microfinance grants are very minimal due to relatively small market sizes which reduce chances to accumulate asset from the business operations. The grants have however enabled food security as beneficiaries' businesses are more for subsistence than commercial purposes.

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## **LIST OF ACRONYMS**

GRN	Government
KERC	Kavango East Regional Council
MFG	Microfinance Grants
MURD	Ministry of Rural and Urban Development
NRDP	National Rural Development Policy
SME	Small and Medium Enterprise
NGO	Non-Governmental Organisation
CDG	Centre for Global Development
IGA	Income Generating Activity
ATM	Automated Teller Machines
PPP	Public Private Partnership

## **CHAPTER ONE: INTRODUCTION**

In this chapter, the overview of the study is projected. It provides the background of the study, problem definition, depicts the research objectives and the value of the research to stakeholders. Finally, it contains a brief overview of the report organisation.

### **1.1 BACKGROUND OF THE STUDY**

Microfinance has its roots stemmed in the 1970s from an economics lecturer, Mohammed Yunus, at the University of Chittagong, Bangladesh. Accorded with numerous descriptions, the widely used description of microfinance involves the provision of a small loan, a microloan, used by a poor individual to support a tiny income generating activity that would generate an income sufficient to affect an exit from poverty (Bateman & Chang, 2012).

Long-standing poor people are unlikely to use a microloan productively and instead use the loan to meet their basic consumption as the use of the microloan may further erode their economic position. Therefore, grant schemes are a safety net strategy that could graduate the poor from vulnerability towards economic self-sufficiency (Littlefield, Murdugh & Hashemi, 2002).

Dahir (2015), explains the purpose of microfinance as an economic development approach aimed at benefitting low-income individuals of the society by giving them access to financial and non-financial services to help start or develop an income-generating activity. Irobi (2008) in his study found that microfinance positively impacts alleviation of poverty among women; women who after benefiting from microfinance have experienced an increase in income and an improvement in their economic status, political and social conditions. Contrary to this, Provident and Zacharia (2008) in their study found that the poor do not access microfinance services due to a lack of assets, guarantors or the ability to make pre-loan weekly deposits. Mecha (2017), mentioned the challenges experienced by microfinance institutions as follows: high cost of service delivery, poor infrastructure, inadequate governance and management capacity, limited market outreach and limited access to funds, to mention a few.

Small trading centres in the rural areas are of great interest in the regional development and poverty reduction avenues. There is an important relationship between the urban and rural

markets and this relationship consists of exchanges made between these two groups. The urban enterprises rely on demand from rural producers or consumers and often on rural raw material, while rural producers rely on urban-based traders and markets. Rural dwellers on the other hand rely on retail stores and service enterprises in the local urban centres. It is this exchange relationship that calls for developmental tools such as microfinance (Tacoli, 2003).

The Kavango East Region is one of the most populated regions in Namibia, second from the Khomas region where the capital city, Windhoek, is situated; with an estimated population of 136 823 (Namibia Statistics Agency, 2011). The region has a poverty incidence rate higher than the national average of 27%. More than 60% of the population in rural constituencies are classified as poor. These poor communities are not active in market transactions as a result of their source of income which is highly constituted by subsistence farming and government social grants for the elderly and orphans, and the incompetently performing agricultural sector as their main source of employment (Dacosa, 2013).

A study by the National Planning Commission in Namibia on the index of multiple deprivations concluded that the Kavango East Region is the most deprived region nationwide. Five domains of deprivation were studied, namely; material, employment, health, educational and living environment deprivation.

The purpose of the material deprivation domain is to measure the proportion of the population deprived of access to basic material possessions such as a television and/or radio and telephone and/or cell phone. The employment deprivation domain measures the proportion of the population who are involuntarily excluded from the job market against the unemployed. The health deprivation domain identifies areas with relatively high rates of people who die prematurely and measures premature mortality. The education deprivation domain measures deprivation in educational attainment for people aged fifteen to fifty-nine, while the living environment deprivation domain measured the inadequacy in housing conditions and the lack of basic services to the houses.

In all the five deprivation domains, the Kavango East Region registered as the most deprived region. In the same vein, the population in this region, including the urban centres, suffers

from poor infrastructure that deters investment in the region. Unfortunately, one major reason for the poor infrastructure within the region is that the region is vast and the population in their small localities are greatly dispersed from one another. Efforts to bring these villages closer present a great challenge as relocating the villages to areas where services can be easily offered requires the government to compensate for the relocation, which is very costly. Bringing villages closer would open doors for better rural development and increase markets to enable the poor to do business. Despite the deprivations the region suffers and the statistics that show that Kavango East Region, the second most populated region in Namibia, is the poorest and it is the least funded region by the government budget.

The Namibian National Rural Development Policy (NRDP) was developed with an overall objective of achieving sustainable economic and social advancement in rural areas. It is the policy that guides the implementation of the Income Generating Activity Fund or sometimes referred to as microfinance grant. Littlefield, Murdugh & Hashemi (2003) states that micro grants can be an initial strategy to graduate the poor and vulnerable to economic self-sufficiency. Considered a safety net, micro-grant schemes can elevate the poor to a level where they can make plans and consider investment because they invest time and resources in learning skills and building an asset base.

### **1.1.1 Mandate of the regional council**

The regional development profile of Kavango East clearly summarises the mandate of the Regional Council contained in the Regional Councils Act (1992) saying “it provides for the election of regional councils; defines the rights, powers, duties and functions of such regional councils; and provide for incidental matters” Regional Council Act, 1992 (Act of 1992). These rights, powers and duties are contained in Part VI of the Act, Articles 28-30, as summarised below.

A Regional Council has the power to undertake, with due regard to the powers, duties and functions of the National Planning Commission, the planning of the development of their region with a view to the physical, social and economic characteristics of its region and any neighbouring region likely to have an effect on or be affected by the regional development, as well as the distribution, increase and movement and the

urbanisation of their populations. (Urban Dynamics, 2015, p. 6-7).

Furthermore, it is also the mandate of the Regional Councils to borrow money from time to time, by way of loans, from any source within Namibia against the security which the Regional Council may deem fit, and may accept or give donations (with the approval in writing of the Minister) for the purpose of regulating the business sector outside the local authority areas (Urban Dynamics (2015); Development Consultants for Southern Africa CC (2013)).

The mandate of the regional council to give donations upon approval from the Minister for the purpose of regulating the business sector outside the local authority areas, coupled with the national rural development policy's objectives led to the birth of the concept of the microfinance grant/income generating project.

The capital structure of Microfinance Grants (MFG) at the Kavango East Regional Council is guided by the National Rural Development Policy (NRDP), a framework that facilitates the implementation of microfinance grants as a project to help the poor who are unable to attain loans from the financial system due to their "roadblocks". The overall objective of the policy is to achieve economic and social advancement in rural areas (Ministry of Urban and Rural Development, 2012).

The Ministry of Urban and Rural Development, through the Regional Council, facilitates access to microfinance grants as one of the means of industrialising rural areas by prioritizing activities related to small and medium enterprises (SMEs), through the process of requesting viable business proposals from constituencies, evaluating the proposals and rewarding the beneficiaries. One major benefit to this microfinance grant project is that the clients do not pay back the monies granted to them.

### **1.1.2 Statement of research problem**

According to Mecha (2017), most governments in the developing world with little resources deviate money earmarked for other sectors to finance youth empowerment projects. To

determine whether the youth benefit more than they could have had the money been used for its initial intent, a study needs to be done. Afrane (2002, p. 39) says

impact assessment is a management mechanism aimed at measuring the effects of projects on the intended beneficiaries. The rationale is to ascertain whether the resources invested produce the expected level of output and benefits as well as contribute to the mission of the organisation that makes the investment.

Since the inception of the income-generating programme at the regional council, an impact evaluation research has never been conducted. Hence the authors' interest in conducting an impact assessment to ascertain whether the resources invested is yielding the expected objectives. Sinimbo (2013, p. 23) says:

Since 2005 not all community income generating projects funded in Kavango East Region through the Kavango Regional Council [...] have attained the intended outcomes or unequivocal success. Since the inception of funding the community income generating projects, only reports and statistics about the funded projects are available, thus the need exists for a detailed study. A detailed study to describe the success or failure determinants of these community income generating projects is absolutely necessary.

Garbarino and Holland (2009), cited a report from Center for Global Development (CGD) calling for a more rigorous impact evaluations where *“rigorous” was taken to mean studies, which tackle the selection bias aspect of the attribution problem.* Internationally, there is an urgent need to “tackle the evaluation gap” and address the shortage of rigorous and policy relevant impact studies.

Guided by the NRDP, the capital structure of Microfinance Grants (MFG) at the Kavango East Regional Council is funded by the government budget from taxes collected. Government spending should always be accounted for to ensure that the taxes are optimally being used for the benefit of the nation.

As a Government agency, Kavango East Regional Council (KERC) lacks the technical skills and political independence needed to manage microcredit in the framework of a bank. At

times, interference by politicians in the administration of microfinance grants forces the regional council to fund unfit businesses. The mandate of the Council is to ensure the welfare of the rural community through productivity improvement and to develop destination areas where they can earn a living. Which then begs the questions: “Is there a positive correlation between microfinance grants used to fund rural businesses and rural development, and/or is it to the contrary where it is likely to lock the rural community in the aid benefited gap?”

The rural population and the regional council are faced with numerous challenges such as the unavailability of data on transaction history; inability to identify economic opportunities (agricultural related economic activity); internal capacity of the regional council to administer, monitor and evaluate the projects; and the market size for rural businesses is very small/inadequate or non-existent. Therefore, the concept of microfinance granting should be seen as the government being active in trying to improve the rural population from a position of no access, to a position of access to markets and financial service providers, thereby enabling the private sector to penetrate the new market.

The author identified the urgent need for a detailed, rigorous and policy relevant impact assessment study that would ascertain whether the government’s money used to finance the microfinance grant is positively yielding intended results, despite the political interference and the inadequate technical skills in the administration of grants servicing the rural poor.

### **1.1.3 Research objectives**

It is expected of microfinance grants to yield positive outcomes. The overall aim of this study is to assess the impact of the microfinance grants programme implemented by Kavango East Regional Council on rural development during the period 2011 to 2016.

Further objectives of the study are to:

1. evaluate the microfinance grant effect on the survival of ventures in the rural areas.  
Survival of ventures meaning as a result of microfinance grants, rural businesses are able to start and/or grow operations and not experience stagnation thereby enabling the business owners to earn an income
2. assess the microfinance grant effect on economic development in rural areas.

Economic development meaning the rural population benefitting from the grant are able to improve their living standard through asset accumulation

3. find evidence on the influence of microfinance grants on opening of business banking accounts
4. identify the gaps in the implementation of the microfinance grant aimed at rural development and provide recommendations.

For this study, the impact variables that will be evaluated are: poverty alleviation through asset accumulation and food security, financial inclusion through opening of banking accounts, business growth and diversification.

#### **1.1.4 Significance of the research findings**

The interest of the researcher is to understand the impact of microfinance grants funded by Kavango East Regional Council on the rural poor's development agendas. Do the benefactors understand the aim of the grants and how much are they willing to work towards meeting the Regional Council's initiative halfway?

In response to addressing rural development, the Kavango East Regional Council has been providing grants to community income generating projects over a number of years to enhance and develop entrepreneurship in response to addressing poverty (Sinimbo, 2013). This study will inform government organisations who practice micro lending to assess their influence and enable them to develop informed policies and strategies.

Politicians would be provided with useful insights on how the programme can achieve optimum results. The study will help generate important information that would be used to evaluate programmes tailored to providing micro lending and how to better them.

The author of this research is employed by the Kavango East Regional Council in an environment whose focus is on rural development. Microfinance grants are directly under the authors' implementation goals. The outcome of the study, if deemed relevant, will inform policy makers at the organisation.

### **1.1.5 Organisation of the research**

Chapter one of this study covered the introduction, background of the study and described the problem to be addressed in the study. Chapter two presents the literature review of the subject under study. Chapter three examines the methodology, research design, analysis and findings of the study. Chapter four presents the presentations and analysis of the methodology results. Chapter five covers the summary of the findings, the conclusion and recommendations of the study as well as future research avenues.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.2. INTRODUCTION**

This chapter reviews the theoretical and empirical literature on the impact assessment of microfinance grants on rural development. The lack of existing theory and empirically based research on impact of microfinance grants has necessitated an adoption of impact of microfinance loan theories in order to assess the impact the microfinance model on rural development. The relevant literature considered important to address the objectives of this study is covered. The theoretical review broadens its spectrum to cover all the available information regarding the purpose for introducing the regional council grant scheme and the empirical review notes the similar findings on the research under study.

### **2.3. THEORETICAL REVIEW**

#### **2.3.1. Theory of Rural Development**

Akpomuvie (2010), states that rural development is a strategy; a strategy designed to improve the socio-economic life of the people in the rural areas. In the same study, he notes that rural development is a process of increasing the level of income per capita in the rural sector and increasing the living standard of the population. The standard of living depends on a number of complicated factors such as food and nutrition, health, education, housing and security, etc. Hence, the idea of microfinance grants by the Regional Council should positively affect the factors that contribute towards the improved living standards of its inhabitants.

As is worldwide, rural development actions are mostly aimed at the development of social and economic aspects through a top-down approach by the local, regional, NGOs, national governments and international development organisation (Essays, 2013).

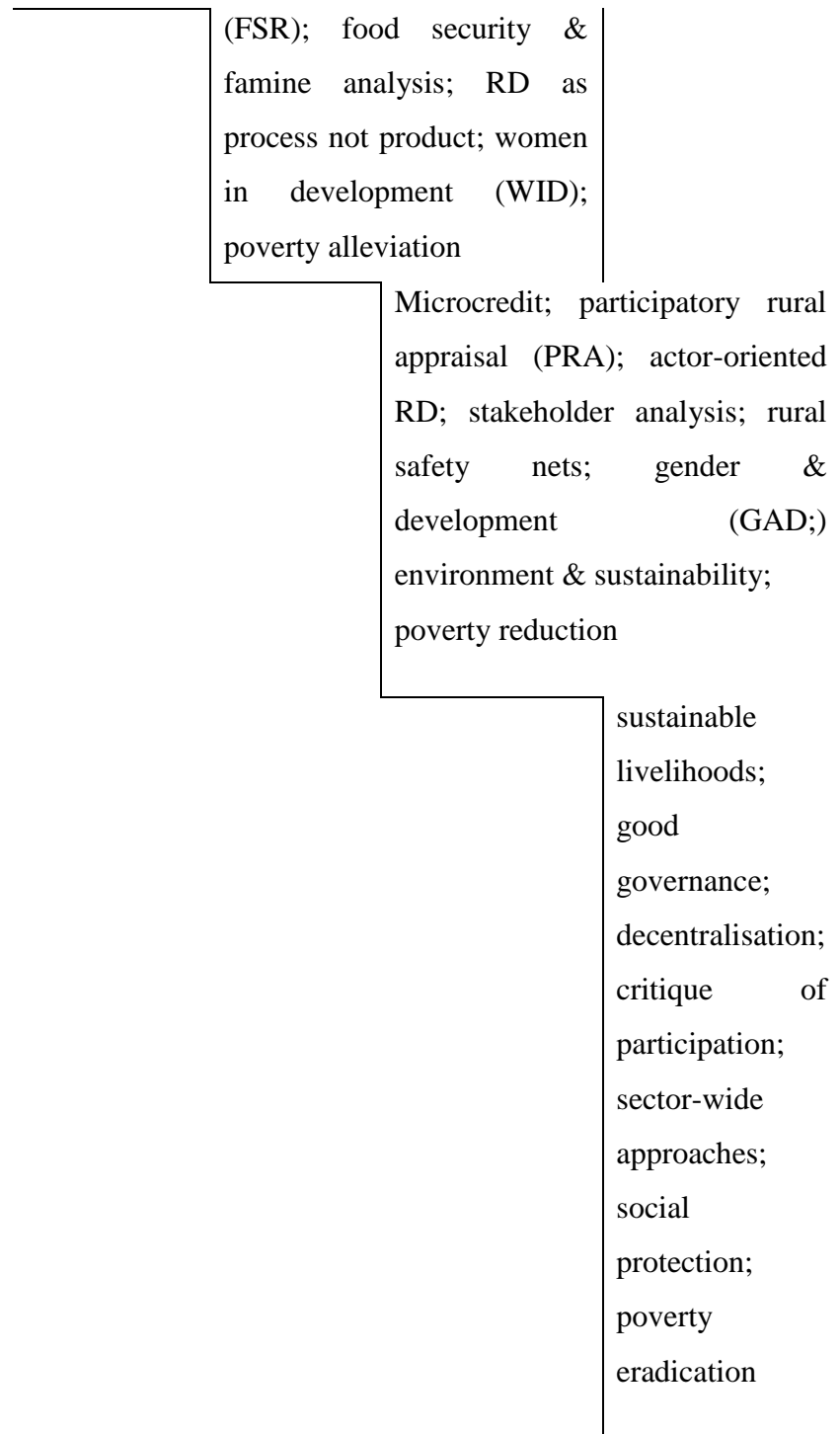
Ellis and Biggs (2001) argue that there are unparalleled understandings across various disciplines regarding rural development ideas. Table 1 below clearly depicts the ideas in a timeline which started from as early as the 1950s, through to the 2000s. The timeline not only shows theories and themes, but also shows policies that influenced rural development

thinking. Interestingly, the ideas that were conceived in one decade gained cognition in the subsequent decade, often affecting the rural development practice.

A demonstration is put forward on the sustainable livelihoods approach during the 2000s, using it as a guiding principal but originating from as early as the 1980s.

**Table 1: Rural development ideas timeline**

1950s	1960s	1970s	1980s	1990s	2000s
Modernisation; economy model agriculture; development; lazy peasants	dual 'backward' community transformation approach; technology transfer; mechanisation; agricultural extension; growth role of agriculture; green revolution (start); rational peasants	redistribution with growth; basic needs; integrated rural development; state agricultural policies; state-led credit; urban bias; induced innovation; green revolution (cont.); rural growth linkages	structural adjustment; free markets; 'getting prices right'; retreat of the state; rise of NGOs; rapid rural appraisal (RRA); farming systems research		



Ellis and Biggs (2001, p.443), found that rural development is seen as a participatory process that empowers rural dwellers to take control of their own priorities for change. They note key strands during these periods as including :

- Validity of indigenous technical knowledge and the ability of the poor to contribute to solutions to the problems they confront

- The rise of the participatory method and ‘actor-oriented’ perspective on rural policies, stressing that the poor participating in rural development are actors with different understanding of the processes of change
- The rise of gender as a concern in rural development, emphasising and considering the different impacts of rural politics on women and men.

Some of the ideas, theories and themes depicted on the timeline do account for the situation of Kavango East Region. From as early as the 1950s, the region was involved in community development, basic needs provision, state-led credit, women in development, microcredit, gender and development, poverty reduction/eradication, sustainable development and decentralisation.

The poor lack resources that can uplift them to have a better life. The deprivation the rural community of Kavango East Region experience limit their own effort to try and better their lives. Therefore, as Patil and Kamath (2017) put it, providing capital to the poor strengthens their sense of dignity by empowering them to fully partake in the economy and the society at large. The rural poor have solutions to their problems, and these solutions need to be financed. Unfortunately, the finance part of the solution is not readily available to them.

Through the availability of the microfinance grant, empowering the rural to participate in the economy would eventually result in improved productivity, an increase in employment and income earnings for the beneficiaries. This would then spill over to improved qualities in the basic needs of life which include food, shelter, health services, education and improved attitudes like political behavior (Akpomuvie, 2010).

### **2.3.2. Theory of business growth and diversification**

The Ansoff Matrix is a planning technique that talks about a firms’ growth through product and market expansion networks (Sajjad, Jamshed, Arshad & Adnan, 2013). From his article in 1957, it was concluded that a firm must continuously grow and change. The identified growth vectors are market penetration, market development, product development and diversification.

Sajjad et al. (2013) found that the first option for business to grow is market penetration. It is as simple as supply meeting demand. If there is no demand for goods, then why produce

them? Market development is the second option for business growth – by tapping a new market, sales may be increased as the product remains identical to the original but it is marketed to a new target of consumers, such as marketing in a new region. The third option is product development, where the design and production of a product relies on the business identification of solutions to customers problems. The last option of the matrix is diversification, which involves creating a new customer base product which expands the market of the original product. Diversification is the most dangerous of all strategic choices as it involves new unknown markets. The risk is too high.

Njuguna (2013), describes diversification as reducing risk by investing in a range of assets. Diversification is also regarded as expanding business to new markets, new products or both at the same time keeping the core business. Diversification means the spreading of production which accompanies growth. Diversification involves a lot of increases ranging from various final products produced, vertical integration and basic areas of production in which a firm operates (Penrose, 2009).

### **2.3.3. Theory of poverty alleviation through asset accumulation and food security**

There are numerous theories regarding poverty. In this study we will discuss three the Marxian theory of poverty, the Cultural theory of poverty and the Social Democratic theory of poverty.

#### ***Marxian theory of poverty***

This theory is based on a critical factor of a production system that does not allow a poor person to rise above the poverty circumstances. As is currently in the world now, means of production are rapidly changing from labour to capital intensive for purposes of increased production and profits, leading to massive unemployment (Manjoro, 2017).

The theory suggests that for poverty to be alleviated, there is a need for improved structures of production, coupled with increased education and training to the labourers whose jobs are taken by technology thereby equipping them to adapt through the dynamics of the economics environment.

This theory is more concerned with the technological production system which does not apply in the Kavango East Region as the rural community are far from technology and still utilising labour as an input for production. Labour is the only affordable means of production

compared to technological tools.

### ***Cultural theory of poverty***

Building on the Marxian theory, cultural poverty posits that as capitalist retrenchments continue for reasons of improving means of production and profit, it breeds paupers. The paupers group up into specific geographical environments (Manjoro, 2017).

The poor's grouping strategies also emanate from individuals who migrate from one area to another, and seek residence in affordable areas or find areas with residents of the same status, in order to develop coping strategies. This however has given rise to slums in urban areas.

The Kavango East Region has 70% of its inhabitants living in slums, geographically rendering the region to cultural poverty characteristics. Further, Manjoro (2017, p.5) says "since the culture of poverty is only based on material deprivation and not specific to any ethnic or religious marginalisation, it is possible for a person to be poor without living in a culture of poverty." It has been suggested that reforms directed to poverty alleviation should not only focus on immediate gains because culture, a relative autonomy, takes a long time to change.

The Regional Council has taken initiative of funding businesses generated by the paupers themselves, as well as monitoring these businesses to assist the business owners with mentorship were applicable.

### ***The Social Democratic theory of poverty***

This theory assumes that poverty is a class based concept and not the basis of a means of production. Poverty, in this theory, is based on the politics around the manner in which goods and services are produced and distributed. Poverty is both a class and market based factor, therefore to eliminate poverty there should be distributive justice to ensure that goods and services produced are equitably distributed. Manjoro (2017, p.6) argues "that poverty is a function of entitlement" and notes that "starvation ...is a function of entitlement and not of food availability." Entitlement refers to legal claims on existing resources and such entitlements are functions of a political process aimed at improving market forces or failures of such forces."

Social democratic theory of poverty describes the Kavango East Region economic status - market forces are failing in this region. Manjoro (2017) concludes on this theory by noting that poverty centres on a reform process committed to preserving a system based on production for profit, while focusing on elimination of poverty that is politically mediated in the redistribution of consumables.

#### **2.3.4. Theory of financial inclusion**

The due diligence factor of screening, incentives and enforcements were amongst the challenges for the birth of microcredit. According to the theories of microcredit, that is where its success lies.

Lenders experience problems with imperfect information and there are various theories that explain help explain how microcredit deals with such imperfections. These problems are classified in three broad categories, namely moral hazard (related to incentive), adverse selection (related to screening) and enforcement.

##### ***Theories of Microcredit with Ex Ante Moral Hazard***

Literature surrounding offering credit involves the principal-agent problem, credit market, microcredit and the ex-ante moral hazard is told in two different ways. The difference lies in the decision variable that is subject to moral hazard. On one side, the agent is the decision maker but the issue in this case is the problem the principal faces in obtaining the desired effort from the agent. On the other side is the focus on the project to be undertaken by the agent as the decision maker. Moral hazard, here, is the propensity of the agent to proceed with a riskier project than is ideal from the principals' view (Osmani & Mahmud, 2015).

The problem of moral hazard in the credit market is rationing. If an investment offers an uncertain return and the probability of success increases with the level of effort but at a diminishing rate, simply put it would say effort has a cost. For instance, a borrower is less motivated to put in the needed effort to gain the anticipated results because the lender will take a piece of the pie from the extra effort. And if the borrower fails in the project, there would be no need to repay. Without limited liability, the borrower would be expected to pay the lender albeit the situation that unfolds.

### ***Group lending with joint liability***

According to Osmani and Mahmud (2015) microcredit requires individuals to form groups to enhance the repayment of the loan taken by having each member of the group partially responsible for the repayment. Joint liability demands that when a member fails to repay their loan, other members in the same group must pay on the behalf of the failed member, provided they succeed. It is therefore in the interest of each member of the group that all members succeed. This in itself is monitoring of efforts put in by members as they are encouraged to put in effort and pressurise each other for increased effort to yield intended results. Group lending enjoys the advantage of diversification; as with diversified projects within a group, some projects may succeed and others may fail, so the borrower will be able repay some of the failed projects loans.

Group lending is said to achieve efficiency, equity and sustainability in financial institutions, there is how a disadvantage to group lending. The analysis of group lending is assumed to be on cooperative behaviour on the part of group members. If members are non-cooperative, the results are the opposite of its intended achievements. Peer monitoring would be useless without peer pressure and peer sanctions which are not a costless activity for the member doing the imposing. The costs include psychological costs – doing unpleasant things to friends and family and probable costs – weakening the fabric of social capital in a way that might be harmful for the imposer (Osmani & Mahmud, 2015).

### ***Theories of Microcredit involving Adverse Selection***

Adverse selection is a kind of market failure caused by information asymmetries as bad products and bad clients drive good products and clients out of the market. Due to the difficulty of distinguishing between good and bad borrowers, the market clearing interest rate may allow for more bad borrowers than good borrowers. This may result in credit rationing by the lender. With group lending, a screening mechanism were a lender will require individuals to form in groups and interviews at random any member of the group trying to assess whether that particular interviewee is a good or bad type. If the interviewee is found to be bad, the whole group is regarded as bad. This gives incentive for safe borrowers to form groups with each other (Osmani & Mahmud, 2015).

### ***Theories of Microcredit Dealing with the Enforcement***

Cases emerge where a borrower has earned enough money to repay the loan but is not willing to do so and the lender is unable to enforce payment. Lenders inability to enforce payment grows from sources such as limited liability and the absence of collateral. Osmani and Mahmud (2015, p. 47) note that

if the borrower does not have a tangible collateral that can be lawfully seized by the lender without incurring too high a transaction cost, the only conceivable option left to the lender is either to do something unlawful (such as threatening violence or seizing household assets that were not pledged as collateral) or to apply some kind of social pressure.

Clearly, developing countries are making efforts in microfinance servicing. The Government of Namibia, through the Ministry of Gender Equality and Child Welfare, has an income generating activity (IGA) fund that provides materials and equipment to small communities to start up small businesses/projects to encourage community members to embark on economically viable projects that could be sustained in the long run. The Ministry has the right to relocate the equipment bought with IGA funds to other projects should the project fail to achieve the expected goals within the period of three years.

#### **2.4. LIMITATIONS OF THE BANKING SYSTEM**

Formal banking systems do not necessarily have the interest to reach out to the poor because they are profit driven. The banks opt to finance the needs of their most important customers, those identified based on a client-bank relationship against security offered to underwrite the loan, risks associated with the venture for which the loan is sought, ability to meet the high contractual requirements and the commercial viability of the project (Sinimbo, 2013). The rural population needs tailored financial services that they can afford and designing this type of product can be very costly for the service provider. Is it worth the return for the provider?

Mulunga (2010) discussed challenges and limitations faced by the banking system regarding providing finance to the poor. In Namibia, all banking institutions are located in urban areas due to the poor basic infrastructure in rural areas. Mushendami, Kaakunga, Amuthenu-Iyambo, Ndalikokule & Steytler (2004) and Mulunga (2010) noted that rural communities are still experiencing difficulties in accessing credit facilities due to the geographic distance to

financial institutions.

Generally, commercial banks provide loans to people who have salaries and to SMEs through small business credit guarantee schemes. Just for serving the rural population, the banking system experiences high rates of loans in arrears or in default, high operational costs and minimal outreach (Mushendami et al., 2004). Mulunga (2010) cited that a small number of microfinance institutions recorded growth yet were still far from reaching financial sustainability or closed down due to overwhelming challenges.

A summary of the challenges faced by microfinance institutions put by Masinde (2001) as quoted in Mulunga (2010, p.16-17) is grouped in four levels, and this study will briefly explain only two.

Firstly, the strategic level focuses on issues of outreach, the education level of staff and management information systems. Level two relates to operational issues such as the profitability and sustainability aspects, relative to the high costs. The third level focuses on the aspect of marketing with regard to the diversity of products offered by the Micro Finance Institutions. Finally, the fourth level deals with the capitalisation issue with respect to access to capital.

At a strategic level, Mulunga (2010) cites that there is an inverse relationship between outreach and financial sustainability. Financial unsustainability is caused by high transaction costs experienced as a result of higher outreach to get information about creditworthiness of clients. Financial institutions resort to charging high interest rates in order to experience a possible break-even point and to enhance the ability to cover their operational and administration costs of funding risky clients.

Under the operational issue, as a result of information asymmetry, that is moral hazard and adverse selection, there is perceived risk to lending to people without collateral and credit references. Rural communities in the Kavango East Region fit the description of information asymmetry clients and are therefore not catered for by financial institutions.

In Namibia, a Small and Medium Enterprise (SME) bank was established for the purpose of funding small to medium businesses that do not qualify for business loans from other financial institutions. Special attention was provided to small and medium sized businesses catering to rural communities, micro enterprises and previously disadvantaged individuals.

Part of the requirement to apply for a loan with the bank was to have the business registered a condition that cannot be met by the rural communities due to cost involved.

## **2.5. MICROFINANCE GRANT SCHEMES OF THE REGIONAL COUNCIL**

Microfinance grants can be the first step to graduate the poor from vulnerability toward economic sufficiency (Littlefield, Murduch & Hashemi, 2003). The Regional Council is not part of a banking system, but it does help meet the banking system half way. Since the banking system cannot accommodate the rural areas because they do not have collateral to access commercial bank loans and infrastructural development in rural areas is not standardised to meet the banking sectors' needs, the following are the requirements needed by the rural population in order to apply for the microfinance grant at the Regional Council. Participants should:

- strictly be based in rural areas
- be in a group
- come up with viable projects of any kind but preference is given to the projects listed in the policy
- be 18 years old and above

Apart from these requirements, the Regional Council human resource as stated by Sinimbo (2013), importantly need critical people skills to administer the grant, to distinguish between the grant applicants who are genuine entrepreneurs from those who are opportunists.

After obtaining the microfinance grant:

- Participants are required to provide quarterly and annual reports to the Regional Council
- The Regional Council will monitor and evaluate the business to make sure the grants are used for the reason obtained
- Beneficiaries are to register the business within six (6) months
- Beneficiaries are to develop a business proposal within six (6) months if it is not yet available
- Prudent financial and overall management of the business is required
- The Regional Council will offer training when the need arises

The microfinance grant should be once-off and include a graduation process to market-based mechanisms and should also be accompanied by training or monitoring when grants are intended for productive purposes (Littlefield, Murdugh & Hashemi, 2002). Microfinance grants can create long-term dependence and distort the market for microcredit therefore it is important to ensure grants complement instead of crowding out the microcredit institutions.

The Regional Council's involvement in microfinance granting is grounded in the idea that once the rural enterprises have a relationship with a bank and show the skills to actually manage a business to at least equilibrium level, if not profit level, it can then seek financing from the banking system.

The microfinance grant model adopted by the Regional Council states that if the project fails, the machinery or equipment bought for the running of the microenterprise is repossessed and given to another client who has a similar idea, but with the hope for it to succeed.

## **2.6. NGOs IN MICROFINANCE SERVICE DELIVERY**

NGOs, of late, are being called upon by analysts to do a better job than keeping scores by talking in numbers than raising their intentions or social effects. Due to the demands of financial sustainability, NGOs are being asked to lower their costs, to be tighter, more efficient and focus solely on credit delivery. Poverty alleviation being the central agenda for the development industry since 1970, a call for self-help grew and the role of NGOs an effective actor at the grassroots where poverty existed, became widely acknowledged (Dichter, 1996).

NGOs mostly focus on women empowerment due to the belief that helping women make their own money could enable them to alleviate their poverty. They are taught a production skill such as sewing and development workers act as salesperson for their projects. NGOs in microfinance are dedicated to services and to the good of a society. Case after case, the poor take loans meant for production or investment and use it for consumption, yet the loans are paid back, with earning from a family member who has employment. Therefore, the role of NGOs as a direct lender may be deemed as temporary. In the same plight, the contributions NGOs make should be to take a chance, to innovate and experiment and show others the way. The minimalist microfinance approach of the NGOs proves that credit alone may alleviate poverty in the short term, it does not correlate with economic growth of development (Dichter, 1996).

Agreeing with a study by Dichter (1996), Baruah (2010) and Milana & Ashta (2012) found that NGOs created a niche for microfinance targeted to the poor people with a special emphasis on women. This was because activities women undertook were not entirely for business purpose but rather livelihood or subsistence activities. Further, NGOs not solely motivated by financial sustainability may opt to remain NGOs while graduating their clients to banks after providing them the initial access to credit and the opportunity to establish sound credit ratings. The Kavango East Regional Council microfinance grant scheme operates on the same understanding of providing the poor with initial access to credit and graduating them to banking sectors with the possibility of creating sound credit ratings for future investment opportunities requiring bigger funding.

Little evidence exists concerning the total impact NGOs microfinance has on poverty alleviation. Lending money and not requiring collateral to the poor puts the risk of default on the side of the NGO. The minimalist way of providing loans and assuming that the recipients of these loans know best what to do with the money, the borrowers are left to figure out the supply and demand linkages of their chosen investment activities (Baruah, 2010). Generally, NGOs are aware that the loans the poor take are used for a variety of productions, as well as for consumption purposes. Baruah (2010) found a sustainable practice that a poor household can be raised above the poverty line with the provision of a loan for an income generating activity.

Forced by the question of financial sustainability, operational inefficiencies, high default rates, and political favoritism Milana & Ashta (2012); Baruah (2010), NGOs can participate in microfinance in other means than providing credit for example through adopting advocacy goals and practices and attempting to convince financial institutions to lend to the poorest clientele for purposes other than enterprise development. NGOs have been acknowledged to be successful in facilitatory and social intermediation criteria. NGOs can also provide the poor with skills and information to choose viable economic activities and assist in assessing the backward and forward linkages in the investment environment.

## **2.7. EMPIRICAL RESEARCH FINDINGS**

Microfinance is losing the fairly new status as it has now been around for over a decade and significant results have been documented on how it has impacted on the lives of the clients and the surrounding communities. Particularly, this section of the literature review will

exclusively look at the impact that microfinance, either implemented by private sector or the public sector, has had on the target groups.

Programmed actions taken by institutions to help bridge the gap between the poor and the rich should be evaluated in order to determine the significance of the programme so that other similar institutions can use the documented data as a benchmark that they can learn and borrow from to implement in their own areas, with the goal of improving the living standard of the poor.

Citing from Mazumdar and Lu (2015), to date no study has been undertaken that focused on the impact of microfinance on alleviation of poverty considering government organisation and non-government organisations and implementing authorities, and the most recent existing research on the same topic has focused on a single microfinance institutions.

Evidently, microfinance is preferred to be a system undertaken by the private sector to include the poor in the banking sector, yet it is risky and costly for the private sector to deliver alone. Some areas are completely not considered, as it is not beneficial for the implementing organizations to undertake. For this reasoning, the government organisations and non-government organisations are expected to step in to service the poor that are excluded by the private microfinance institutions.

Littlefield, Morduch & Hashemi (2003) and Mazumdar & Lu (2015) considered that microfinance is a vital tool for achieving the millennium development goals, especially number one and three goals, namely, eradicating extreme poverty and hunger; and to promote gender equality and empower women, as well as having a positive impact on recipients' livelihoods as defined by the basic rights and their quality of life.

Seen as a vital tool to achieve the millennium development goals, there is an urgent need for the government authority to design policy for non-banking microfinance providers including government agencies that provide microfinance and to ensure that the policy is implemented through the use of frequent and strict supervision in order to spur development of the overall rural economy.

In the same study by Mazumdar & Lu (2015), questions regarding the impact of microfinance on rural livelihoods- does microfinance indeed have an impact and if so, what is the level of impact and how is this best measured? - remain unanswered.

Importantly, it should be noted that assessing the impact of microfinance on the rural livelihoods in areas where data has been a challenge, and that even the most celebrated microfinance impact studies were implemented in areas where considerable microfinance lending already existed among the treated population (Rajbanshi, Huang & Wydick. 2014).

An untreated population in this study would mean lending to the poor for the first time, were considerable work needs to be done; work such as training the clients on business and financial management basic skills, business idea generation and marketing skills, etc. Therefore, studies that tackle the population that is untreated will work entirely with raw data, which is the case in this very study.

This study is one of the first efforts to research the impact of microfinance on rural development implemented by a government authority in Namibia. Microfinance practitioners often make impact assessment based on welfare differences in households and their enterprises before and after taking microfinance loans. Impact is also validated by welfare differences between borrowers and non-borrowers, using non-borrowers as a control group.

An empirical study by Samer, Majid, Rizal, Muhamad & Rashid (2015) in Malaysia found that microfinance increases household income, especially for women, which then helps them alleviate their poverty. As seen in the millennium development goals, empowering women is a very important goal because in all parts of the world, women are overburdened with domestic work and lack power and influence in the society, causing threats to their lives, health and well-being. In most developing countries, women receive less formal education; their knowledge and abilities go unrecognised. Therefore, empowering women uplifts them by improving their decision-making capacity at all levels in all spheres of life especially sexuality and reproduction, which in turn is essential for the long-term success of population and development programmes, (United Nations Population Fund 1994).

In the same study, it was concluded that microfinance provides an opportunity for women to actively engage in economic development. In the midst of all the positive impact found concerning microfinance, some microfinance clients have not graduated from the scheme and become financially depended on the scheme. It is up to the policy makers to help clients not rely on the scheme and rather build their own capacity. The scheme should be regarded as a startup for clients that do not have startup capital or as round two financing for business expansion.

In another study with evidence from Uganda, Morris & Barnes (2005) found that the clients of microfinance programmes benefit by reducing the financial vulnerability they face through diversification of income sources and accumulation of assets. To date, the diversified income source consists of subsistence farming and government aided funding such as orphans and elderly funding. The diversifications in business earnings by the clients include the addition of new products and services in their areas, expanded business sites and markets, reduced costs of purchasing inventory and increased sales volume. The study also found that clients with agricultural endowments showed increases in agricultural input, increased amount of cultivated agricultural land and increased amount of household income from crops.

The Kavango East Region, being a region with agriculture as a backbone to its rural economy, could benefit from microfinance to increase the amount of cultivated agricultural land that would spill over to increased crop production and other benefits it comes with.

On the other hand, available evidence also indicates that microfinance has both positive and negative impacts on poor people's income by increasing and decreasing their incomes, respectively. Conclusively from a study by Rooyen, Stewart & De Wet (2012), evidence is found that microfinance in Sub-Saharan Africa does not have uniform positive impacts. Despite the good of microfinance, it can also cause harm. The fact that some clients do not graduate from the scheme indicates the negative impact of microfinance by not allowing the clients to develop their own capacity and grow as envisioned. Furthermore, microfinance could reduce poverty but because of the potential to harm the poor, it should not be promoted as a solution for the poorest clients. This is because the poor may take long to repay the loan they were given and if business is not blooming, they are still entitled to pay back the loan as agreed.

Rooyen et al., (2012) continues to say that there is little evidence that microfinance impacts job creation and should not be promoted as a means to achieve long-term goals. Breaking down this statement, the businesses by the clients are fairly small to accommodate recruits because the earning are small to enable payment of wages or salaries therefore work is done by the owner(s) and/or with the help of friends and family. Nonetheless, there is a growing weight of evidence that microfinance has negative impacts on recurring client's businesses becoming less successful.

Otero (1999) says that microfinance tries to create wealth for people who lack it. For the very poor, microfinance is a liquidity tool that reduces their level of vulnerability. To help reduce the vulnerability, microfinance should create distribution channels for rendering services that respond to the material capital needs of the poor. Such a distribution channel is one of the greatest challenges that the government faces. Government faces daunting challenges when allocating resources due to the lack of an effective distribution channel to convert economic growth into improved well-being among the poorer sectors.

## **2.8. CONCLUSION**

The existing theoretical and empirical literature depicts the influence microfinance grants have on rural development. There was a lot of dependence on the literature for the identification of variables to be studied, and for developing logical arguments for the correlations among the variables that could explain the impact of microfinance grants on rural development.

The theoretical literature was broadened to cover the variables under study and how they link into the case under study. Relationships between the theories and the status quo of the case under study were established.

The empirical literature had a balance of both negative and positive findings on the impact of microfinance on rural development, with evidence from specific studies such as women empowerment and youth empowerment. On the contrary, microfinance granting was also found to worsen the poor by locking them in the scheme.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1. INTRODUCTION**

Chapter three describes the research method applied for this study. It also describes the population of the study, data collection procedure, the conceptual framework applied and the limitations experienced.

### **3.2. RESEARCH DESIGN**

Some impact assessment studies adopt a mixture of qualitative and quantitative methodologies, where the quantitative methods produce data that can be totaled and analysed to describe and predict relationships, and qualitative methods help to explain such relationships. The danger here is what is not quantifiable is deemed unimportant and what is quantifiable becomes real and what matters (Garbarino & Holland, 2009).

The research is descriptive in nature therefore a qualitative description survey design was adopted. For the purpose of gaining insights from informants regarding the impact of a programme, a qualitative description is appropriate. Kim, Sefcik & Bradway (2016) and Lambert & Lambert (2012), identified the features of a qualitative description design which include examining a phenomenon in its natural state and flexibility in committing to a theory, the data collection strategy involves focus group interviews, researcher employs purposeful sampling technique and uses a qualitative content analysis because it allows the researchers to stay close to the data, and the presentation of findings is expected to be straightforward.

As a present oriented methodology, survey designs investigate populations by selecting samples for analysis purposes and discover occurrences (Omondi, 2013). The survey design will utilise a participatory approach since it is a tool for learning from experience (Afrane, 2002). The reason for choosing this approach is due to the underlying fact that it is action oriented and provides a platform for the sample to be intensively involved in data collection.

### 3.2.1. Population

The study was carried out in Kavango East Region. The target population was the beneficiaries of the microfinance grant scheme administered by the Kavango East Regional Council.

### 3.2.2. Sample design

A purposeful sampling technique was used. Widely used in qualitative research, purposeful sampling obtains cases considered to be rich in information for the purpose of saturating the data (Palinkas et al., 2015; Lambert & Lambert, 2012).

Since the target population is less than 500, with a margin of error of 5% and at confidence level of 95%, the desired sample size is 217. Omondi (2013) recommends the following formula to determine the sample size:

$$nf = n/(1+n/N)$$

Where nf = desired sample size (when population is less than 1,000)

n= desired sample size (when population is more than 1,000)

N = is the estimate of the population size

The study targeted 127 population, therefore  $N = 127$ ,  $n = 217$

$$nf = 217 / (1+217/127)$$

$$nf = 217 / 2.708661417$$

$$nf = 80$$

The study will collect data from a sample size of 80 participants.

### 3.2.3. Collection of data

Primary data was used for this study. The methods used for data collection included open-ended questionnaires, focus group discussions and observations. Questionnaires were administered to the business owners by dropping them off and picking them up at a later stage. The use of focus group discussions provides an effective means of collecting high quality qualitative data and also serves as a platform to cross check information from the questionnaires/interviews. There was, however, a limitation to this analysis as beneficiaries

needed to compare their conditions before and after joining the programme, forcing the study to rely on memory of the beneficiaries

The field observation were used as an objective assessment of onsite situations and to further determine other information that may be relevant to the study (Afrane, 2002).

**3.2.4. Analysis of data**

Qualitative and quantitative method was used to analyse the data. To describe the basic features of the study, descriptive statistics involving percentages and frequency tendencies were used to analyse quantitative data. The data was presented using frequency tables and charts.

For open-ended responses and focus group discussion reports, inferential statistics was employed, yielding conclusions that linked the concurrent effects of independent variables on the dependent variables under study. Relationships connecting to the theoretical review of this study were also strengthened from this model of analysis.

**3.3. CONCEPTUAL FRAMEWORK**

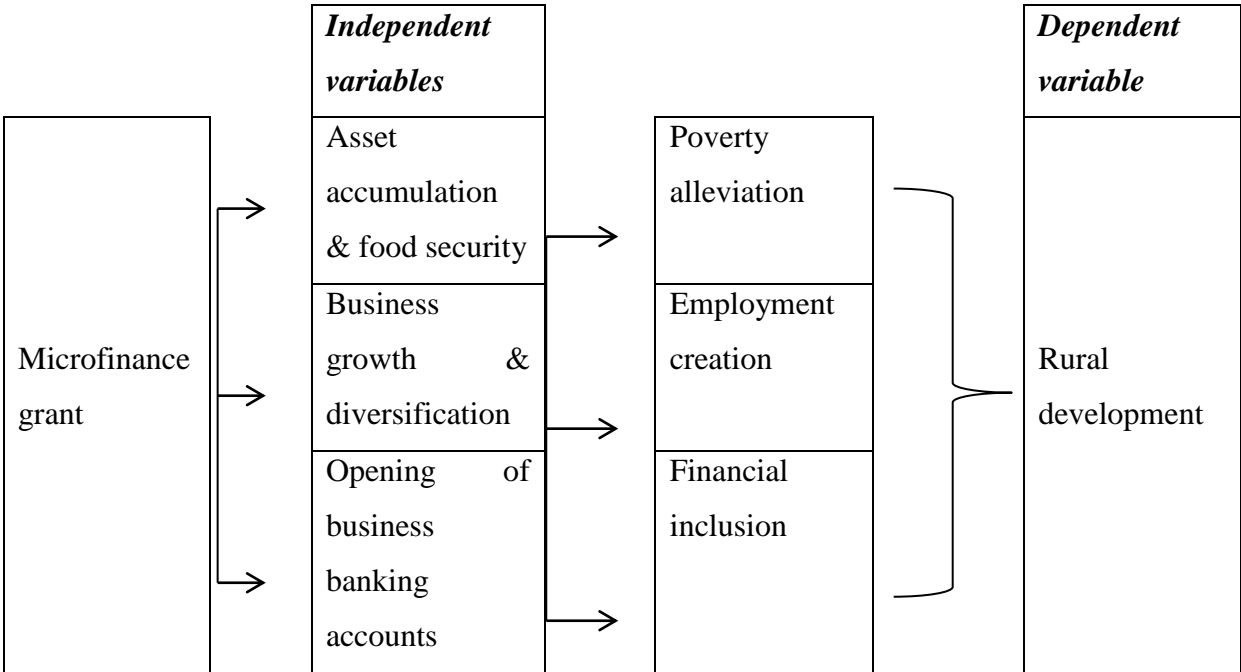


Figure 1: Conceptual Framework

The microfinance grant is a scheme under the Kavango East Regional Council that provides funding to micro businesses in the rural areas of the Kavango East Region with the aim of uplifting the socio-economic environment. The study wishes determine the relationship between the grant and accumulation of assets and food security, spilling over to poverty alleviation; and the relationship between business growth and diversification enabling the creating of employment opportunities; and opening business banking accounts with formal banking institutions to enable the accessibility of the banking services thus allowing for financial inclusion and overall, all these variables culminating in rural development.

The theoretical model on the logical sense of the relationships among the several identified factors, together with the dependent and independent variables were highlighted. The central aim of the study was to examine the dependent variables on the independent variable to inform the relevant stakeholders of the study (Omondi, 2013).

### **3.3.1. Rural development**

Rural development is a high level objective, one that can evidently be seen in the National Development Goals, and needs to be achieved in most African countries. There are very strong arguments giving priority to rural development, firstly, the majority of the people live and find their livelihoods in the rural areas (Akpomuvie, 2010). Since microfinance institutions are for profit making, the poor are unable to afford the interest rates they are subjected to for being risky clients. The Regional Council has seen it fit to bridge the gap by creating a system that delivers social as well as financial services to the poor.

In this study, rural development will be described as the actions and initiatives taken to improve the living standards of communities that live in rural areas and remote villages where basic services are lacking or underdeveloped. The Kavango East Region faces a huge disadvantage that results in inadequately catering for its people, the disadvantage being the vastness of the region and the way the inhabitants are spread across the region settled in small villages with very little populations far apart from each other. This spread makes it difficult for the Regional Council to provide services since services are provided to an area with a certain population number for instance, to provide for a clinic, at least the population in that area should be a minimum of 5000 people.

### 3.3.2. Financial Inclusion

In the Kavango East Region, service provision is hindered by the great dispersion of people in rural areas, although the service provision in the urban areas of the Kavango East Region is also poorer than in the rest of the country attributed by the poor planning and implementation by the local authority (Urban Dynamics, 2015).

The lack of proper infrastructure hinders the ability of financial institutions to provide services to the rural constituencies. Only Rundu Urban constituency has the services of a bank and 200 kilometers from Rundu, in Mukwe constituency, one would find the services of only two Automated Teller Machines (ATMs) and no bank.

**Table 2: Distribution of Household by Type of Housing Unit, 2011**

% Households	Detached/ Semi-detached house	Flat	Traditional Dwelling	Improved Housing	Other
Namibia	37.8	5.6	37.7	16	2.9
Kavango East Region	26.1	1.5	64	6.4	2
Mashare	5.4	0.2	92.1	1.1	1.2
Mukwe	10.5	0.4	86	1	2.1
Ndiyona	9.4	0.1	83.2	5.2	2.1
Ndonga	13.4	1.2	80.9	4.1	0.4
Linena					
Rundu Rural	12.9	0.7	85	0.5	0.9
Rundu Urban	43.5	2.7	40.4	11.1	2.3

*Regional Development Profile for Kavango East Region, 2015*

As can be seen in Table 2, traditional dwellings take approximately 40% of housing units in this 28-year-old independent Namibia. On the constituency level, 4 out of every 5 households reside in traditional dwellings, except in the Rundu Urban Constituency where most households reside in detached or semi-detached houses. Most households in the Kavango East Region construct their housing using sticks with mud, clay or cow dung (28.9%) or from wood poles or sticks or grass or reeds (22.3%), although bricks made from mud or clay (14.9%) are also frequently used.

Clearly, financial institutions would not use such housing as collateral for loans. The rural community still poses as risky clients to be funded by financial institutions thereby strengthening the finding of Adjei, Arun & Hossain (2009) on the strong relationship between asset building and vulnerability.

**3.3.3. Business growth**

Business grows from micro to small to medium and then large (Omondi, 2013). He further states that there are different measurements of business growth including a firm’s age, business turnover and number of employees. In a life cycle of a business, growth is presented as one of the stages of development though previous studies have not focused on whether microfinance could be a factor behind growth of small businesses. Fu et al., (2005) reasoned that business grows in scale and scope, scope being described by the number of its products and scale by the size of its products.

In very small firms such as the rural businesses in the Kavango East Region, entrepreneurs do not have the resources and management skills to manage diversified activities thus, diversification is seen as a survivalist strategy to counterbalance the decline in initial business. As a result of less favourable economic conditions, the entrepreneur ends the diversified business to tighten the belt. Smaller firms are subjected to unplanned and unrelated diversification as a response to favourable and unfavourable economic climates. If business is located in a low growth or declining sector, planned unrelated diversification is realised (Iacobucci & Peter, 2005).

**Table 3: Demographic Statistics, 2011**

2011	Kavango East Region	Mashare	Mukwe	Ndiyona	Ndonga Linena	Rundu Rural	Rundu Urban
Population size	136 823	15 688	27 690	9 551	11 082	9 381	63 431
Area (km <sup>2</sup> )	23 983.2	9 140.0	5 537.0	5 231.0	2 850.6	1 068.7	155.8
Density (ppl per km <sup>2</sup> )	5.7	1.7	5.0	1.8	3.9	8.8	407.1

Men per 100 women	88.0	91.0	93.0	87.0	84.3	89.0	85.0
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Source: Development Consultants for Southern Africa (2013)

Table 3 indicates the demographic data of the constituencies within the Kavango East Region. As is the norm, the highest population density is found in Rundu Urban Constituency (407 people per km<sup>2</sup>), followed by the Rundu Rural Constituency because it is near Rundu Urban Constituency. Outside of Rundu, the Mashare (15 688) and Mukwe (27 690) Constituencies have the most constituents, although due to its large size, the Mashare Constituency is the least densely populated area in the region. As reported by Iacobucci & Peter (2005), if business is located in a low growth or declining sector, planned unrelated diversification is realised. Constituents of Mashare may need to be involved in diversified businesses as a result of its low growth. The Kavango East Regional Council would need to create opportunities that attract residents to the area.

The Kavango East Region is known to be an agricultural area, noting that it is the region with the most green schemes compared to others. There is, however, a downfall to it. As much as politicians would argue otherwise that north-eastern regions of Namibia, including Kavango East Region have a comparative advantage of being the recipient of the highest rainfall nationwide, therefore its economic backbone is agriculture, a report by Development Consultants for Southern Africa (2015) proves the opposite. The study concludes that the soils of the Kavango East Region are not well suited for agriculture

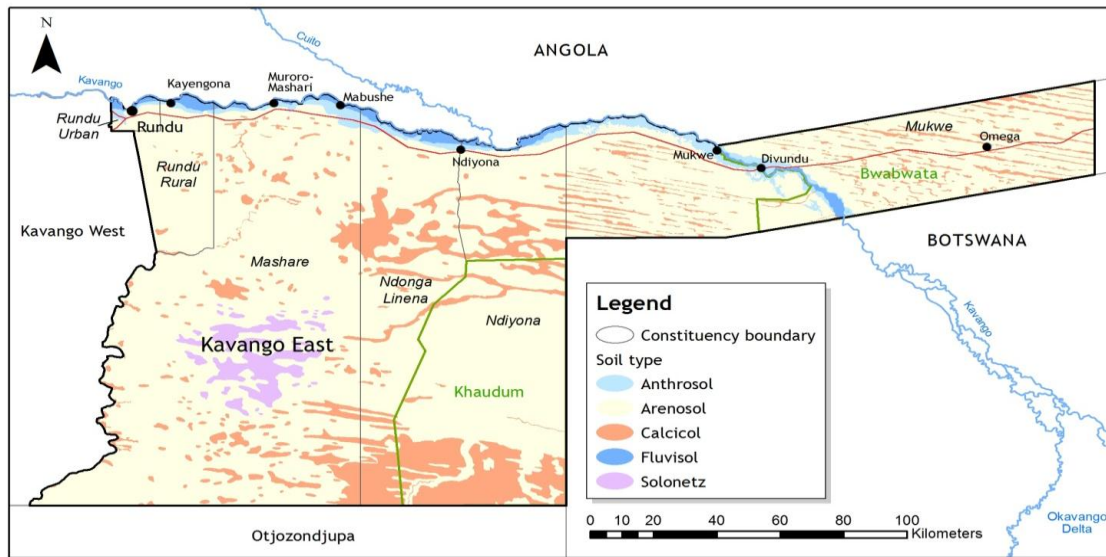


Figure 1: Kavango Soil Types (Source: Development Consultants for Southern Africa (2013))

Availing funding to the rural population to start businesses is merely not enough therefore to combat extremely high unemployment in the region; there should be expansions of existing and realisation of new business opportunities. There are reports in existence that document the opportunities the region possesses that could be turned into businesses. The region has the potential to increase the private business sector tremendously with the usage of natural resources, infrastructure and tourism. Also available in these documents are recommendations to the Regional Council to create an environment conducive for business development.

Development Consultants for Southern Africa (2014) says that one reason the business sector is relatively less developed and diversified is due to the lack of innovative business ideas tailored to the endowments of the region. A general problem that most entrepreneurs possess is the focus on “standard” business ideas, which are copied from others without rigorous consideration of the competition or specific local conditions and opportunities.

To assist the rural areas with potential business growth and diversification opportunities, the Regional Council could disseminate the pre-identified business opportunities in the region ranging from agriculture and the agro-processing sector, crop production, forestry, fisheries, minerals, manufacturing and trade sectors (Urban Dynamics, 2013).

This study looked at how microfinance grants provided for by the Regional Council affects the growth and diversification of small businesses, despite all the data the regional council has

to its disposal.

#### **3.3.4. Poverty alleviation**

The evidence of the importance of asset accumulation for poverty reduction cannot be overemphasised. Adjei et al., (2009) argue that clearly there is a strong relationship between vulnerability and asset ownership as an important form of self-insurance against crises.

As in many countries, 91% of the poor's income is spent on food. Most loans, especially in the informal sector, are spent on financing food consumption). Stewart, Van Rooyen, Dickson, Majoro & De Wet, (2010) reported that, generally, microfinance has a positive impact on food security. Although there is no data to inform any effect microfinance has on the meal quality, positive impact is observed. Carney and Gale (2000) find that a household that barely has enough for current consumption needs is unlikely to reduce consumption on the account of saving for the future.

Mushendami et al., (2004) say the poor's limited access to credit has been identified as a major constraint that can hinder the process of empowering the poor to break out of the poverty circle. Microfinance institutions play an important role in the economy. In light of this important role, the Government of Namibia and NGOs have launched a number of programmes aimed at addressing access to credit in the Namibian economy. These programmes include the affirmative action loan scheme of Agricultural Bank of Namibia, the National Agricultural Credit Programme of the Ministry of Agriculture, Water and Rural Development, operations of parastatals such as the National Development Corporation and the Development Fund of Namibia. These programmes have not adequately addressed the problem of access to credit because the law prohibits these organisations to take deposits, which contributes to their poor performance.

Prior to 1986, banks in Ghana were under the policy of providing low interest rates to the rural and agricultural sector. A study found that 78% of rural households have no access to financial services. It should, however, be understood that those with no access include individuals who have never attempted to participate in the financial system due to certain fears, and those who attempted and failed. The fears were based on wrong or perceived information they hold about the financial system. Thereby, importance lies in effectively educating the rural population to understand the financial system since the perception they hold about a system has been found to influence the decision to participate in it (Egyir, 2010).

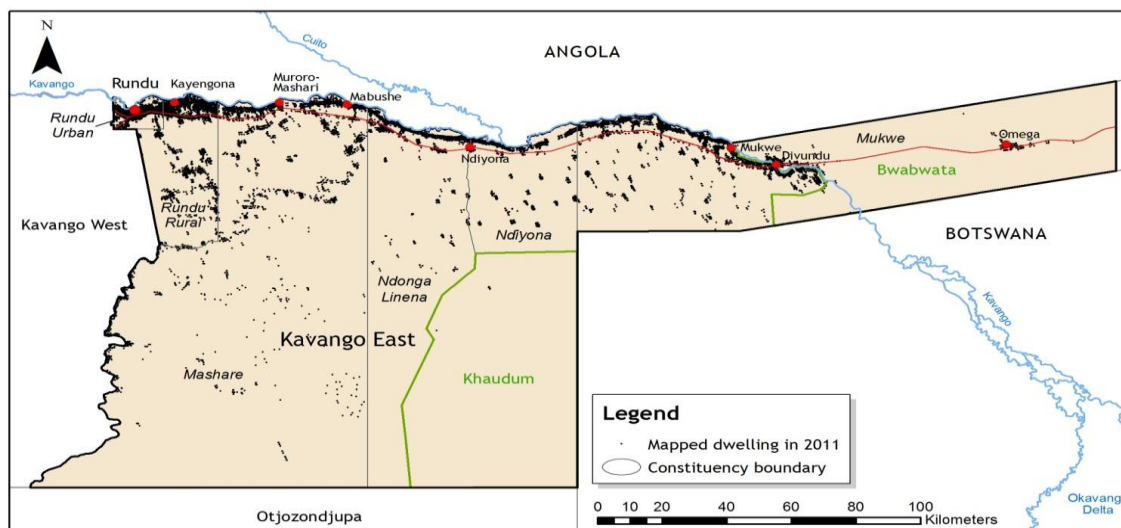


Figure 2: Population distribution (Source: LED strategy for Kavango East Region, 2013)

Figure 2 depicts the way the population of the Kavango East Region resides. Forty-seven percent are urbanised, with the population living in and around Rundu, the capital of the Kavango East Region. This, perhaps, is due to the fact that people would opt to settle in an area where water and soil permits farming, the sector that enables the region to be food secured hence creating a pattern of unevenly distributed settlements within the region, with closely three quarters of population living near the Kavango River.

Namibia established an SME Bank, co-owned by the Government of Namibia, with an intention to provide financing to viable businesses without the issue of collateral. This proved to be a solution to the poor who could qualify for such loans. Unfortunately, the SME Bank was only operational for six years and has since closed. Otero (1990) notes that institutional sustainability is crucial to a microfinance organisation. A non-financially solid microfinance institution becomes a transitory means to servicing the poor because they are unable to cover their costs and incapable of delivering financial services, therefore not regarded as a development strategy.

Egyir (2010) in her study of rural women and microfinance in Ghana, notes that in 1959, government established a loan scheme for rural ventures as commercial banks could not serve these areas. Commercial banks required written documentation and collateral security, which the rural folk found unfriendly.

### **3.4. LIMITATIONS**

It should be noted, however, that measuring the impact of microfinance project carries a number of methodological problems such as difficulty estimating the counterfactual situation in order to compare with factual conditions of the target group. Another problem with impact assessment is difficulty in attributing any change that is found in the circumstances of the beneficiaries specifically to the credit intervention. Clients who experience changes while under a microfinance programme may make it virtually impossible to separate out the specific impact of being in the scheme.

The questionnaire was distributed to microfinance grant beneficiaries since 2011 to 2016 in the six (6) constituencies of Kavango East Region. To validate the information, a focus group discussion consisting of the beneficiaries and 2017 beneficiaries as a control group, was conducted to cross check and validate the information provided in the questionnaires. The limitations to this approach is the possibility of misunderstanding the questionnaire by the respondents. With regard to the focus group discussions, participants may answer questions not being neutral in a sense that they victimise themselves rather than taking an opportunity to be informative by sharing best practice scenarios.

## **CHAPTER FOUR: DISCUSSION OF FINDINGS**

### **4.1. INTRODUCTION**

In chapter four, the data collected was analysed and reported. Data was collected from the regional council microfinance grant beneficiaries/clients through questionnaires. As a validation of the questionnaire responses, a focus group discussion with a sample from the questionnaire respondents and the new beneficiaries of the microfinance grant as a control group were used to assist in interpreting the data appropriately.

### **4.2. RATE OF RESPONSE**

The target population size for the study was 127 businesses that benefitted from the microfinance grant from 2010 to 2016. However, the study had a sample population of 80 potential respondents identified for the questionnaire. A total number of 80 questionnaires was administered, unfortunately three business owners no longer participate for various reasons such as the owners of the businesses found employment elsewhere and forgo the business, the materials that the grant provided was either stolen, lost or sold off with no accountability, the contact details and whereabouts of the beneficiaries no longer existed and therefore unknown. A total of 52 responses were received, making it a 68% response rate which the author considered sufficient for the analysis. Twenty-four businesses did not respond to the questionnaires and 1 questionnaire was incomplete.

As for the focus group discussion, a convenience sampling method was used to select the sample size, based on the availability, reach and accessibility of the respondents. A total of 25 business owners were available for the focus group discussion, a number which the author deemed sufficient for the analysis.

#### 4.2.1. Gender of the respondents

The objective behind collecting gender data for this study is to help determine how gender played its part in the business environment in rural areas.

Table 4: Gender of respondents

Gender	Frequency	Percentage
Male	36	69%
Female	16	31%
Total	52	100%

Source: Primary data, 2018

The study sought to determine how gender influenced owning a business as a result of the microfinance grant. The grant qualifying criteria does not have a clause encouraging a particular gender to apply therefore, this data could help identify if specifically women take advantage of the grant availability to start businesses. As can be seen on the table above, men compared to women dominate the business environment. Thirty-one percent of women are actively involved in running business. This is, however, a good indication of women empowerment.

#### 4.2.2. Age range of the respondents

An analysis of the age range of business owners was considered with the objective to determine how age influenced owning a business and which age range was more active in the business environment in rural areas.

Table 5: Age range of respondents

Age Range	Frequency	Percentage
18 – 25 Years old	6	12%
26 – 35 Years old	10	19%
36 – 45 Years old	29	56%
46 Years and above	7	13%
Total	52	100%

Source: Primary data, 2018

The age range between 36 – 45 years old is more involved in businesses (56%), followed by the age range 26 – 35 years old (19%). With the high unemployment rate the region face, a rate higher than the national unemployment rate, the youth group is expected to be more innovative and active in the business environment though the data collected proves otherwise. Regardless of the availability of the grant that does not require repayment, the youth group is least active in the business environment. The mature age, 46 years and above registered a 13% involvement level in business, with the very youth, age range between 18 – 25 years, registering only 12% is involved in the business environment.

Citing from Omondi (2013), raising capital for their business is one major challenge experienced by the youth population. He further says that businesses were ran by those who inherited from wealthy parents. Now with the existence of the microfinance grant, young people are engaging in self-employment to combat unemployment.

#### **4.2.3. Respondents' highest level of education**

The objective of this question was to determine if the education level of the business or project owners has any influence on starting or running a business and also if the level of education affect the survival of the business.

**Table 6: Level of education**

<b>Education level</b>	<b>Frequency</b>	<b>Percentage</b>
Primary	9	17%
Secondary	14	27%
Certificate	6	12%
Diploma	0	0%
Degree	0	0%
Other (vocational)	23	44%
Total	52	100%

Source: Primary data, 2018

The study was based in the rural area, with the respondents' level of education being very important to the study. This is because the education level of beneficiaries determines how much training the regional council should provide for the beneficiaries to help with running the business. It also helps to understand if the beneficiaries are literate.

It defeats the purpose to have a successful business with no records simply because the owner cannot write and it is costly to hire a bookkeeper. Forty-four percent of respondents (f=23) are the majority amongst the education levels. This level depicts that most beneficiaries have attained some vocational training in specialised course in order for them to run the businesses they own. These courses range from tailoring, welding and brick-laying, just to mention a few for clarity purposes.

Twenty-seven percent (f=14) of the respondents had secondary certificates, followed by 17% (f=9) with primary education level certificates. The least of the education level recorded was 12% who had certificates from higher institutions. None of the respondents indicated that they had a diploma or degree level of education. Being the most deprived and poorest region in Namibia, it is almost impossible for the rural community to attain an education let alone go as far as a degree level. Learners at some point, need to drop out of school to herd cattle's or help parents at home.

Gender, age and education responses stem from the idea the Regional Council had to assist the rural community with grants for income generating activities, which also forms as a proxy from the theory of Ellis and Biggs (2001, p.443) explaining that rural development is seen as a participatory process that empowers rural dwellers to take control of their own priorities for change. The rise of gender as a concern in rural development, emphasising and considering the different impacts of rural politics on women and men is seen from the 31% women involved in the microfinance scheme.

#### 4.2.4. Are you a sole trader or in a group?

The objective of this question was to determine the correlation between ownership and business growth and diversification. Does the type of business ownership have any effect on business diversification and growth? Moreover, how does the ownership of a business influence time management in the course of running a business on daily operations?

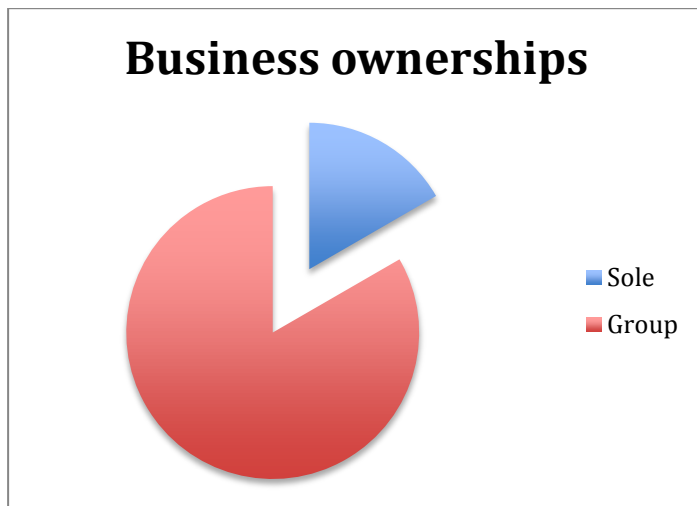


Figure 3: Business ownership

Group owned businesses' with 2 to ten people dominates the business operations in the rural areas. This is mainly due to the fact that one of the criteria for qualifying for the grant requires participants to be in a group and have equal shared responsibilities for running the business. Citing from Schurmann and Johnson (2009), the group lending model is perceived as a development intervention whereby micro finance loans for income generating activities are provided to individuals in a group who do not have the needed collateral the bank could use in case of default. Although the regional council is ought to follow the group lending criterion, it is not consistent with it. The grant is also used to finance a business owned by one person as long as it is a viable business.

#### 4.2.5. Business sector

The Kavango East Region, being one of the poorest regions in Namibia, has a comparative advantage of the highest recipient of rainfall, making the region a host of 4 out of eleven green schemes nationwide. Does the rural community take advantage of this comparative advantage as well? This question was asked with the objective of determining which sector in the rural areas is highly invested in. It also helped in determining how innovative the rural community is.

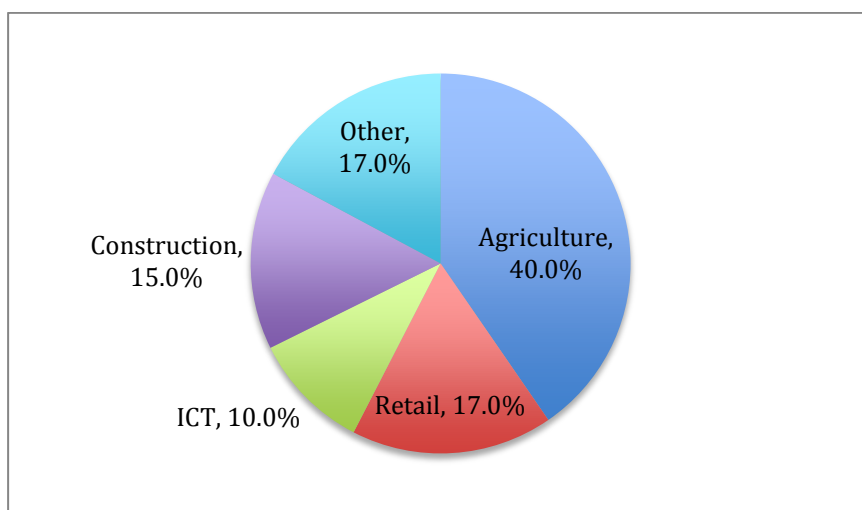


Figure 4: Business sector

As expected, due to the highest rainfall received and the way of living for rural inhabitants, the agricultural sector with a percentage of 40%, is the biggest sector with most businesses being gardening, crop farming, poultry and goat farming.

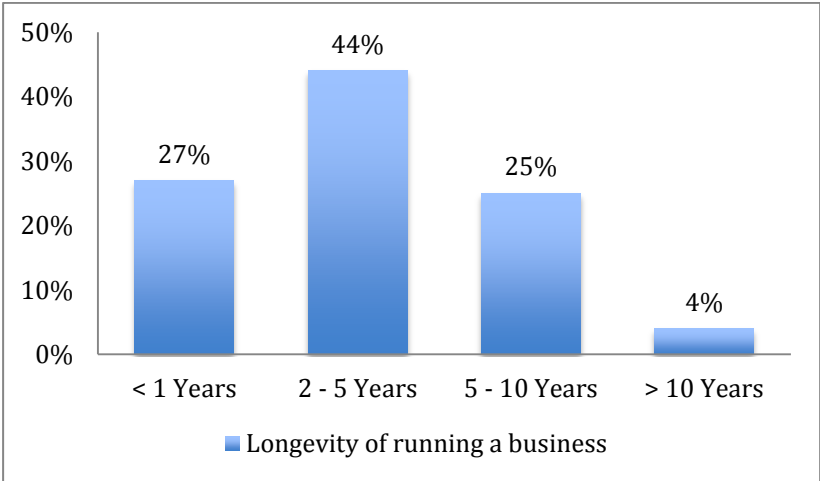
Ten percent of the respondents have businesses in ICT, most of these businesses being internet cafés offering photocopying and typing services. The construction sector has a 15% stake, with business comprising of brick making, building sand supply and welding.

Seventeen percent of the respondents are in the retail sector, comprising of tailoring, catering services, bakery and salon. Figure 4 indicates that another 17% of the respondents had

business in various sectors comprising the manufacturing of furniture and coffin making, transportation, cattle rearing, etc.

**4.2.6. Longevity of running a business**

The objective of this question was to determine whether the longevity of running a business have an influence on business growth and diversification resulting in employment creation?



**Figure 5: Longevity of running a business**

Forty-four percent of businesses have been running for a period between 2 to 5 years. 27 Twenty-seven percent of respondents indicated that their businesses were less than a year old. This is attributed to the slow process of releasing the grant to the business owners due to capacity issues within the regional council. Twenty-five percent was recorded for running a business for 5 to ten years, and only 4% have been running their businesses for more than 10 years. The longest running businesses were found in the agricultural sector, gardening and crop farming. As subsistence farmers, some of their cultivation was for home use and the other for sales in order to get an income and send their children to school.

The 2 to 5 years longevity of running a business was a result of the microfinance grant availability, as individuals could now obtain start-up capital for their businesses. Owners that indicated that their businesses were less than 1 year were partly due to resource availability. Some of the resources they needed for their business could not be afforded in the grant they

were given, henceforth, the reason for them to source funding elsewhere and add on the grant to purchase all the required materials.

**4.2.7. Business registration**

The objective of this was to determine the commitment the microfinance grants beneficiaries have for their businesses. Having a business registered is one step towards applying for credit from financial institutions. The grant also required that after six months of being funded, the business be registered with the Ministry of Industrialisation, Trade and SME development.

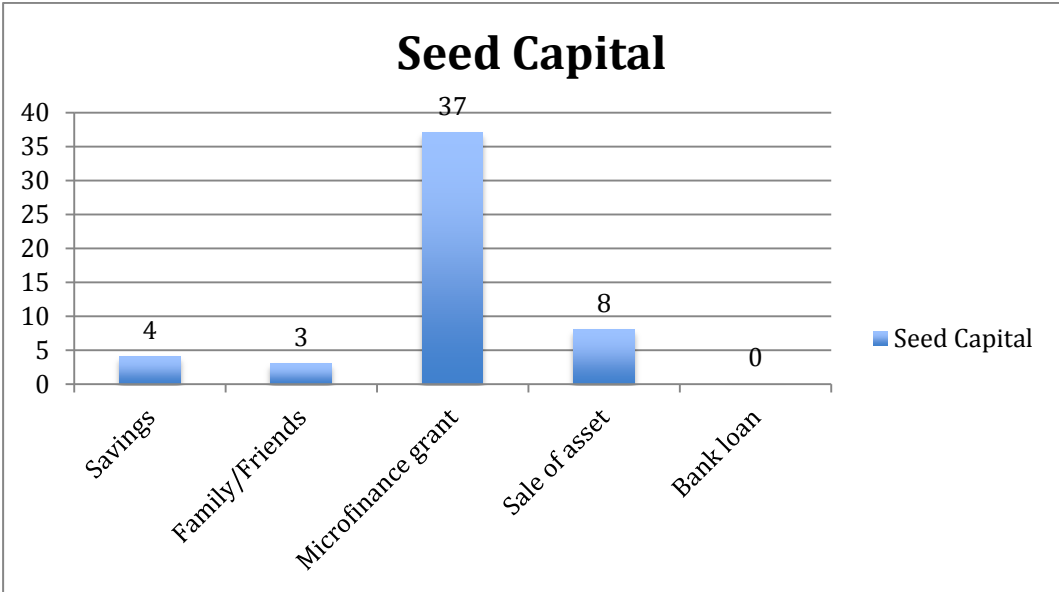
**Table 7: Registered businesses**

Business registered	Frequency	Percentage
Yes	34	65%
No	18	35%
Total	52	100%

Source: Primary data, 2018

**4.2.8. Seed Capital**

Another commitment indicator that was established is the identification of the first seed capital for the businesses. This helps the study to determine how committed the beneficiaries are to running successful businesses?



**Figure 6: Seed capital (Source: Primary data, 2018)**

Thirty-seven respondents initially financed their businesses through the microfinance grant programme of the Regional Council. Four respondents indicated they funded their businesses with savings from performing odd jobs for wages, and part of their wages were saved to start businesses. Having to save from the little earnings to start a business proves a great deal of commitment to the success of the business.

None of the beneficiaries had ever used a bank loan to start a business and this was due to collateral issues. Eight respondents sourced funding through sales of personal assets such as inherited items (for instance bicycles, livestock, and farming tools). Only 3 respondents financed their business with the assistance of family/friends. The microfinance grant is regarded as the highest financial provision for the rural community. And, from the respondents' answers, they are really using the grant to start business and improve their living standard.

In the business range involving the type of business ownerships, sector, longevity, registration and seed capital, the Ansoff Matrix growth vectors of market penetration, development, product development and diversification can be drawn from these responses. Regarding market penetration, most businesses that are started are repetition, mostly, gardening and brick making. The supply does not necessarily meet demand due to a lack of market research. The rural businesses are located in low growth or declining sector which then realises unplanned diversification (Iacobucci & Peter, 2005).

#### **4.2.9. Employment creation**

Unfortunately, only 12% indicated that they had employed people before after benefiting from the regional council's microfinance programme. And, 88% indicated they had not employed anyone due to the group lending model. This indicates that with the grant, it helps boost business in rural areas and creates a window of opportunity for employment for the unemployed.

#### **4.2.10. Challenges experienced**

Respondents indicated that apart for seed capital, their businesses faced numerous challenges such as marketing, non-existence of markets, financial management and lack of other needed materials to run a successful business. The lack of material is attributed to the fact that the grant is not sufficient enough to cover all the needed materials the individuals need.

All grant beneficiaries indicated that they were offered basic financial management training before or after receiving the grants. This was to introduce them to bookkeeping tools that they needed in order to record their transactions. The idea behind this is to help the rural businesses to understand that business transactions should not be mixed with household transactions, and if it so happens they would know how much money meant for business was spent on household transactions therefore owing the business and how much money meant for household was spent on business therefore knowing that the business owes the household. Unfortunately, in a rural setting, such mix-ups happen quite often and this can hinder the bookkeeping records of the business. Without proper recording, it is challenging to apply for a bank loan from a financial institution in case of business expansion purposes.

Non-existence of markets or the market size is relatively small was a major challenge faced by the rural businesses. For the manufacturing and construction sectors, businesses produce products the market consider expensive and they do not have the purchasing power to afford them. Pricing of products was another challenge respondents' indicated lacking knowledge of. Apart from trading in rural areas, an environment they are aware of, an environment with individuals who do not have a lot of purchasing power, business owners price their products in the same range as urban markets. For instance, tailoring of school uniforms are priced within the same price range as school uniforms in the urban centres. Rural businesses are expected to price according to their potential markets and not overprice, as they would lose sales.

#### **4.2.11. Asset accumulation**

Beneficiaries were also required to indicate the assets they had prior to benefiting from the project and assets they acquired afterwards to determine if the grant does affect asset

accumulation spilling over to poverty alleviation. The data revealed no significant personal assets were accumulated before and after the grant. Beneficiaries still had the same assets, namely, farm animals, garden tools such as big water tanks that provide water to the household especially for garden businesses that are based at a house.

No beneficiary indicated acquiring a homestead or other immovable assets that could qualify as material collateral in case of looking to obtain a bank loan. This also indicates that the beneficiaries of the grant are from a relatively poor background with little to no assets, making them a good target for the microfinance grant.

#### 4.2.12. Business performance

**Table 8: Business performance**

<b>Statements</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
Microfinance grant has helped my business to start operations	0	30	2	14	6
Microfinance grant application and approval process is satisfying	0	52	0	0	0
After approval, the processing of releasing the grant is satisfying	0	0	6	17	29
Microfinance grant has delayed my business operation	14	13	22	3	0
Regional council's four rounds of monitoring and evaluation of the grant beneficiary is sufficient because it is coupled with guidance offering	0	3	7	30	12

Source: Primary data, 2018

Thirty respondents agreed that the microfinance grants had helped them start with business operations, 14 disagreed and six strongly disagreed with this statement mainly because of the insufficient funding of the grant, which halted their operations as sought more money to enable operations. Two respondents indicated neutrality in the matter, neither agreeing nor disagreeing with the statement.

All the respondents indicated that the application and approval process was satisfying, meaning the regional council was doing a good job in this avenue. In contrast, none of the respondent agreed to the fast tracking of fund releasing after the approval process. The regional council improved on this matter as the delay in releasing funds hampered the operations of the businesses. This slowness in releasing funds is arguable to the bureaucratic system of releasing government funds. Requests to release the funds passes through many offices before the Minister gives approval. Without the approval of the Minister, the funds cannot be released. The regional council should develop ways to fast track the issue.

As a result of the slowness in fund releasing, 14 and 13 respondents strongly agreed and agreed, respectively, to the statement. Twenty-two were neutral and 3 disagreed with the statement. The respondents who agreed relied solely on the grant to start businesses as planned while the 22 neutral respondents argued that the beneficiaries can somehow begin operations with items that do not require much financing such as marketing the business through word of mouth and using notice boards.

Thirty respondents disagreed with the Regional Council rounds of monitoring and evaluation; they were considered minimal since they are regarded as guidance or mentorship sessions. The Regional Council should reconsider visiting the businesses only a monthly basis. There is, however, a capacity issue challenge. Efforts to increase visitation is made through the Regional Council constituency staff members who are permitted to perform monthly checks on businesses.

#### **4.3. FOCUS GROUP DISCUSSIONS ANALYSIS**

A set of questions were prepared and answered by beneficiaries during a focus group discussion. Basing the questions on the hypothesis set for the study as well as the variables under study the impact assessment is focusing on, below are the analyses.

The variables under study that the focus group discussion wishes to answer are; poverty alleviation through asset accumulation and food security; financial inclusion through the

opening on banking accounts with financial institutions and business growth and diversification.

#### **4.3.1. Understanding of the microfinance grant**

The beneficiaries were asked to demonstrate their understanding of the microfinance grant - they indicated that it is money used to start a business in order to sustain themselves and their families. Some indicated that though initially they sought the grant for a particular business idea, once they received the grant, at times it was smaller than what was asked for and this forced them to change the business idea that could be financed within the grant monies. Unfortunately, the changed business ideas may not be something they are passionate about, and the desired hard work deemed to be invested in the business is not realised.

#### **4.3.2. Knowledge and understanding of the criteria's used to qualify for the grant**

Beneficiaries indicated that since the criteria are transparent, they understood that in order to qualify for the grant, it was best to be in a group and chose a business idea on the list provided, even if they had a different idea. Respondents also indicated that for them to initiate innovative business ideas not on the list might have resulted in being disqualified for the grant thereby compromising their means to improve their living standards.

They also indicated that although some of the business ideas proposed in the criteria look viable, there is not much of a market for them and the rural community is unable to afford them thereby defeating the purpose of running the business; especially in the manufacturing industry where they manufacture furniture from wood. Considering the time and effort invested in them, the rural market is too poor to afford the end products, thus necessitating transportation of the items to urban centres, which is more costly. In the same vein, the agricultural sector is more competitive but the turnover is very little, because what they produce to sell, others produce for subsistence.

The administration of the Regional Council in this matter is flawed. The initial funds requested and the approved funds are not entirely guided by the due diligence report prior to funding. It is solely for documentation. To minimise the risk of this flaw, the Council adopted group lending. As discussed earlier, there are disadvantages to group lending of which the Council is familiar with.

#### **4.3.3. Microfinance grant assistance**

Respondents indicated that the microfinance grant was seed capital for their businesses. For beneficiaries with a poor background, the microfinance grant is referred to as a solution to their poor living conditions. Contrariwise, they voiced expectations that the grant was supposed to be sufficient enough to start operations, which, unfortunately, was not the case. The grant is very little and mostly caters for the structure of the business and not the resources to begin production. This then requires the beneficiaries to top up or wait for another year to apply for additional funding, which never happens.

Respondents articulated on the slowness of the Regional Council in releasing funds. They indicated their unhappiness citing how they are forced to wait for too long for their funds resulting in low morale to running their businesses.

#### **4.3.4. Regional Council's influence in business generation**

Although there is a list of possible business ideas that could be started, beneficiaries lamented that the criteria for the microfinance grant is very limiting. They indicated that the Regional Council limits their options and suggested that the criteria be relooked and and by so doing give a chance to the beneficiaries to initiate businesses since they know the environment better. The Regional Council is suggested to offer guidance to beneficiaries when they develop their own business ideas.

#### **4.3.5. Further assistance needed from the regional council to help business grow**

Respondents indicated that they needed the Regional Council to help distribute their products to urban centres and market their products through different platforms such as the website and

trade fair exhibitions. Most importantly, the beneficiaries requested the Regional Council to sufficiently fund their business ideas.

#### **4.3.6. Business bank accounts**

Forty percent of respondents indicated that they have business banking accounts, while 60% indicated that they do not. The main reason for not having a business banking account was because their businesses are not registered, further indicating that it is costly to register businesses. Twenty-four percent of the respondents indicated using their personal accounts for business.

It is imperative to know how the business finance is being used, hence the importance of a business bank account. It also adds weight in case the business has growth potential and is seeking round two financing with a bank. The business bank account helps to determine the growth of the company as well as possible diversification for more business.

#### **4.3.7. Asset accumulation before and after microfinance grant**

Respondents indicated that assets prior to owning a business listed are livestock, traditional dwelling houses and semi-detached housing, whilst the assets after owning a business are the equipment and materials for business use, with no personal assets having been accumulated. This implies that businesses in rural areas are not significant enough to allow for asset accumulation due to many factors such as the type of business, the market size and the little grant offered.

#### **4.4. SUMMARY OF FINDINGS**

The objective of this research study was to determine the impact of the microfinance grant, a programme run by the Kavango East Regional Council, on rural development.

Survival of ventures as a result of the microfinance grant in this study means rural businesses are able to start and/or grow operations and not experience stagnation thereby enabling the business owners to earn an income. The data shows that some businesses have not started operations and have operated for less than a year due to limited funds and the delay of releasing the funds by the Regional Council. The slowness in realising funds caused beneficiaries from previous years to only start operations a year or two after receiving the grant. Businesses funded by the grant struggle to kick off as all the needed materials to start are not available, which demoralises the business owners and at times forcing them to seek employment elsewhere and not run the business.

Despite the little funds, some business owners demonstrated commitment to the business, especially those that invested their own monies into the business. The grants helped in procuring materials they could not afford. Instead of producing on a larger scale at once they tend to produce on a smaller scale and the earning received is invested back into the business. Omondi (2013) says offering financial services to the less fortunate for business purposes has economic benefits; a large number of businesses has been negatively affected by the grant as it offers very little funds to start a business.

Economic development means the rural population benefitting from the grant is able to improve their living standard through asset accumulation.

Due to the poor dissemination of the business opportunities available in the Kavango East Region by the Regional Council, beneficiaries tend to copy businesses done by others but failed, consequent from the criteria The transparent criteria, which also lists the preferred business ideas to be funded, have failed/struggle to yield business/project grow in most areas due to various unforeseen circumstances. For example, beneficiaries run in circles year in year out, failing to grow business ideas such as starting a garden in an area where water is not

available. The grant is not sufficient enough to finance digging of a borehole and this results in the business failing.

A general problem that most entrepreneurs face is the focus on “standard” business ideas, which are copied from others without rigorous consideration of the competition or specific local conditions and opportunities.

Businesses failing or struggling to grow translates no/minimal economic development. The manufacturing industry is hampered by lack of electricity and access roads to the market. The grant is rather seen as a political move that intends to help the poor but does not help them. Only 12% of businesses have actually employed people as a result of the grant, which have helped grow the business. This employment means income for the people to better their living standards.

The non-existence of a market and/or the relatively small market size is an obstructing challenge. The grant may enable the rural community to start businesses, though at the same time, the market for their funded business is almost non-existent. This drives the business to be unprofitable. A study by Tracey-White (2003) posits the benefits of markets saying formal markets in rural areas are significant because they provide a focal point for rural activities. As mentioned in the literature review, Kapur, Dawar & Ahuj, (2014) concede that rural areas suffer from underdeveloped transportation infrastructure, have telecommunications and electricity services that are erratic, and have widely dispersed consumers who make it costly to create a profitable presence at scale. The lack of markets affects business growth, which in turn affects the ability to acquire assets or to eventually improve living standards.

Approximately 40% of business owners have business bank accounts. This financial development shifts the rural community from a position of financial exclusion to a position of financial inclusion. Although the banking services are kilometres away, with the furthest being 200 kilometres and nearest being 20 kilometres away, business owners have shown commitment to developing financially. Initially, the microfinance grant does not require a business to have a bank account before qualifying for the grant but it does require that the business have one within 6 months of receiving the grant. This is not entirely followed by the Regional Council that monitors and reports on these businesses, as seen by 60% of the

respondents that do not have business accounts but rather use their personal accounts. Clearly, there is insufficient evidence to indicate a correlation between the microfinance grant and financial development.

The microfinance grant is not aimed specifically at a certain group but to all - the youth, elderly, men and women, the able and disabled. Although the elderly use the grants for businesses that cater for household survival instead of growth and diversification, it is understandable as they are illiterate and unable to perform as expected. The youth, especially, and women are rather fairly active in the business environment, with the men being dominant in this business environment. Female-headed households, on average, tend to have smaller household incomes and therefore serve as an indicator of the standard of living. Overall, the 44% of households in the Kavango East region are female-headed.

However, the microfinance grant should open up to more business ideas and not limit to the list as contained in the policy. The microfinance grant should be enough for the intended projects/businesses, and specifically encourage the youth and women to participate. There is evidence that proves the advantages of empowering women in the business environment. Esty (2014) lists the benefits of financing women to include how women, overall, improve the economic status of their families by investing their earned money into food security for their malnourished children or sending them to school, overtime positively contributing to the cycle of poverty alleviation. Empowering women also allows them to gain access to new information that would help them make better life decisions, decisions that include items such as building and using pit latrines, keeping family sizes small, looking after the family health, educating children and keeping the environment clean.

Lastly, the Regional Council is expected to provide more than just grants to the rural community in order to foster the success of the programme. Mentorship is of utmost importance followed by provision for a complete value chain for the rural products.

## **CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS**

### **5. INTRODUCTION**

Chapter five closes off this research study with informed conclusions and policy recommendations for improved solutions to the problems and challenges covered. Conclusively, this chapter also suggests avenues for further research.

#### **5.1. SUMMARY AND CONCLUSIONS OF THE STUDY**

##### **5.1.1. Summary**

Governments have used credit schemes as a way to transfer resources to specific target populations. The negative impact of most of these schemes has led many donors and experts to advocate for national governments to disengage from microfinance. This approach has not always produced the desired effect: some government programs still undermine microfinance markets. Governments to focus on developing sound policy frameworks and encouraging vibrant and competitive microfinance, rather than directly providing financial services, (Duflos and Imboden, 2004).

The aim of the study was to assess the impact of microfinance grants on rural development in the Kavango East Region. Rural development was described as the actions and initiatives taken to improve the living standards of communities that live in rural areas and remote villages where basic services are lacking or underdeveloped. The study considered the following variables to define the improvement in living standards; poverty alleviation through asset accumulation and food security; financial inclusion through the opening on banking accounts with financial institutions and business growth and diversification.

Microfinance grants were the instrument for change in rural areas, the action and initiative taken by the Regional Council to provide financial solutions to the financially excluded communities and to enable them to start businesses. As a result of microfinance grants, the rural communities have engaged in businesses. Among the respondents, 71% of business owners started their businesses with the assistance of the grant. Furthermore, the microfinance

grants enabled 31% of women to start businesses thereby empowering them to engage in business and enjoy economic benefits.

The youth are the future and they need to be encouraged to take up business opportunities while there is financial provision available. Growing up in an area that is poverty stricken with a high unemployment rate, the youth are faced with seed capital challenges. Therefore, the microfinance grant is a big opportunity for them. However, the microfinance grant's criteria limits them to certain businesses only and does not allow them to be innovative with new ideas, hence discourages them to partake in the scheme.

The microfinance grant has proved not to enable the poor to accumulate assets but it has proved to provide food security. The businesses operating as a result of microfinance grant are mostly subsistence and not economic, proving that there is indeed food security. The savings from the business is invested back into the household to provide for clean water and food grocery.

Aimed at financially including the rural communities' businesses, the microfinance grant has immensely impacted this area of focus. Forty percent of the respondents indicated that through the microfinance grant they now have business bank accounts. Sixty percent of the respondents do not have business banking accounts consequent from the costly fee of registering a business, a requirement needed by the bank to open an account. The grant requires businesses to be registered within six months after receipt, a case that is poorly monitored by the Regional Council. An attribution to non-opening of businesses is the nature of business the rural communities are engaged in, especially the agricultural sector. The agricultural sector is seasonal forcing the businesses to only operate in a certain season and close in other seasons. The Regional Council could create a distribution strategy for seasonal businesses in the rural areas. Business owners can be trained in storing or preserving their produce for later sale so as to enable an all year-round business.

Microfinance grants have not impacted the business growth or diversification of rural businesses. The microfinance grant has been the initial seed capital for the rural businesses and none of the business has received a second round financing from the grant; not only

because the grant does not allow but also because none of the rural businesses have shown growth patterns to encourage the Regional Council to refinance a rural business. Forty-four percent of respondents indicated they have their businesses running for a period between 2 to 5 years, with only 4% indicating an over 10-year duration of running a business. The Regional Council has only offered financial management training to assist in bookkeeping records but not in specialised skills training. For instance, the manufacturing businesses produce on a small scale because producing on large scale is not profitable. With a distribution strategy that would enable a value chain on the rural produce, the Regional Council could create a distribution channel in urban centres for rural products.

### **5.1.2. Conclusion**

The purpose of this research was to study the impact of a microfinance grant scheme implemented by the Kavango East Regional Council on rural development, with indicative variables of rural development attainment being poverty alleviation through asset accumulation and food security, financial inclusion through opening of business banking accounts, business growth and diversification.

The findings of the study prove that the microfinance grant has minimal positive impact on the aggregate rural development variables as listed above compared to the negative impact it has on rural development variables. There was no impact on asset accumulation, business growth or diversification. This was due to the fact that the microfinance grant is deemed insufficient hence the delay in starting business operations because business owners need to secure more funding or produce on a below standard scale to avoid losses. The market size in rural areas is relatively very small or non-existent, affecting the purchasing power of consumers and this does not allow for business growth or diversification. For target client of these grants are the poor, serving them with little funds that will not able to meet their entire needs to start operations slows the progress if not completely halt it.

The types of businesses run in the rural areas are another factor for business growth and diversification. The grant scheme has a list of viable business ideas the rural communities can undertake, but it does not provide guidance on which areas these viable businesses are suited.

Instead, the communities undertake gardening businesses in areas where water is scarce in the hope that government would provide them with water.

With the regional council's monitoring and evaluation, 40% of businesses in rural areas have a business banking account which shows a positive impact on financial inclusion of the rural people in the banking system. However, little savings are deposited in these accounts as most businesses are more for subsistence and not commercial purposes.

The study also found that the Regional Council lacks capacity to effectively monitor, evaluate and guide businesses in the rural setting. This is because monitoring and evaluation only takes place four times a year, and only to selected businesses due to limited resources. During approval process, the Regional Council does not perform a satisfying due diligence to determine the viability of the proposals, therefore affecting business growth.

In contrast to the negative impact of the grant, it has a positive impact on food security. Businesses are more for subsistence and any savings realised from the business is invested back in the households to buy food and pay for clean water. This enables healthy living standards as families are not starved and can consume clean water.

## **5.2. POLICY RECOMMENDATIONS OF THE FINDINGS**

Having identified the importance of microfinance grants by the Regional Council to rural communities and the presenting gaps on rural development, the study came up with the following recommendations:

- To alleviate poverty through asset accumulation and food security, the Regional Council is recommended to increase the grant money to afford all the needed resources for the businesses to start operations. Microfinance funding should not mean that the money provided is tiny, but should be sufficient to enable business.
- Encourage the youth and women to economically participate in microfinance programmes. There is evidence to indicate the benefits of empowering women

financially, for example women take care of families and they make good decisions that would alleviate poverty. The youth, on the other hand, need to be empowered because they are the future leaders and are considered more active than the elderly. Not empowering the youth implies loss of potential human and economic capital. There is a great need to expand and develop a range of various products and services so as to diversify business opportunities fit for the youth of various abilities (McNulty & Nagarajan (2005); Mecha, (2017).

- Create by-laws for surrounding companies in rural areas, such as lodges, to procure some of their food items such as vegetables from the locals. The study recommends an examination of the supply and demand of rural products to enable sound economic decisions that would empower the rural community.
- The study further recommends that the Regional Council strengthen its implementation role of registering businesses and opening banking accounts for the rural businesses to enable financial inclusion.
- To enable business growth and diversification, the Regional Council should relook the criteria for the business listings and create platforms to disseminate the identified business ideas the region can engage in to empower the rural community. Creating an open market in rural areas where trading takes place and exposing rural products during expos, exhibitions, on the Regional Council website and to tourists are some of the identified avenues the Regional Council can undertake to bring the market closer to the products.
- Create a distribution channel for rural produce to be sold in urban centres by creating a value chain strategy. It is recommended that the Regional Council finance businesses in the urban centre that could sell rural products as part of the value chain strategy.
- Discourage the rural community from doing business backwards. The Regional Council should not approve businesses such as gardening in an area where water is not available in the hope that the regional will provide the area with water. This slows

down the start of the funded business because water will need to be made available first before the garden can be cultivated. Although politicians particularly influence this, the Regional Council should advocate for the politicians to not address administration issues by telling applicants what they should apply for and promising them that they would receive the grants but rather to allow for the administrators to perform their duties.

- The Regional Council should improve service delivery in the rural areas to allow for accessible roads, improved telecommunications and electricity supply and provision of clean water to be made available in focal growth points in rural areas. This would encourage migration to the focal growth points thereby eradicating the population dispersion and increase the market size for the rural businesses. With this, financial institutions may be encouraged to provide financial services deemed fit for the rural community, therefore allowing for financial inclusion.

### **5.3. AVENUES FOR FUTURE RESEARCH**

The study identified a gap in the microfinance grant scheme implemented by the Regional Council i.e. the sustainability of the grant scheme. The grant is funded by government budget, funds received from citizen's taxes, and therefore, an investigation on how sustainable the grant is could help inform policy makers.

The study focused on the impact of microfinance on rural development, with poverty alleviation through asset accumulation and food security, financial inclusion and business growth and diversification as variable indicators of rural development. Further studies could look at other factors that the microfinance grant could impact.

Apart from the Regional Council, there are other government ministries providing finance to the rural poor; further research could investigate the impact of these finance provision organisations for a wider research scope.

Governments have used credit schemes as a way to transfer resources to specific target populations. However, this approach has not always produced the desired effect. With inadequate technical skills in delivering the financial provision for the poor, they are faced with numerous challenges. A study in identifying challenges facing microfinance by NGOs and government in delivering their services is another avenue for further research.

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## **APPENDICES**

### **Appendix A: Letter of Introduction**

Dear Respondents,

This questionnaire is designed to gather information on the impact of microfinance on rural development in Kavango East Region: A case study of Kavango East Regional Council. This research is carried out in partial fulfilment for a reward of a Masters Degree in Development Finance with the Graduate School of Business, University of Cape Town.

The information provided in this questionnaire will solely be used for this research and it will be treated with confidentiality and the respondents name and business/project name will not be mentioned.

Thank you for your participation.

Yours sincerely,

.....

Anna Kavindja

Student

0818114025

**Appendix B: Questionnaire**

1. Gender of the respondent?

Male	<input type="checkbox"/>	Female	<input type="checkbox"/>
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2. Age range of the respondent?

18 – 25 Years Old	<input type="checkbox"/>	36 – 45 Years Old	<input type="checkbox"/>
26 – 35 Years Old	<input type="checkbox"/>	46 Years and above	<input type="checkbox"/>

3. Respondents’ highest level of education?

Primary	<input type="checkbox"/>	Secondary	<input type="checkbox"/>
Certificate	<input type="checkbox"/>	Diploma	<input type="checkbox"/>
Degree	<input type="checkbox"/>	Other (Vocational): .....	<input type="checkbox"/>

4. Are you a sole trader or in a group?

Sole trader	<input type="checkbox"/>	<input type="checkbox"/>
Group	<input type="checkbox"/>	<input type="checkbox"/>
If group, how many?		

5. In which sector is your business?

Agriculture	<input type="checkbox"/>	ICT	<input type="checkbox"/>
Retail	<input type="checkbox"/>	Other:.....	<input type="checkbox"/>
Construction	<input type="checkbox"/>		

6. How long have you been running your business?

< 1 years	<input type="checkbox"/>	5 – 10 years	<input type="checkbox"/>
2 – 5 years	<input type="checkbox"/>	> 11 years	<input type="checkbox"/>

7. Is your business registered with Ministry of Industrialisation, Trade and SME development?

Yes  No

8. What was your first source of capital for your business?

Personal Savings	<input type="checkbox"/>	Bank loan	<input type="checkbox"/>
Loans from family/friends	<input type="checkbox"/>	Microfinance grant	<input type="checkbox"/>
Sale of assets	<input type="checkbox"/>		

9. After benefiting from the regional council's microfinance program, have you employed anyone?

Yes  No

If yes, how many? .....

10. Apart from capital/money, what other challenges do you experience in your business?

Financial Management Skills	<input type="checkbox"/>	Marketing	<input type="checkbox"/>
Time management skills	<input type="checkbox"/>		

11. Has the Regional Council offered you any financial management training?

Yes  No

14. What personal asset accumulation have you obtained after benefiting from the program?

.....  
 .....  
 .....

15. What personal asset accumulation have you obtained before benefiting from the program?

.....  
 .....  
 .....

16. Tick in the appropriate box on business performance

	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
Microfinance grant has helped my business to start operations					
Microfinance grant application and approval process is satisfying					
After approval, the processing of releasing the grant is satisfying					
Microfinance grant has delayed my business operation					
Regional council's four rounds of monitoring and evaluation of the grant beneficiary is sufficient because it is coupled with guidance offering					

End of questionnaire

Thank you for your participation

## **Appendix C: Focus group discussion content to cover**

1. What is the respondents understanding of the microfinance grant?
2. Does the respondent know and understand the criteria's used to qualify for the grant?
3. How has the microfinance grant assisted the respondent in running a business
4. Has the Regional council's influenced the respondent with generation of business ideas
5. What other further assistance do the respondents need from the regional council to help their businesses grow?
6. Have the respondent opened business bank accounts as a result of benefitting from the microfinance grant program?
7. What asset accumulation have the respondents obtained before and after benefitting from the microfinance grant?