

**Poverty Reduction through Access to Financial Services in Rural Areas of
Namibia: A Case study of Omusati Region**

A Dissertation

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By

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ABSTRACT

Poverty is one of the leading challenges that stunt economic development in rural areas of Namibia. Several researchers have suggested that poverty is closely related to access to financial services. Despite many interventions that have been proposed to address poverty in Namibia, more efforts still need to be made to reduce poverty. Poverty rate is still high especially in rural areas. High employment rates, low level of education and inadequate financial institutions are some of the determinants of poverty in Namibia. This study investigated how accessibility to financial services is linked to poverty alleviation in rural areas of Namibia with a special focus on two villages; Onheleiwa and Onelago in Omusati Region by sampling fifty respondents from each village. There are several requirements which are needed by the rural poor to have access to financial services such as educational qualifications, fixed payslips, collateral and business plan were identified as obstacles that hinder access to financial services in rural areas. As a result of these factors, majority of the respondents revealed that they do not meet the requirements to access financial services from institutions such as banks for enterprise innovations. Consequently, poverty remains a serious concern.

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GLOSSARY OF TERMS

Poverty – Deprivation of income and other resources necessary to achieve the basic needs of life such as food, education, material items, standards and services that enable them to play their roles, meet obligations and participate in the relationships and customs of their society.

Poverty reduction: Poverty reduction is the lifting of people from poor to non-poor.

Pro-Poor growth: This describes a growth that is deemed to benefit the poor.

Absolute poverty line: A minimum standard usually based on a needs assessment, such as the cost of a basket of food items that provide a basic level of nutrition. It is a fixed measure of an income or expenditure threshold below which a household is seen as poor, the threshold remains the same even if there is change with arising standard of living in a country.

1 INTRODUCTION

1.1 Background of the Study

Numerous interventions have been proposed to solve developmental issues that affect economic growth and hinder poverty reduction in Namibia. Several factors such as unemployment and level of education have contributed to inequality in Namibia. The majority of people affected by poverty are those residing in rural areas. Poverty reduction strategy has been proposed as one approach that could be used to correct these imbalances.

Poverty reduction is defined as moving households from a poor to a non-poor scenario, (Adongo & Deen-Swarray, 2006). However, poverty in itself has been related to income, which has been at the core of the concept today. Income itself is no less problematic a concept than poverty. Therefore, some other resources such as assets, income and subsidies to public service and employment should be imputed to arrive at a comprehensive but accurate measure of income, (United Nations Development Programme, 2006).

People can be described to be in poverty if they are deprived of income and other resources needed to obtain the conditions of life such as food, education, material items, standards and service that enable them to play their roles, meet obligations and participate in the relationships and customs of their society, (United Nations Development Programme, 2006). The definitions for access to financial services and poverty reduction may vary from country to country and depending on the levels of development as illustrated in this section and further in the literature reviews.

Poverty reduction is important not only to Namibians or to the developing countries, but also to the whole world as this has been the dream for all which has been overstressed through the Millennium Development Goals and when transformed to Sustainable Development Goals, remained the talk of the corridors throughout the globe. Poverty reduction and access to financial services is important to Namibia because it is a catalyst for a sustainable economic growth and development.

Therefore, this study has a special focus on the rural areas of Namibia, because this is where the majority of poor and the disadvantaged people reside. Poverty rate is highest in rural areas with about thirty seven per cent higher than urban areas with only about fifteen per cent (National Planning Commission, 2016). Among the thirteen regions of Namibia, the most affected rural areas are in Kavango Region, with poverty incidence of fifty six per cent. The

second highest affected region is Ohangwena Region, with poverty incidence of forty four per cent, while poverty in Khomas and Erongo regions, which are more urbanized regions, is ten per cent or less, (National Planning Commission, 2008).

One of the powerful poverty reduction tools is the access to finances for the poor, especially in rural areas. This tool/strategy ensures that the poor have access to services, food, sanitation, education and to have access other daily needs, hereby, reducing the severity of poverty in rural areas. *“Access to financial services refers to the availability of supply of reasonable quality financial services at reasonable costs, where reasonable quality and reasonable cost have to be defined relative to some objective standard, with costs reflecting all pecuniary and non-pecuniary costs”* (Claessens, 2006).

Namibia developed its Financial Sector Strategy for the period of 2011-2021 to address the weaknesses in the Namibian financial system, which will enable the country’s financial sector to change and contribute to socio economic factors such as poverty reduction and access to financial services as contained in several developmental plans, such as National Development Five (NDP5) and Vision 2030. Further, the strategy envisions the emergence of strong and innovation domestic financial institutions that are more technology driven and ready to face the challenges of globalisation (Ministry of Finance, Namibia, 2011). Namibia’s financial sector consists of banking institutions, non-banking financial institutions such as insurance companies and pension funds, smaller financial intermediaries such as money market funds and stock brokers and Namibian stock of exchange.

Education is also one of the most important components of poverty reduction. Education is a steering wheel to employment opportunities, which can remove the rural poor out of poverty and leads them to a better acceptable living standard. Education can enhance the rural poor’s understanding and knowledge on access to finance, which can enable them to create their own businesses, leading them to acquire assets and provide employment to others within their communities as well as education can improve the rural poor’s understanding on how to manage resources and their own businesses to become successful. Thus, reducing unemployment and foster poverty reduction go hand in hand.

Income continues to be the most important measure for evaluating poverty in the globe. Hence, there is an overwhelming need to enhance access to financial services and there is a need to put in more efforts to create programs which can create employment opportunities for the needy as well as to create income generating activities for the rural poor, (Mowafi, 2004).

1.2 Problem Statement

Poverty is defined in different aspects of deprivation. Generally speaking, *“poverty is the inability of people to meet social needs, rights, security, dignity, economic opportunities, education, health and sanitation and other standards of well-being”* (Ikejiaku, 2009).

Absolute poverty line defines a minimum standard, usually based on a need, such as the cost of a basket of food items that provide a basic level of nutrition, (Republic of Namibia, National Planning Commission, 2016). It is a fixed measure of an income or expenditure threshold below which a household is seen as poor. The threshold remains the same even if there is change with arising standard of living in a country. Thus, economic growth distributed uniformly across society will result in decreasing poverty rate, as household that were previously considered poor climb above the poverty line, (Ikejiaku, 2009).

Namibia is one of the developing countries that are faced with a high rate of poverty. The high rate of poverty is attributed to a number of factors including access to financial services. Inadequate access to financial service is attributed to aspects such as lack of adequate and up-to-date information on the current status of access to financial services and poverty reduction for the rural poor. Even though efforts have been made to access financial services for the rural people poor, not much research is undertaken and available to assess the access to financial services and whether it can reduce poverty in rural areas of Namibia.

Policy makers encounter difficulties to formulate policies that are targeting poverty reduction and enhancement of access to financial services in the country. The available information is either out-dated or insufficient and not specific to the subject matter. Consultations and research on poverty reduction and accessibility to finance in the rural areas of Namibia is on-going. However, there is no sufficient information available and no insight has been gathered yet to combat poverty through access to finance as a means of economic development.

The majority of the poor resides in the rural areas and in the remote areas of Namibia. To reduce poverty in the rural areas and achieve pro-poor growth, there is a need to actively encourage the efficiency, effectiveness and enhancement of access to financial services. Accessibility to financial services is a key aspect, as it contributes highly to economic growth and it plays a vital role to the rural innovative communities and entrepreneurs to participate in any given business opportunities. Access to financial services can increase the wealth of the rural poor, helping them to acquiring assets which they can use as collateral in future once

they are in need of credit/loans. This can help the rural poor to establish their projects and businesses well which can result in employment creation for others and can take them out of poverty.

According to the Ministry of Finance (2011), the level of financial exclusion in Namibia is very high. Financial exclusion does not only affect individuals, but firms were also reported to have rated access to financial services as the top constraint for their business growth (World Bank, 2016). Access to financial services is usually impaired by requirements such as lack of collaterals, lack of credit history and financial statements and low level of skills/training and expertise (World Bank, 2016).

As a result, this study deemed to examine if there is a linkage between access to financial services and poverty reduction in Namibia, as well as to contribute to the existing studies and further strengthen the knowledge on the subject matter.

1.3 Research Questions and Objectives

The purpose of this study is to examine if there is a relationship between access to financial services and poverty reduction in Namibia. The question that the study intends to address is: is there a relationship between access to financial services and poverty reduction in Namibia?

The research question will be answered through the following objectives:

To examine the relationship between access to finance and poverty reduction in the rural areas of Namibia

The objective was met by investigating the following hypothesis:

H1: There is a relationship between access to financial services and poverty in rural area of Namibia.

1.4 Justification of the Research

Poverty is a cross cutting concern, therefore, this study is relevant to all government ministries but more important to the Ministry of Poverty and Eradication, National Planning Commission, non-governmental organisations, civil society, community-based organisations, agencies, private sector, rural poor, and all other organisations in Namibia. Since financial development can directly reduce poverty through providing accessibility financial services to the poor (Yogo and Coulibaly, 2016), this study deemed to make a positive contribution to

poverty alleviation for the poor. The findings of this research are aimed to make a significant contribution to policymakers' understanding of the mechanisms or strategies that can alleviate poverty in Namibia. It further sought to bring forth those strategies and mechanisms to be considered by policymakers when formulating poverty reduction strategies and other important related policies that are aimed at contributing to effective poverty reduction in Namibia. Finally, the research shall contribute to the existing body of knowledge and will offer a stepping stone for further research concerning poverty reduction and access to financial services.

1.5 Research Assumptions

As indicated above, there is limited research undertaking the relationship between access to financial services and poverty reduction. Information on the subject matter specific to Namibia is rarely available but there are some similar studies done for other countries under these specific subject which Namibia can learn from, which I will use to develop further discussions on the subject.

1.6 Limitations

Limitations of the study encompass conceptual and methodological shortcomings identified by the researcher as those that cannot be overcome because of the limited time and resources. There are limitations to all types of research irrespective of the research design. For this research the limitations include time constraint and unwillingness of respondents to complete the questionnaire. However the researcher made use of the questionnaire to give the participants time to ensure data validity and reliability. The researcher encountered other challenges such as delays in getting permission from work to take a study leave due to workload. There were also delays in getting the questionnaire back and a high level of confidentiality in sharing data from the banks also challenged the study. On the other hand, some respondents could not complete the whole questionnaires due to lack of understanding on the subject matter and some thought it was a waste of their time, therefore the researcher have to find ways to persuade respondents to complete the questionnaires and had to translate to some of participants in their vernacular language to understand the questions in depth. Some participants refused to complete the questionnaires, however, the researcher had to find respondents who were willing to fill in the questionnaire which was also time consuming.

2 LITERATURE REVIEW

2.1 Introduction

This chapter covers a collection of existing literatures done on the linkage between accessibility to financial services and poverty reduction in Namibia and other parts of the world as well as it covers theoretical review and empirical review to see whether access to financial services have impact on reducing poverty in developing world. The purpose of this chapter is to identify and compare the previous related studies in the same subject matter. Although a number of studies have been conducted locally and internationally on the similar subjects, there is still an immense research gap under this subject. Some theories by different researchers' supporting and against the same subject have been reviewed and compared. The chapter further took into consideration empirical literatures and consequently develop a conceptual study framework.

2.2 Theoretical review

Generally, it is debated that access to financial services can assist to alleviate poverty by providing credit and other financial services to the poor which in return helps to increase income via investing in good businesses, (Abdin, 2016). In addition, poverty which exists in most of the developing countries is considered to be the source of all socio-economic issues and accessibility to financial services for the rural poor is of great importance factor which can alleviate such poverty. Via existing studies it is identified that, access to financial services can have impact on poverty via two channels: It works directly via broadening access to finance by those who does not enjoy the living standards or rights as the majority of people in the community, and works indirectly via economic growth, (Abdin, 2016).

2.2.1 Direct impacts of access to financial services on poverty reduction

Based on the reviewed theoretical literatures, access to financial services can directly contribute to poverty alleviation and can help to increase income of poor communities within developing countries in several ways. Firstly, Access to financial services can directly minimise poverty by improving access to loans and other financial products for the poor through investing in new small and medium enterprises or enhancing their small business to larger business. However poor countries are facing several market failures in financial sector such as asymmetric information and excessive transaction costs associated with small amount of borrowing of loans, (Joseph E.Stiglitz, Park, & Jaramillo-Vallejo, 1993). Market failure is

a root cause of poverty and financial markets failures restricts access of the poor to formal financial services.

Stiglitz & Weiss (1981) states that these types of imperfect conditions creates moral hazard and adverse selection in unimproved financial markets, therefore, hinders the poor to borrow from formal financial institutions to invest in profitable businesses. Inefficiency in accessing to financial services is considered to be one of the great important elements behind persisting poverty in developing countries. Expansion of financial institutions such as banks and increasing the supply of financial services which can be accessed by the poor can contribute directly to poverty reduction. A financial system which is well developed and well-functioning can strength the productivity of the poor by providing them with access to financial products specifically to acquisition of loans, thereby enhance productive assets of the poor and increase their potentiality for earning sustainable livelihoods, (Jalilian & KirkPatrick, 2001).

Secondly, Inefficiency in accessing financial services and financial systems which are not functioning well causes more constraints to the poor on acquisition of loans which affect them as they does not have collaterals and credit histories to acquire credits. Access to financial services can improve efficiency of capital allocation by reducing information gap that enable the poor to obtain external finance thereby can play an important role in poverty reduction.

Thirdly, access to financial services does not only create opportunities for credit acquisition to the poor but it also creates good opportunities for them to create savings. Keynes's (1937) demand for money theory argues that access to financial services is useful to the poor even if they are not able to acquire some credit because they offer saving opportunities which are profitable. Improving access to financial services in rural areas help to build capital by increasing scattered savings and allows the poor to borrow money from this accumulated savings to start up their businesses, which will eventually reduce poverty in the long term by generating employment and high returns, (Abdin, 2016).

2.2.2 Impact of access to financial services on poverty through economic growth

Access to finance can reduce poverty and increase income of the poor indirectly via promoting economic growth, (Abdin, 2016). However, there are different views regarding how accesses to finance services can reduce poverty in developing countries. Solow's (1956) economic growth theory argues that access to financial

services has no significant impact on economic growth. Another theorist' argues that access to financial services has no impact on economic growth and in some instances it has negative impact on economic growth, (Wijnbergen, 1982). This is merely because the movement of funds to formal financial institutions and for formal requirements hinders developing nations to invest in the formal market. However, in real life, market do not clear completely and those who believe in positive role of a well-functioning financial systems for promoting economic growth argues that access to financial services have indirect impact on economic growth. However, the endogenous growth theories confess that there is positive impact on access to financial services on economic growth though saving accumulation, (Romer, 1986).

2.3 Empirical review

There are a few researchers who examined if there is a linkage between financial development and poverty reduction in recent years. However, there is a huge debate on whether access to financial services has an impact on poverty reduction or not. On one hand, some researchers strongly believe that there is a positive relationship between access to financial services and poverty alleviation. Firstly, Uddin, Kyophilayong & Sydee (2012) investigated an inter-temporal causal relationship between banking sector development and poverty reduction in Bangladesh during the period of 1976 – 2010. The result shows that an accessible financial system and a well organised financial sector can reduce poverty of the poor. Putting an organised and effective loan recovery system in place could encourage small and medium business owners to borrow credits to finance their business, thereby increasing business returns which can get the poor out of poverty.

Secondly, Odhiambo (2009) tested the dynamic causality linkage between poverty alleviation and financial development in South Africa with a causality model. The results indicate that access to financial services can improve chances for the poor to access formal finance by tackling the causes of market failures, such as information asymmetry and high costs of lending credit to small medium entrepreneurs. DFID (2004)'s study also shows that financial development helps the poor to increase savings or enable them to borrow money to start up their businesses which will lead to a wider access to financial services , higher employment and higher income, thereby reduce poverty.

On the other hand, some researcher's findings have a different view on the linkage between access to financial services and poverty reduction. Fowowe and Abidoye (2012) investigated the relationship between financial development and poverty alleviation on African countries. They investigated the impact of credit ratio as the measure of financial development on the growth of poverty rate. Their result shows that there is no significant influence on financial development and poverty reduction, the said impact is insignificant that there is no statistical evidence to prove that financial development can truly reduce poverty.

Kibua T.N (2007) investigated in their study if accesses to financial services have impacts on poverty alleviation in rural Namibia. The results show that Access to financial services alone is not potential to reduce rural poverty in Namibia. He stated that poor regions are associated by a high probability of house heads that never had access to financial services in their lives. Additionally, he stated that Namibian rural house heads currently still have no access to financial services. This empirical evidence is the same as the one by Adongo & Deen-Swarray (2006).

2.4 A brief overview of financial sector in Namibia

Statistics reveal that Namibia's financial sector is doing quite impressive. Among other Southern Development Region (SADC) member states, Namibia has the second largest financial system (Kachingwe and Berthaud, 2013).

Namibia has a well-established and fairly advanced financial system, with a banking sector which is able to recover quickly from economic shocks and a large diversification of non-bank financial institutions (Kachingwe and Berthaud, 2013). Non-banking financial institutions (NBFI) are dominated by Pension funds and insurance companies. There is a variety of registered NBFI: Namibia Financial Institutions Supervisory Authority (NAMFISA) regulates over 3800 registered entities, including the Namibia Stock Exchange, investment managers and investment companies, micro-lenders, insurers and pension funds. Informal financial institutions are rare (World Bank, 2016).

Namibia with its small population of just over two million people, it is no surprise that it has the second best banking density ratio (number of people to a bank) in the SADC region. "Its ratio of 456,704 people per bank is second only to Botswana's ratio of 322,000 people per

bank. However, its people to (bank) branch ratio of 20,074 people per branch, was the lowest banking density ratio in the sub-region” (Fin Mark Trust, 2011).

According to Fin Mark Trust (2011), in Namibia, the following branches, sub-branches and agencies have been established by commercial banks since 2007. It should however be noted that this data was not available for Standard Bank Namibia. Bank Windhoek opened 14 branches, sub-branches and agencies, and First National Bank Namibia 15. Nedbank Namibia opened five branches. Detailed information about branches opened is shown in Table 1 hereafter. However, it should be noted that data was not available for Standard at the time of the survey (Fin Mark Trust, 2011).

Table 1: Growth in commercial banks physical infrastructure since 2007

Commercial Banks	Branches opened since 2007	Branch, sub-branch and agency locations	
Bank Windhoek	14	Nkurenkuru	Walvis Bay (Agency)
		Outapi	Rehoboth
		Luderitz	Oshikango
		Arandis (Agency)	Prosperita (Agency)
		Omaruru	Capricorn Branch
		Aigams (Agency)	Omithiya
		Khomasdal (Agency)	Swakopmund (Agency)
First National Bank Namibia	15	Okongo	Windhoek, Prosperita
		Katutura	Windhoek, Northern Industrial
		Outapi	Okahao
		Eenhana	Windhoek, Private Clients
		Oshikango	Swakopmund, Mondesa
		Henties Bay	Usakos
		Omuthiya	Oshakati, Game Shopping Centre
Windhoek, Old Power Station			
Nedbank Namibia	5	Business Centre	Grootfontein
		Eenhana	Outapi
		Katima Mulilo	

Source: Fin Mark Trust (2011)

To fully understand the issue of access to banking in rural areas one has to understand the vast regional differences in the distribution of banking branches. Given that most banking

infrastructures are located in urban areas, it follows that banking density ratio for rural regions would be much worse than that for regions with mostly urban populations. The capital region of Khomas, with nearly the same number of people as the rural region of Omusati, had a people-to-branch-ratio of just more than 13,000 whilst Omusati's people-to-branch ratio was 228,000 people-to-branch ratio. At the same time, regions with less per capita income than Omusati had a better people-to-branch ratio (Fin Mark Trust, 2011).

In addition, it has been reported that the banking sector is sound, profitable and adequately capitalized (World Bank, 2016). However, just like other countries in Sub-Saharan Africa, access to financial services remains a substantial challenge for policymakers and financial service providers in Namibia (Kachingwe and Berthaud, 2013).

Access to financial services is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups (Mandiwa, 2014). Access to financial services is a serious issue that needs urgent attention. This mostly affects the poor especially those that are residing in rural areas. However, a number of reasons need to be taken into consideration in order to address the matter of financial inclusions.

One of the reasons is the fact that the massive majority of the poor do not have banking accounts and consequently no transaction history. If the bank does not have individual person's transaction history or small medium businesses, then it will not be able to trace and know the applicant's credit worthiness. As a result, the bank often rejects that person's application for financial service.

In a case of loans and credits, this is quite important because customers history of transactions can be used to decide whether or not a customer will be able to pay back the loan. When there is no transaction history of customers than it means that the ability to pay back the loans is unknown to banks, which is risky for banks to approve such loans unless the credit is fully collateralised (Bank of Namibia, 2010).

Although access to financial services have been enhanced, lots of people who earn low income, and small and medium enterprises (SMEs), still have limited access to financial services (Kachingwe and Berthaud, 2013). Additionally, despites numerous efforts made to expand branches of banks in the rural areas, commercial banks are still very far from the remote areas, (Kachingwe and Berthaud, 2013).

According to the Ministry of Finance (2011), the level of financial exclusion in Namibia is very high. This means that majority of the Namibia's population struggle to access financial services or have no access to financial services at all. The 2007 FinScope Survey indicates that more than half of the Namibian bankable population is unbanked.

The survey conducted by Finmark Trust in 2011 indicate that the number of people who do not have access to financial services decreased from 51 percent in 2007 to 31 percent in 2011. The majority (65 percent) of the eligible Namibian population have access to financial services (n=727,736), and 62 percent have access to banking services. Another 46 percent use other formal products and 13 per cent are informally served (Fin Mark Trust, 2011).

According to Arora (2010), access to financial services help people to invest in projects which they desires to invest, eventually which is considered as a very good aspect of economic development. He further added that least access to financial services gradually leads to income inequalities, high rate of poverty and low economic growth. For this reason, access to financial services and financial systems which is accessible to both the poor and rich has been advocated as a means to reduce inequalities and poverty in developing countries (World Bank, 2008) as cited by Arora (2010).

A flourishing literature has emphasized a negative relationship between poverty and financial development (Yogo and Coulibaly, 2016). They further stated that a financial system which is well development can directly reduce poverty by providing financial products which are suitable to the poor.

In addition, SMEs are also faced with challenges to acquire credit from formal financial institutions because they do not meet the requirement to acquire financial products as evidenced by the Namibia Chamber of Commerce and Industry (NCCI) Survey of 2009. Given the negative impact on the economy when people have no access to financial services, Namibia will need to work very hard to reduce the rate financial exclusion through different means (Ministry of Finance, 2011).

According to the World Bank (2016), it was identified that commercial banks made huge efforts to increase bank branches in recent years, however, they are only concentrated in urban areas. Access to banks is good in urban areas with ninety percent of adults needing an hour or less to get to a bank. But, due to the large size of the country and the small population

size, forty percent people in the rural areas are still travelling long distances and long hours to reach bank branches (World Bank, 2016).

Namibia is still fighting to provide access to formal financial services for its citizens and the informal sector. In addition to the underlying structural limitations; rural poor do not trust to transact with banks, financial products are not suitable to the poor and high transaction costs have also been blamed for this state of affairs. Poor people with their low earning income and small medium enterprises most of the time have no choice but to make use of informal financial services, which are mostly costly than formal ones (World Bank, 2010). Formal financial products are in most cases suitable for individuals who earns good monthly income and those who can provide collateral as security for the credit. Small medium enterprises also often does not have the required accounting skills and systems to generate necessary data and in most instances they do not have good knowledge to write proper business plans to convince the banks to give them credit. Sometimes rural poor and informal business without a bank account approach banks for a loan but in most cases they are likely to be rejected unless if they have collateral at hand (Bank of Namibia, 2010).

In recent years, the Namibia Post Office Savings Bank (NPOSB) has become the option for the rural poor, because it has been the steering wheel for providing innovative and affordable financial products which are suitable for the unbanked and under-banked population in Namibia (Kachingwe and Berthaud, 2013).

Even though majority of the poor in rural areas have recently started banking with NPOSB, it is still worth understanding that the services provided by NPOSB are limited. Also, in some areas people have to travel long distances to postal offices.

2.5 Namibia's financial system and regulations

According to the Ministry of Finance (2011), the “Namibian financial system comprises the Bank of Namibia as the central bank, five commercial banks, a number of other banking institutions, a range of nonbank financial institutions such as insurance companies and pension funds, smaller financial intermediaries in the form of stockbrokers and money market funds, and the Namibian Stock Exchange. The financial institutions operating in Namibia are divided into two categories, namely commercial banks and other specialised finance institutions (Ministry of Finance, 2011)”.

Commercial Banks in Namibia are as follows: First National Bank of Namibia (Ltd.), Standard Bank of Namibia (Ltd.), Nedbank Namibia (Ltd.), Bank Windhoek (Ltd.) and FIDES Bank (Ltd.). Among these, only Bank Windhoek is Namibian owned, while the others are foreign-owned, primarily South African banks. FIDES Bank Namibia is the only microfinance bank and received its banking license in 2010 (Ministry of Finance, 2011). FIDES Bank of Namibia is operational in two segments: income generating activities financing (microfinance) and micro, Small and Medium Size Enterprises (SMEs) financing.

Other specialised finance institutions include: Namibia Post Office Savings Bank (a division of NamPost Ltd), Agricultural Bank of Namibia Ltd, National Housing Enterprise Ltd and Development Bank of Namibia Ltd.

According to Fin Mark Trust (2011) all commercial banks are required to have banking licenses. These are issued by the Bank of Namibia in terms of the Banking Institutions Act (1988). The requirements for a banking license include, firstly, capital funds of at least N\$10 million proper internal control and robust risk management systems. Secondly, the ability to continually comply with prudential banking regulations relating to, among others, minimum liquid assets, minimum capital adequacy ratio, minimum local assets, loan loss provisions and lending and credit concentration limits.

Since independence, the Namibian economic growth has been increasing and it had been self-sustainable. During these period, the growth has been recorded at three percent on average, while inflation has remained low at single digits. The banking sector's contribution to GDP increased by two percent in 1990 to 3.6 percent in 2000 and further to 4.3 per cent in 2010. The sector has experienced a phase of dynamic growth. The financial sector is expected to play a significant role in supporting economic growth via expansion in banking intermediation role in the next ten years (Ministry of Finance, 2011).

The Namibian financial system was not moved by the global financial crisis started in 2007 and intensified in 2008, it has remained stable. The direct impact of the financial crises on the local financial system was quite low during that period. Namibia has been thankful to the limited exposure to sub-prime-related investments by financial intermediaries which was made possible by existing exchange control regime. The 2009 World Economic Forum (WEF) report also appraised the banking sector of Namibia as being sound, ranking in the 7th position in Africa; and thus evidencing the stability of the system.

According to the Ministry of Finance (2011), the assessment which was made on the current status of Namibia's financial system indicates that although the system is sound and well-functioning, there are still lots of weaknesses that need to be addressed in order for the financial system to make meaningful contributions to the overall performance of the country's economy. The identified weaknesses among others are: shallow financial market, limited competition, limited financial safety nets, under-developed capital market, inadequate and less effective regulation, limited access to financial services, low financial literacy and lack of consumer protection, absence of effective consumer activism, limited financial management skills, and low participation by Namibians, hence dominance of foreign ownership of financial institutions.

2.6 Namibia's financial strategic plans

Namibia has developed a ten-year financial sector strategy covering the period between 2011 to 2021 which can address the weaknesses in the country's financial system which will help the country to transform its financial sector and contribute more significantly to the socio-economic objectives, amongst others, poverty reduction and wealth creation as contained in the various development plans National Development Plans (NDPs) and Vision 2030. The purpose of the Strategy is to provide a road map of the financial system over the next ten years that will ensure its effectiveness, competitiveness and resilience (Ministry of Finance, 2011).

The financial strategy will be the guidelines for achieving the desired financial sector objectives as intended in various national development plans (NDPs) and Vision 2030; through consolidating them; especially those relating to capital and financial markets development, ownership of financial institutions, access to finance, consumer protection and financial literacy. Most important, the strategy should contribute to fostering economic growth and poverty alleviation as well as reducing income inequality in the country (Ministry of Finance, 2011).

In 2010 the Namibian Government started with the implementation of the Namibia Financial Sector Strategy 2010-2020, to transform the country's financial sector over a ten-year period. This strategy promises reforms that would contribute to: deepened, efficient and developed financial system, stable, well-regulated and competitive financial sector, increased local ownership of financial institutions, inclusive financial sector and financially literate and better protected consumers of financial products and services.

While it is acknowledged that there are plans and targets already set in various documents directed towards the development of the financial sector, the development of the Namibian Financial Sector Strategy is a national response to address the structural weaknesses in the sector in order to achieve the above-stated national and sector-specific objectives. As such, the Strategy constitutes a single reference document that guides the development of the country's financial sector, and the voluntary NFSC should be viewed as part of the Strategy. In the absence of a consolidated strategy and strategic initiatives, sector development impediments and deficiencies might persist (Ministry of Finance, 2011).

It is evidently clear that there are numerous issues to take into consideration with regards to access to financial services in rural areas. However, to better understand financial services and their obstacles in rural areas it is best to discuss individual aspects.

Access to financial services for the poor, especially in rural areas is a global topic. As a result, numerous theories have been developed by many different researchers.

In an African context, access to basic banking services in Sub-Saharan countries remains limited, and lags far behind even other parts of the developing world (Dupas et al., 2014). This problem is most seriously experienced in rural areas. In most instances, the rural poor often lack or have no access to formal financial services. However, there are various reasons why the poor households have no or have limited access to banking services. For example, banking institutions usually require some documents to open up a bank accounts, however, it is challenging for the poor to meet such requirements because they do not have such requirements such as educational qualifications and monthly income (Mujeri, 2015).

Existing literature has identified that increasing poor people's access to better financial products can help to increase poverty alleviation via supporting higher economic gains. The existing literature also suggests that providing the rural poor with enhanced financial services is costly, because most of their transactions are cash based, (Mujeri, 2015).

Accessible financial services are very important to the poor for active encouragement of an inclusive economic growth and poverty alleviation in the country (Mujeri, 2015). The provision of rural financial service can promote entrepreneurship and create economic opportunities. Additionally, rural financial services can play an important role in ways such as savings and insurance, loans for investments and working capital schemes. Moreover, it is usual perceived that those who are financially excluded are also often socially excluded.

2.7 Access to finance around the world

The world has acknowledged the increasing access to formal financial institutions because of the benefits they have provided this far. However, several studies find little literature about a detailed measure that can be used to assess the extent of access to financial service across the economies due to lack of data, (The World Bank, 2005). Numerous indicators are used by researchers to determine the extent of access to financial services. The measure of access to financial services is based on broad categories such as the provider of information mainly the banks and other financial institutions; and the user of information mainly household or firms, (The World Bank, 2005). *“Providing financial services to the poor is the core business of commercial banks. Access to financial services is a powerful means of achieving the UN development goals. Access to financial services means providing the poor with financial products such as loans, saving accounts and insurance and remittances”*, (Sjauw-Koen-FA, August; Verijken, Inez;, 2005)

Trying to reduce poverty without addressing the issue of access to financial services is a dream that will not ever come true. The subject of access to financial services and poverty reduction has been popularly researched all over the world (Dupas et al., 2014). A number of researchers across the globe have used different approaches to study this subject all with the common goal – poverty reduction.

Several researchers have used the following indicators: The number of adult population which receive deposits through formal financial institutions; the number of adults which save money into formal financial institutions; the number of adults who have received or having outstanding loans or other means of credit facilities, the number of branches in use and the number of ATMs. Therefore, for the purpose of this study, some of the indicators mentioned above will be used, (The World Bank, 2005).

Dupas et al., (2014) identified that lack of access is particularly acute in rural areas. In their study they collected between 2009 and 2011 suggest that only between 15 and 21 percent of households are banked in rural areas of Kenya, Malawi, and Uganda, respectively. Moreover, poverty in rural areas is popular challenge and probably one of the most researched subjects. Additionally, a study carried out by USAID (2007) in Uganda indicated that there are many obstacles to financial services for the poor. Furthermore, it was found out that some of the challenges that rural poor face when it comes to access to financial services include the fact

that some of the rural poor live in areas far from financial services provider. The study further highlighted that another challenge is the absence of formal savings polices.

A research conducted by Dupas et al. (2014) in Kenya confirms that lack of banking accounts is one of obstacles that limit rural communities to access financial services. The observations revealed among the 20 per cent of households which have at least one family member with a savings account, only about 12 per cent have accounts in a commercial bank (Dupas et al., 2014). Dallimore (2013) also found out that income inequality increases within population groups according to gender, race and location.

Like it was mentioned earlier, financial services in rural areas are faced with several challenges. A study by Inforesources (2008) identified challenges such as high transactional costs, higher risks both for borrowers and for rural financial institutions. Another identified challenge is the higher rates of illiteracy in developing countries. This is common in rural areas all over the world.

In the Namibian context, it was reported by Kachingwe and Berthaud (2013) that according to the FinScope Consumer Survey conducted in 2011, those with access to banking services increased from 45 percent in 2007 to 62 percent in 2011. However, within those who have access to banking, 49 percent still travel more than one hour to reach a bank. Initiatives to pace up the accessibility to financial services, especially for those who are resending in the rural areas and small medium enterprises, are currently being implemented by the Namibian Government, through its Financial Sector Strategy 2011 – 2021, (Ministry of Finance, 2011).

A recent research by the World Bank (2016) reported that financial inclusion for individuals has increased remarkably in recent years and Namibia stands out for the high percentage of banked individuals. However, as expected, particularly given the large size of the country, financial inclusion is lower in rural areas (see Figure 1).

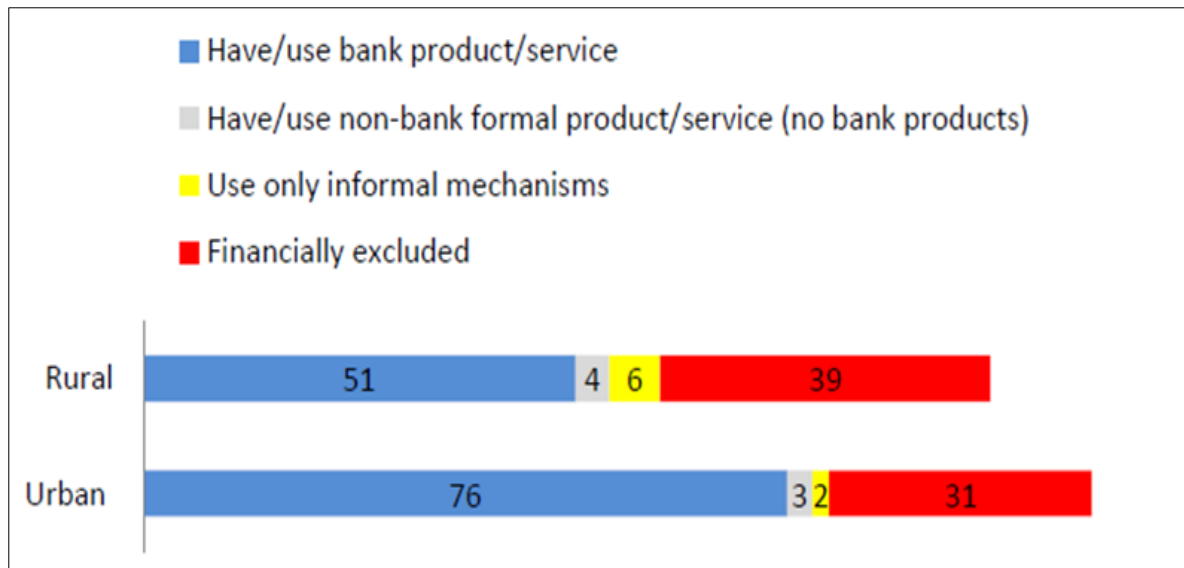


Figure 1: Access strand (urban vs. rural)

Source: FinScope Consumer Survey Namibia, 2011

The FinScope consumer survey showed higher financial exclusion and lower access to banks in rural areas (see Figure 5 with 51 of individuals in rural areas with bank accounts vs. 76 in urban areas).

2.8 Factors that influence access to financial services

2.8.1 Social factors

A couple of social factors have a crucial role to play in the access of the rural poor to financial services. These social factors are interlinked, for example, low educational level leads to limited knowledge and understanding of financial services and the costs involved (Dups et al., 2014). These social factors range from age, gender, educational background, occupation and monthly income. However, it is believed that these factors that determine rural poor to financial services will change but over time, (Mujeri, 2015).

2.8.1.1 Age

Access to financial services can be determined by the dominating age group of the society. For instance, in the community that is dominated by young people, it can be expected that development of all facets including establishment of financial institutions is taking place. On the contrary, if the majority of the community are elderly people and/or minors then it is expected that there will be no innovations including financial institutions development. And even if there is, it will take place at a snail pace. Additionally, according to Fin Mark Trust

(2011), the survey demonstrated that those who are 30 years old or younger are not yet economically settled.

2.8.1.2 Gender

In the Namibian context, the weighted eligible population 39 per cent were male and 61 per cent were female, (FinaMark Trust, 2011). Even though gender equality is accepted worldwide in the modern life, it is an undeniable truth that men are still recognised as superior in some part of the world, particularly in rural areas. This can affect the pace of development in areas where females are the majority members of the society. This can, in a way affect access to financial services and consequently retard poverty reduction. 0

2.8.1.3 Educational background

Due to high level of poverty in rural areas, majority of the people residing in rural areas fail to pursue studies at high institutions. As a result, knowledge about financial services and banking options will be limited among the rural poor, (Dupas et al., 2014).

2.8.1.4 Occupation

Unemployment level is usually accepted to be relatively low in rural areas. This challenges the access of the rural unemployed to financial service in a way that financial institutions, banks in particular consider the transaction records in order to approve credits and loans (Bank of Namibia, 2010). Additionally, because of the high unemployment level of the rural communities, financial institutions could be discouraged to open branches in such areas.

2.8.2 Institutions

Before exploring all the aspects around access to financial services in rural areas, it is worth understanding the basis – first to take time to understand in depth the basic needs of the poor in rural areas with regards to financial services. This is related to another recent call, that the poor should not just be regarded as beneficiaries of a programme, but they should also be seen as clients – in the same way as other users of financial institutions, (Kalala and Ouedraogo, 2000; Dale, 2001; Cohen, 2002; Woller, 2002a; Wright, 2003; Maru, 2009) as cited in Dallimore (2013).

Without financial institutions established in rural areas, the poor find it hard to travel to towns to do transactions due to transport costs. According to Bank of Namibia (2010), mobile banking (m-banking) can be seen as one solution to these problems.

According to the survey conducted by Fin Mark Trust (2011), commercial banks have indicated that a number of factors are taken into consideration when deciding to open new bank branches. These include: prospects for profitability, presence or absence of competition, presence or lack of physical infrastructure and buildings, presence or lack of security and presence or lack of trained staff.

However, presence of lack of security and trained staff are not justifiable reason because of the high level of unemployment in Namibia, especially in rural areas. This could create employment opportunities for the rural communities.

2.8.3 *Savings*

Another obstacle for the poor to access financial services is the ability to save. Given the fact that usually financial institutions provides mostly credit which the poor normally does not qualify to get, some policy maker urges that the rural poor does not need savings accounts because historically they are known to have no money or have just a little money, and therefore are unable to save, (Dallimore, 2013). As a result, financial institutions find it too risky to lend money to poor when they apply for credits and loans.

2.8.4 *Credits*

Despite their economic status, rural communities need to have access to credit services. However, according Dallimore (2013) credit services within the informal set up deserve greater recognition, because most of the time when the poor need some sort of credit, they go around the informal set up to obtain it, therefore, there is a need to do more detailed research regarding rural poor and financial service within the informal sector. In a scathing attack of donor agencies who push credit, Shipton (1990) as cited in Dallimore (2013) argues that savings, rather than credit should be subsidised. Shipton (1990) further argues that credit is quit important to the farmers but it could be ideal if they can also be given opportunities to acquire saving accounts to avoid dependency in borrowing. He also argued that financial policies based on borrowing only without savings options are not only ethically dubious, but also not practicable it is like walking on one leg” (pg.2).

2.8.5 *Lack of information*

Lack of information and knowledge about financial matters also affect the access to financial services for the poor enormously. Even though access to financial services is enhanced in some rural areas, it does not necessarily mean that most of the rural communities have

complete information and knowledge about financial products. In most instances, they are not even aware about how to obtain access to financial products and financial, (Mujeri, 2015).

However, lack of information is linked to many other factors. For example, most of the rural households do not have knowledge about insurance due to lack of financial literac. Awareness about financial services needs to be raised through different programmes including advertisement and campaign (Mujeri, 2015).

2.8.6 Transaction costs

The vast majority of the world's poor reside in rural areas. On a global scale these are the areas where most lack of access to the range of financial services is demonstrated (CGAP, 2003). Among many determinants of lack of access to financial services is transaction cost. Transaction costs are usually high for the poor (Basu, 2006). Additionally, transaction cost of borrowing matters in intensity of access to finance and determining the loan size (Mujeri, 2015).

Formal financial institutions, such as commercial banks, usually refuse to serve poor households and micro-enterprises because of the high cost of small transactions, lack of traditional collateral, lack of basic requirements for financing and geographic isolation. By doing so, these institutions ignore the enormous potential in talents and entrepreneurship of this stratum of society.

Providing access to financial services will serve as an instrument to enhance the independence and self-development of poor households and micro-entrepreneurs. This will help not only to improve poor people's economic condition, but also to provide a way to maintain or improve their quality of life in the face of uncertainty (Rabobank, 2005).

2.8.7 Insurances

Whether for the poor or rich, in order to provide financial services financial institutions consider a number of requirements and one of these requirements is insurance. This is one of the ways to minimise risks especially in the provision of credits and loans. The provision of formal micro-insurance is a growing industry (Dallimore, 2013). In many cases, insurance is not really linked to the provision of credit, it is also not associated with economic development at the macro level, the provision of insurance facilities are tailor made for the employed population, it is not really designed to meet the needs of those who are not formally

employed. However, as this industry is in its infancy, available research and literature on the topic is limited. However, it is safe to conclude that demand does exist, and that access to insurance can reduce stress and bring about peace of mind to its clients (Zeller and Sharma, 2000; Mosley, 2003; Cohen and Sebstad, 2005) as cited in Dallimore (2013).

Lack of insurance limits the rural poor from accessing financial services. Basu (2006) highlights that banks consider it a high risk to serve the poor, due to high transaction: First, the banks are not certain whether the poor have the capacity repay back the loans, due to irregular/volatile income streams and expenditure patterns. In addition, the absence of credit information, this drives up default risk (Basu, 2006).

2.8.8 Transaction history

Similar to insurance, financial institutions assess of a client before they approve the application for any loan (Dallimore, 2013). This is one of the ways banks use to minimise credit risks.

If the bank does not have transaction history for an individual customer or informal business it is most likely expected that they refuse to give them financial assistance since they do not have any record for the applicant's credit worthiness. Transaction patterns can be useful to determine where the client has full potential to pay back the loan. In the absence of a client's previous banking transaction history it is difficult for the banks to determine whether the clients can default the loan or not, making it risky for banks to serve such a person unless the loan is fully collateralised (Bank of Namibia, 2010).

2.8.9 Requirements

It has been reported by the Bank of Windhoek (2010) and World Bank and ACET Way (2012) that most rural poor cannot access financial service because they do not meet requirements. Again, according to Fin Mark Trust (2011), despite Credit Guarantee Trust (SBCGT), many micro-entrepreneurs fail to meet all of the banks formal requirements for loans. These requirements include: "bankable" business plan, substantive deposit (around 10%), personal financial statements, proof of business registration, bank records, guarantees and adequate collateral.

It is these formal requirements that are often too 'strict' and consequently prevents SME entrepreneurs from obtaining bank loans. At the same time, the Bank of Namibia reported

relatively high default rates on SME loans. Fin Mark Trust (2011) further highlighted that although interest rates are well above prime rates, it is still much lower than those charged by informal micro lenders (moneylenders).

2.8.10 Information Communication Technologies (ICT) and access to financial services

Advance of ICT present a unique opportunity for the financial sector in the developing countries, Mobile banking has helped African countries including Namibia to have access to financial services without having to go to the financial institutions. It allows users to have access to financial service at a very low transaction costs, especially the costs to for bank operations and ICT contributes to innovation. ICT also help poor communities in reducing distances and time to be travelled to go look for financial institution. Mobile phones, in particular, enhance access to credit and deposit facilities. They allow more efficiency in allocation of credit, and it allows quick transfer of funds to the next person. ICT allows for an increased access to financial services and the financial sector is one of the key drivers of communication and network technologies, (Transform Africa, 2012). As a result mobile banking stimulates private investment and increase economic growth in developing countries.

Some researchers have found out that mobile phones have positives contributed to microeconomic and have positive impact on the rural poor, (Andrianaivo, 2011). According to Andrianaivo (2011), mobile phones improve economic growth not only by facilitation access to financial services, but by combining the effect of access to finance on economic growth. Through usage of mobile phones the rural poor have easy access to deposits and loans as well as it improve the requisition of information between the financial institutions and the users/depositors. The development of using of ICT has increasing demand and impact than its risks. This is mainly because most businesses are using ICT as a means of financial intermediaries. Andrianaivo (2011) also argues that ICT has a positive effect on the development of rural poor because it allows them to be able to communicate leading to reduction of vulnerability and isolation of families. Mobile banking also plays a critical role in allowing individuals to monitor their bank balances and notify them of any event happening on their banking accounts.

Kenya is one of the most important examples of countries that have successfully benefitted from mobile banking service, (Andrianaivo, 2011). M-PESA mobile money service serves as a testimony that, mobile banking can lift up the poor from poverty and other countries like Namibia can learn from this initiative and adopt the technology and the model that Kenya is

using and pilot such ideas in Namibia. This is very good lesson for Namibian's policy makers to scale up this good initiative in the rural area because it shows that the mobile banking creates competition for the financial sector which can encourage financial institutions to start offering services that are suitable to the rural areas.

Namibia also has made good efforts on mobile banking because many Namibians are using Mob pay to purchase goods and services as well as transfer of funds from person to others. However, Mobipay is restricted because it can only be used by some people who are the First National Bank (FNB) bank which offers Mobipay services. Namibia as a country need to enhance this product or to adopt better mobile products because there is no doubt that mobile phones have great potential to lift up the poor out of poverty since it seems to be working better for the people who are earning low income or those with no income at all.

2.9 Benefits and ways to improve access to financial services

Financial services help poor households by providing a means for them to increase their savings and to be able access emergency loans (Dallimore, 2013). By doing this, they should not only insist that loans should only be used for productive reasons. According to Wright, Kasente et al. (1999) as cited in Dallimore (2013), financial services help the poor to manage risk by: providing some funds to accumulate assets, providing some funds to manage their cash flows better, it also enable communities to diversify in different products, providing a safe place to store money and increasing control of assets by women. It also requires improvement to reduce inequalities regarding human capabilities and access to assets (OECD, 2001).

Poverty reduction is the most efficient tool that can be used to lift the ability of the poor to be able to accumulate assets (Rutherford, 2000). This can be achieved through enhanced access to financial services, educating the rural poor to increase their level of understanding and knowledge on how to get access to financial services, as well as promoting community based systems to ensure that programs that were created to protect the poor do exactly that, (Adongo & Deen-Swarray, 2006).

To determine the effect of increasing financial access for households, one has to look beyond the direct impact on the household and access the impact on the world wide economy. In particular, even if the poor do not themselves have access to financial services, they may benefit substantially from increased employment and other opportunities resulting from

activities of the well-off societies, whose access have been improved. With a huge number of non-poor still without access to financial services, these systemic effects could include trickle-down effects for the poor from improved access for the non-poor, (World Bank Group, 2015).

Half of the world's adult population does not have bank accounts at formal institutions. Access to financial services is a key driver of economic growth and poverty reduction because access to financial services can lead to job creation, reduction of vulnerability to shocks and accelerate investments in human capital. Without access to financial services, individuals and companies will rely on their own limited resources to meet their financial needs and will not be able to follow promising growth opportunities, (World Bank Group, 2015).

In spite of formal savings and access to financial facilities, the poor had a tradition of saving under the mattresses, underground sands and within their community groups. However, some writers have argued that the issue with the poor is not that they are unable to save, but lack opportunities to save, (Johnson, 1997). This is strengthened by (Rutherford, 2000), stating that the rural poor need more cash than what they have at hand and they will be able to save more and build their savings reserve accounts if they are given opportunities and have access to financial facilities.

Fin Mark Trust (2011) highlighted vital issues on access to financial services in Namibia. The report looked at access to finances in two aspects, which are access and usage. In the study, access to finance referred to the supply conditions that may encourage or discourage people to take specific products and services in a given society. Usage of finance referred to dealing with individual choices, willingness and ability to pay for these services. The report also highlighted that access to financial services in Namibia can be analysed from four dimensions, namely: affordability, features, physical and terms of entry.

It is widely recognised that access to financial services can play a major role in assisting rural poor people to widen their economic opportunities, increase their asset base and diminish their vulnerability to external shocks. In rural areas, services such as credit and savings can affect communities, small producers' productivity, asset information, and income and food security. Therefore, this study considers access to financial services an important tool for poverty reduction and rural development. The world bank group have identified three focus areas which are believed to improve access to financial services and reduce poverty mainly;

promise of technology; product design and business model and financial capability, (World Bank Group, 2015).

Although Namibia have a sound and well-functioning financial system, it still have several weaknesses such as, limited access to financial services, shallow financial markets, limited financial safety nets, limited financial management skills and many more weaknesses (Ministry of Finance, Namibia, 2011). However, Namibia has developed a ten year financial strategy for the period of 2011-2021 to deal with all the above mentioned weaknesses. It is believed that the strategy will transform and contribute meaningfully to the socio economic objectives including poverty reduction. The Namibia Financial Sector strategy is specifically focussing on reforms in Financial markets deepening and development; Financial safety net; Access to financial services and Consumer financial literacy and protection; localisation of the Namibian Financial sector and Skills development, (Ministry of Finance, Namibia, 2011).

Even though some households in rural areas rely on wages and salaries as source of income, the rural areas still have incidences of both poor and severely poor. In other words, salary income is by no means of guarantee of a life above the poverty line in Namibia. Among households with people that depend on subsistence farming as source of income, about forty percent are poor, and eighteen percent are severely poor. Among those relying on pension, fifty percent are poor and twenty eight percent are severely poor (National Planning Commission, 2008). Namibia also does not have enough modern sector jobs.

Although most of the rural people are employed in the subsistence farming sector, the sector is characterised by unsecured jobs and low earnings. Namibia's economic growth has been increasing quite well in the previous years. However, that growth is wholly directly in the two economic centres of Erongo and Khomas which are in urban areas. There are a large number of households in the rural areas without people who are employed at all and do not have any sources of income at all. For these households, they only survive in obtaining social grants as a means of living. *“Namibia has made remarkable progress with grant provision but could possibly improve the targeting of vulnerable households by extending the child grants to poor households with children”* (National Planning Commission, 2016).

Micro financial institutions such as FIDES bank which is based in the North-central of Namibia which is designed to assist the poor, if well managed, can pave a way for rural poor business opportunities which can lead them to come out of poverty, thus, contributing to economic growth, (FinaMark Trust, 2011). Once the rural poor have access to financial

services, it will enable them to get loans for their business working capital, which can increase business opportunities and leads to high economic growth.

On the other hand, if awareness rising on the usage of E-money system which was launched in 2012 could reach the rural poor, it could lead to access of financial services to the poor people. Their families in urban areas will be able to transfer money via electronic funds transfer and mobile banking, without them having to pay high transactional costs. This can lead to some poor people introducing their own businesses which might enable them to get some income and later get out of poverty.

Factors contributing to rural poverty in Namibia are; high transaction costs, fear of debts, no collaterals, and people have do not money to save, rural poor cannot maintain balances, lack of trust and documentations which makes it difficult for the poor to use formal financial services. Once financial markets are improved and enhanced access to financial services through easy access to information, low transaction costs and low saving fees will foster technological development and investment opportunities, leading people to get out of poverty, (FinaMark Trust, 2011).

Evidence from a study by Johnson (1997) in Bangladesh showed that the poor were able to come out of poverty through the Grameen bank which aimed at poverty elimination in poor communities. Reports show that about twenty one percentages of families of borrowers were lifted out of poverty after four years of the Bank's implementations. Extreme poverty reported to have declined from thirty three percentages to ten percentages among the participants. The Grameen bank programme targeted specifically the poor and was more interested in women than in men. The programme put more efforts on the groups and individuals and only made use of social institutions which were already in place. It targeted people who were committed to be able to deal with the cost of group establishment, trainings and monitoring each other's activities. The programme was focusing on borrowing little amount to those who are willing to pay back. Even though lending entails risk associated with loans defaulting due to adverse selection, the bank focused more on borrowing to groups, at the same time while lending to the group, the group could also accumulate savings.

Poverty does not exist because of lack of income, but it is because of a variety of incapability, which includes security and the ability to participate in a political economy, (Sen, 2000). Comprehensively access to financial services has not been a public policy objective, besides its benefits, it had been difficult to achieve especially in some developing countries. However,

developing countries can enhance access to financial services by capacitating and strengthening institutional infrastructure, market liberalisation, encouraging and facilitating greater competition, and encouraging innovation usage of technologies, (Claessens, 2006).

In general, access to financial services increase economic growth but differ from countries to countries. Access to financial services connect people to financial institutions which results into tangible benefits. Access to finance is also important for the well-being of people besides economic growth. Finance can increase individual's investment opportunities and it can help people to accumulate assets and insure against risk. Access to finance is important particularly to the poor as it improve income distribution and poverty reduction.

An economy will only be able to achieve growth and poverty reduction if its financial system is well established and sound. Access to financial service promotes growth through several channels, such as by raising and pooling funds; encouraging for greater risk investments to be undertaken; by allocating funds to the most productive use; by providing instruments for hedging risks and by tracking and monitoring the usage of funds, (Claessens, 2006). Honohan (2004) shows evidence that financial depth explains the level of poverty (shows a number of people with income less than \$1 a day). He also finds that in some countries the level of microfinance penetration have positive impact to the poor.

Morduch and Hayley (2002), have also find that access to financial services have positive impact on poverty reduction. He found out that access to financial services can reduce poverty by alleviating credit constraint, which can able the poor to have access to loans which encourage them engage in small businesses and for income generating projects. Access to financial service and poverty reduction is one of the reasons why the Millennium Developmental Goals are not achieved especially in the developing countries.

Based on economic production changes and as countries loosen up restrictions on their real economies, it became evident that the level of financial development strongly affect the capability of individuals to take advantage of new growth opportunities. Finance persuades firms to operate on a large scale and encourage efficient allocation of resources, (Claessens, 2006). Once the barriers to financial services are removed, firms and individuals will be able to come up with new ideas and will start to benefit from opportunities that are coming along with financial services. Access to finance is an important instrument of economic growth and

poverty alleviation, since access to financial services can increase job creation, reduces vulnerability to shocks and increase investments in human capital (World Bank Group, 2015).

In recent years, much trust and hope is placed in the transformation power of access to finance. Economic growth is, surely the vehicle to economic prosperity of both the rich and poor alike. The finding that a well-developed financial system contributes to economic growth must inform policy that seeks to promote global poverty reduction.

“A well-established financial system can be a powerful anti-monopoly tool, providing the lubrication for the emergence of competitors that can undermine the power of incumbent firm, and a means for poor households and small scale producers to escape the tyranny of exploitative middleman” (Honohan, 2003). Without access to financial systems, individuals and firms will rely on their traditional ways of saving and exchanging of resources which might hamper economic development of developing countries, resulting in an increase of poverty, and no economic growth.

One tool that can reduce poverty in rural area is through microfinance lending which can able the poor to borrow money to create their own businesses. The argument has been always that it is not possible for the poor to insure, borrow and save money since they do not have collateral as a means of security. However, recent researchers have found that, the poor can lend and save money if the right mechanism is in place, (Karlan & Morduch, 2009). The poor can successfully borrow and invest through group lending mechanism, were by neighbours can agree to take a loan and pay it back in a collective effort from every member of the group and try by all means to fulfil the contractual obligation of repaying back the loan without any default.

Grameen bank like any other financial institution is one of the good examples which have successfully used the microfinance lending scheme which worked well for the poor and reported to have reduced poverty in some rural areas within Bangladesh, (Karlan & Morduch, 2009). The Model which was used by Grameen bank seems to have worked well and that effort can be duplicated by other developing countries such as Namibia. The model for credit delivery which was used by Grameen bank as follows: groups of five self-select themselves: men's and woman's group are kept separate but the members of a single group should have a similar economic background, membership is restricted to those with assets less than half an acre of land, activities begin with savings of Taka 1 per week per person and these savings

remained compulsory through membership, loans are made to two members at a time and must be repaid in equal instalments over 50 weeks, each time a loan is taken the borrower must pay 5 per cent of the loan amount into a group fund, the group is ultimately responsible for repayment if the individual defaults, between five and eight group form a development centre led by a chair-person and secretary and assisted by a Grameen bank staff member, attendance at weekly group and centre meetings is compulsory, all transactions are openly conducted at centre meetings and each member may purchase a share in the bank worth Taka 100. Through this model the Grameen bank has provided credit over two million people in Bangladesh (ninety-four per cent woman) with very low default rate, (Johnson, 1997).

In order to eliminate or reduce poverty, financial institutions need to structure their products in such a way that it can help the poor to get opportunities to have access such products. It seems like the rural poor if given access to products which suits their needs, they will be able to establish innovative businesses which will able them to invest in assets and become financially independent which in the end will able them to invest in better business and spread around their business which will take them out of poverty.

If the majority of the rural poor can be equipped to access financial opportunities, it is likely that developing countries will come out of poverty. Some studies have revealed that from the macro point of view, enhancing access to financial services hold a great economic growth by spurring investments in the least funded businesses while on the savings side, improved access to financial services can such as low debt costs and low cost on deposit accounts can increase the capital stock, (Karlan & Morduch, 2009).

According to another researcher, Johnson (1997) suggests five affective approaches to microfinance. First, financial institutions must examine existing financial services, who use them and to what extent; financial institutions must assess whether the country have capacity to provide financial service which are suitable to the poor people; in order to provide service which is useful and relevant for the rural poor. Secondly, financial institutions must assess rural poor's social and economic structure as well as macro-level trends. Thirdly, financial institutions must make sure that provision of services will be sustained in the long run. Finally, financial institutions must make sure that the impact on poverty reduction should be maintained and continuously assessed.

Access to financial service is an important tool because it supports both economic efficiency and equity, which is one of the poor people's important aspects of their lives. The rural poor need to have access to easiest, credit facilities, remittance payment, pension funds and micro insurance. Micro finance institutions need to reach to the remote areas when the formal institutions are not able to provide services in the rural areas because at times we tend to think that they are not able to part take in the financial services but it is actually just because they do not have the means to do so.

Access to financial services is the integral force for economic growth and poverty alleviation, (World Bank, 2015). However, poverty is said to be hampered by; low productivity because of lack of adoption of new technologies and low investment on non-labour inputs. This usual affect the rural poor who depends mostly in subsistence farming and on micro enterprises; and by the occurrence of numerous shocks, especially weather or health related which exhaust families' finances which makes them end up unable to save accumulate reasonable assets. These factors make it difficult for families to plan properly and further put them on heavy financial pressure. Financial institutions needs to come up with products and serves which can help the poor to invest in technologies that can increase their productions such as implements and fertiliser that can boost up their crops resulting in high productivities and also technologies which are able to respond positively to shocks from natural disasters. For the rural poor to adopt such services, they must be safe, reliable available and affordable to them.

2.10 Poverty in Namibia

Namibia is one among the eight upper middle income countries in Africa, with a total number of households and eligible population (Namibians aged 16 or elder) of 1 457 919 of which 782 614 resides in urban areas while 675 305 resides in the rural areas, (Namibia Statistic Agency, 2017). The Namibian economy had been growing reasonably well after independence in 1990. This economic growth improved the living standards of Namibia, however, the large portion of the population have not been taking part in the modern economy, with all the benefits within it. This is mainly the reason for high level of poverty in Namibia, (National Planning Commission, 2016).

Poverty exclusion' in a modern economy is in different forms, which is relating to the economic position of an adult household member in the labour market. Some adults are still involved in subsistence agriculture to an extent that they are not participating in the modern

economy; some adults tried to look for jobs in the labour market but were unable to find; others are employed but earns a little, reflecting low level of productivity and unfortunately earns too little to run away from poverty and lots of household have adults who were never part of labour force. Therefore, all the above mentioned groups have in common that their members are excluded from the labour force in different ways. It is possible that some member earns attractive incomes at a household level while other may be excluded, (National Planning Commission, 2016).

The main sources of household income are salaries or wages, subsistence farming, commercial farming, pension, cash remittance, maintenance grants and drought reliefs. More than half of the Namibian households receive income from salaries, followed by pension with 11 percent and subsistence agriculture with 10.6 percent. However, there is a huge difference between those who are residing in urban areas and rural areas. In rural areas 22 percent households depends on subsistence farming as their main sources of income while only 1 percent of urban households. Omusati region has 54383 households of which 17.2 percent receive income from salaries, 53 percent receive income from subsistence farming, 4 percent receive income from their businesses, 13 percent receive income from state old age pension, the rest receive income from other sources. (Namibia Statistics agency, 2015/2016). In Namibia, people are said to be poor once they get income below N\$4535.52 per month, (National Planning Commission, 2016).

2.10.1 Poverty and Inequality in Namibia

Namibia has also a high level of inequality which is another problem associated with poverty increment. About 28.7 percent of the population is poor while 15 percent is extremely poor. Poverty is quite high in the rural area with 37 percent compared to only 15 percent in the urban area. The poor are the less educated. About 80 percent of the poor have not attended either primary education or formal education. Only 17 percent of the poor have attended secondary school while poverty among the graduates does not exist at 1 percent. This only indicates the importance of education in the developing world. Poverty is also quite high among the pensioners and the subsistence farmers. Those with no access to any type of service are even worse off. Poverty is also high among those who have no ownership to assets such as telephone, radio, livestock and land for crops or grazing, (National Planning Commission, 2016)

Even though lots of people are employed, their wages are quite low to take them out of poverty. It is said that 72 percent of the population is in the labour force. Among the economic active population, 71 percent are employed of which 22 percent are employed in subsistence farming. Even if more than two thirds of the labour force is employed only 68.3 percent of these people are within the right labour law wages, while those who are employed in subsistence farming only 8 percent receives the correct wages as per the labour law. In Namibia only 72.9 percent receive in excess of N\$1200. Therefore if the current domestic minimum wage of N\$1353 is applied, it means that Namibia has only 15 percent of the population which earn in excess of N\$1200.00 and this translate that Namibia is in poverty, (Republic of Namibia, National Planning Commission, 2016).

3 RESEARCH METHODOLOGY

3.1 Description of the study areas

The study was conducted in two villages namely; Onheleiwa and Onelago in Omusati Region. The selection of the study area was based on criteria including: accessibility of the selected villages, population of the residents and the availability of required data.

Onheleiwa is located about 35 kilometres North of Oshakati along the Namibian-Angolan borders, and about eight kilometres on the Eastern part of Okalongo town Etayi Constituency. According to Lazarus (Pers.comm, 2018), the population of the residents is 126 households with an average of five members per household. The nearest financial institutions include Standard Bank and NamPost both in Okalongo town.

Onelago is located about 12 kilometres East of Outapi town in Outapi constituency along Outapi-Okalongo main road. According to Ismael (Pers.comm, 2018), the population of the residents in the village is about 108 households with an average of five members per household. The nearest financial institutions include FNB, Bank Windhoek, Standard Bank and NamPost in Outapi town.

3.2 Research Design

This study employed a mixed approach; qualitative and quantitative approaches. A qualitative approach was used to determine factors that contribute to financial exclusion in rural areas. In the same study, a quantitative approach was employed to quantify the extent of access to financial services in rural area with a special focus on Onheleiwa and Onelago villages.

3.2.1 Research Strategies

Given the many social factors from the literature reviews that are regarded as stumbling blocks for the rural poor to access financial services, a strategic framework that looked at specific social and economic components was designed as shown in Figure 2 below.

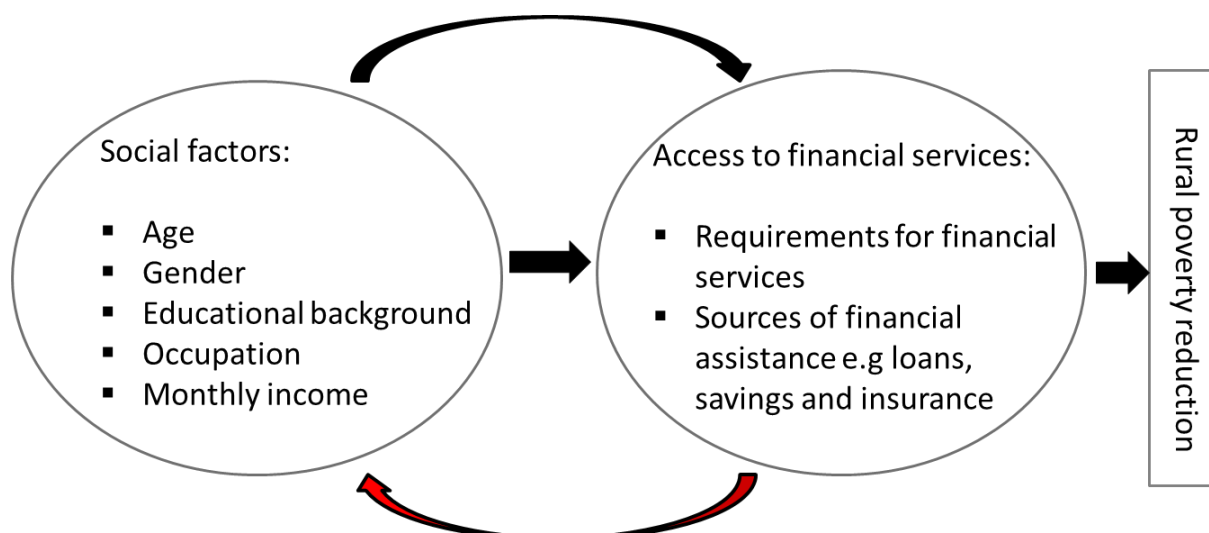


Figure 2: Strategic research design

Based on the strategic design, the research investigated the influence of social factors including: age, gender, educational background, occupation and monthly income on access to financial services. Furthermore, the research looked into the two main economic factors: requirements for financial services and sources of financial assistance. Consequently, the study assessed how these factors altogether influence the relationship between access to financial services and poverty reduction.

3.3 Study Population

Collectively, a total of 100 participants were interviewed in forms of questionnaires. A total sample of 50 participants was sampled in each of the two villages.

3.4 Data Collection Instruments and Procedures

Primary data were collected from the two selected villages (Onheleiwa and Onelago). A questionnaire consisting of close-ended questions was used to collect information from the participants. Secondary data in forms of reports from a survey on Namibia Financial inclusion of the year 2017 and the root causes of poverty report for the year 2016 were also used to support the primary data.

3.5 Data Analysis Methods

This study sought to investigate the relationship between access to financial services and poverty reduction in rural areas of Omusati region in Onheleiwa and Onelago villages (respectively). The investigation mainly used this kind of methods in order to see and examine possible relationships between access to financial services and poverty reduction in the two (2) rural areas (Onheleiwa and Onelago). The used methods had in turn

indicated the levels of access to financial services from the two villages and the possible impacts it has on poverty reduction. Furthermore, the investigation explored possible improvements that could be made in order to enhance access to financial services in order to reduce poverty in both Onheleiwa and Onelago of Omusati region. In this study respondent are classified as poor if they earn income below N\$4535.52 per month, otherwise they are not considered to be poor.

Table 2: Descriptions of the variables used in the study

Name of the variables	Description of the variables
Age	Age (years)
Gender	Gender of the respondent
Marital_Status	Marital status of the respondent
Edu.Qual	Educational qualification
Employment_status	Employment status of the respondent
Income	Monthly income of the participant
Acq.Fin	Financial assistance to establish business endeavours
Bank.Acc	Bank account to acquire credit and saving accounts
M.req	Main requirements for acquiring financial services
Type.Ent	Types of enterprises in the region
Institution	Institution people receive financial services in the region
Access.Fin.Rate	Rate access to financial services
Source.of.fund	Main source of funds for the establishment of enterprises
Access.pov.red	How access to financial services contribute to poverty reduction in the region
Access.red.pov	Ways in which access to financial services can reduce poverty in the region
Improve.access	Ways to improve access to financial services in rural area to reduce poverty

3.6 Research Reliability and Validity

Cozby (2010, p. 92) defines reliability as the consistency or stability of the measure of behaviour. Additionally, Sekeran (2003, p. 203) agrees by stating that reliability of a measure indicates the extent to which it is without bias (error-free) and hence consistent measurement error time and across various items in the instrument. On the reliability sphere, the researcher explained the aim of the study thoroughly and the questions to the respondents. The researcher ensured that all the questions were attended to in the presence of each participant.

Content validity as Sekaran (2003, p 206) indicates, ensures that the measure includes an adequate and representative set of items that tap the concept. The more the scale items

represent the domain or universe of the concept being measured, the greater the content validity. The researcher has covered all the conceptual spaces. The sample population was sufficient to provide valid information. The questionnaire was administered in such a way that the questions were closed-ended which made it easier for the participants to answer questions.

3.7 Research Ethics

In request for the research data, the aim of the research was clearly explained to each participant. The researcher thanked each participant for time. The researcher also ensured participants' confidentiality by strictly using the collected information for this academic research only not for any other gains. Furthermore, respondents' right to refuse to participate in the research was always respected.

4 RESULTS AND FINDINGS

4.1 Introduction

The obtained results present and quantify the relationship between access to finance and poverty reduction in rural areas of Namibia with a special focus on Onheleiwa and Onelago villages in Omusati Region. The survey focused on the sample of 100 rural residents from these two selected villages (50 from each village) who were the target population of the study. The results were obtained by looking into social aspects such as employment status, marital status, access to financial services etc. that have direct and indirect impacts on access to financial services. The results begin with demographic data and then the results about access to financial services and all the other related aspects as presented in the graphs and tables below. The units end with the table of binary regression.

4.2 Demographic results

Demographic results of this research covered aspects that are considered to have either direct or indirect influence on the access to financial services and poverty in rural areas of Namibia. These demographic aspects range from age, gender, educational background, marital status and occupation of the participants of the research.

4.2.1 Age groups

The age groups of the respondents were categorised according to sex (Figure 3).

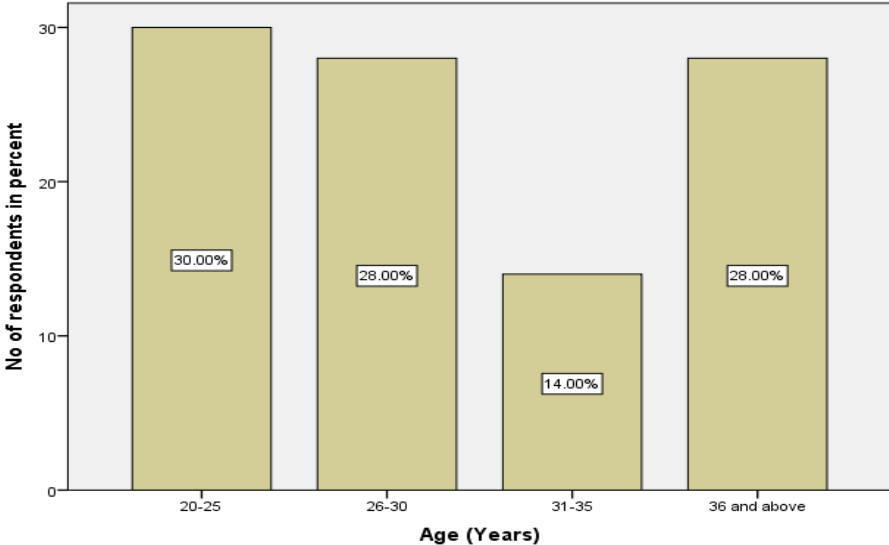


Figure 3: Age groups

The majority (30 percent) of the respondents are falling between the age group of 20-25 years. Most of the youth between 20-25 age group tries to acquire loans from the banks to

start up their own business to employ others and to employ themselves, however, it is difficult to have access to financial services at this age especially if you do not have a formal job because most or all the banks in Namibia asks for a payslips to acquire credit. This makes it difficult to the unemployed youth with business ideas without starting up capital because those who are not able to source some funds from family members to start up their own businesses will be left out unemployed leading them into poverty. Some of the youth between 20-25 age group are employed as domestic workers earning very little money which also makes them unable to get access to credit because their earnings is too little for the bank to approve their loans, therefore most of the youth between this age group can easily remain in severe poverty or in poverty. The study indicates that the age group between 26-30 and 36 and above responded at the same rate of 28 per cent. The least respondents are between the age group of 31-35 mainly because at this age groups most of the youth migrate to urban areas to seek for employment opportunities and better living conditions.

4.2.2 Marital status

Marital status as well was given according to sex (Figure 4).

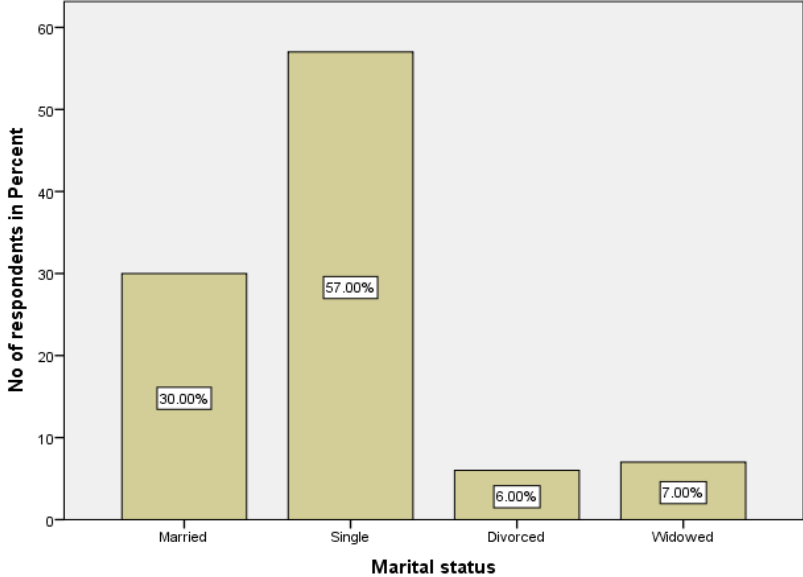


Figure 4: Marital statuses

Majority of the respondents are single (57 percent). About 30 percent of the respondents are married. On the other hand, divorce cases in the two villages of Omusati region are relatively low with 2 percent only. The results further indicate that 7 percent of the respondents are widowed. The results show that the majority of the respondents in the two villages are either single, divorces or widowed. This have a negative impacts to household headed by single

parents especially if they are unemployed, because even if their children do well in school they will not be able to provide them with tuition fees to go to tertiary institutions because they have no access to financial services. Therefore, they will remain uneducated leading to high rate of unemployment in the two villages which will also lead to poverty.

4.2.3 Educational background

Education is one of the key social aspects which are considered as a determinant for poverty in rural areas. The level of education in most cases determines the income level of an individual with an assumption that poor people do not go far with studies due to lack of study funds. Different levels of education for the participants are presented in percentage in Figure 5 below.

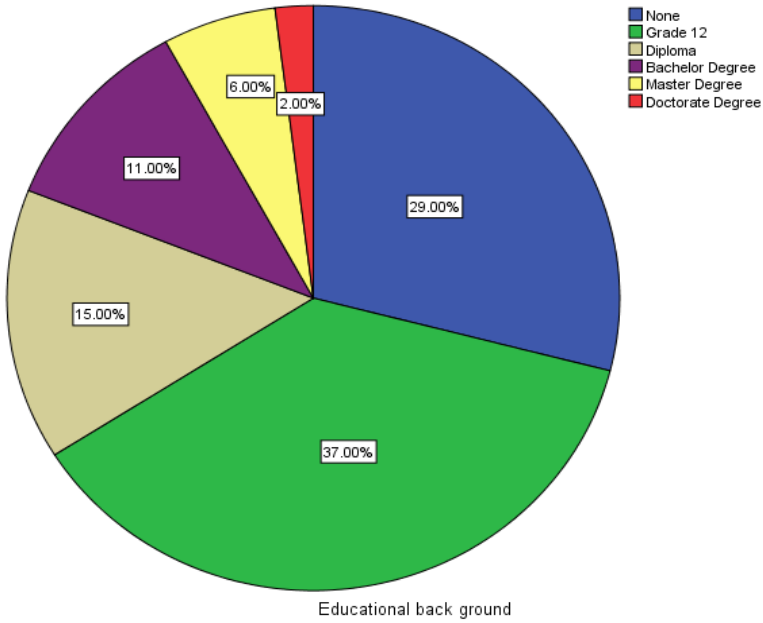


Figure 5: Educational level

As mentioned earlier, majority of the rural residents live in poverty and therefore cannot afford higher education. It is evident from the results that most of the responds are from poor families whereby 29 percent of the respondents have no qualifications. Most of the rural people who have no qualifications have no jobs at all and some of them are employed at the cattle posts earning less than one thousand Namibian dollars. About 37 per cent of the respondents could only pursue studies until grade 12. Even though the majority have completed grade 12, most of them have no good jobs to take them out of poverty, most of the grade 12 graduates are employed in security guard companies and some of them are domestic workers who earns very little which cannot improve their standards of living. The results

show that in the two villages only 11 percent of the dependents have obtained their bachelor degrees, which means these are the only few people who are earning quite good salaries to take them out of poverty. Even though only 11 percent of the respondents have attained bachelor degrees, some of those who have completed grade 12 could not pursue their studies further to this level because they have no access to finance mainly because their parents are not employed to earn some income and those who are employed earn very little income which cannot able them to pay for their children tuition fees at tertiary institutions, hence they remain uneducated. The results shows that only 2 per cent of the respondents reached Doctorate degree level of study, this means that only 2 people out of a 100 respondents have obtained doctorates in the two villages. However, this does not necessarily mean that they are the only one who could go up to that level, but it is because of lack of money for the people to further their studies up to that level.

4.2.4 Employment status

Another determinant of poverty is employment status. The study looked into employment statuses such as employed, unemployed, self-employed and pensioners (Figure 6) to quantify poverty level in the two selected villages; Onheleiwa and Onelago.

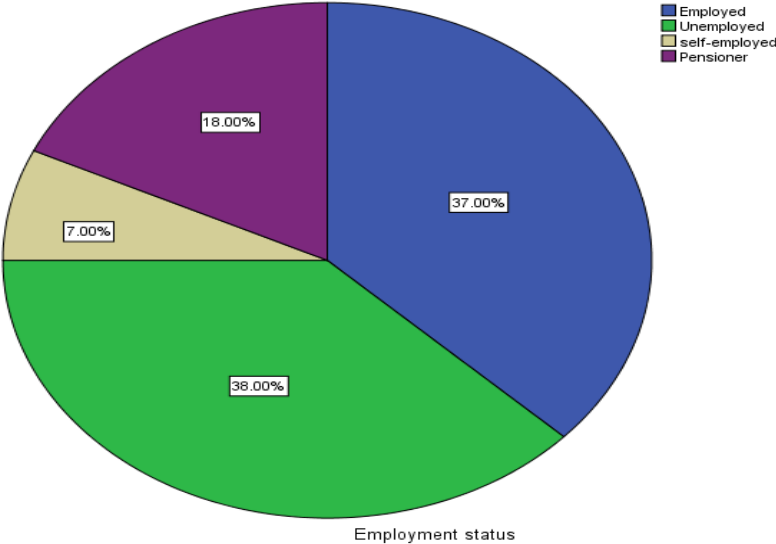


Figure 6: Employment statuses in Onheleiwa and Onelago

About 38 per cent of individuals residing in Onelago and Onheleiwa are unemployed due to lack of education and business opportunities. The findings indicate that, 37 per cent of the

respondents are employed while 18 per cent are pensioners, Although 37 percent of the respondents are employed it does not mean that all of them are out of poverty because some of them are from household with lots of relatives to support and some of them earns a little income which cannot take them out of poverty. The majority of the employed population are those who are employed in small medium enterprises and by the government institutions. The least of 7 per cent are self-employed, who are mainly the owners of small medium enterprises who created employment for others. Those who are not employed are mainly engaged in subsistence farming for daily source of food and do their own activities and some are among the old age group.

4.2.5 Monthly income

Monthly income is one of the factors that play a significant role in defining poverty level and consequently determine access to financial services in rural areas. Figure 7 below shows the monthly income scales of the respondents from the two sampled villages.

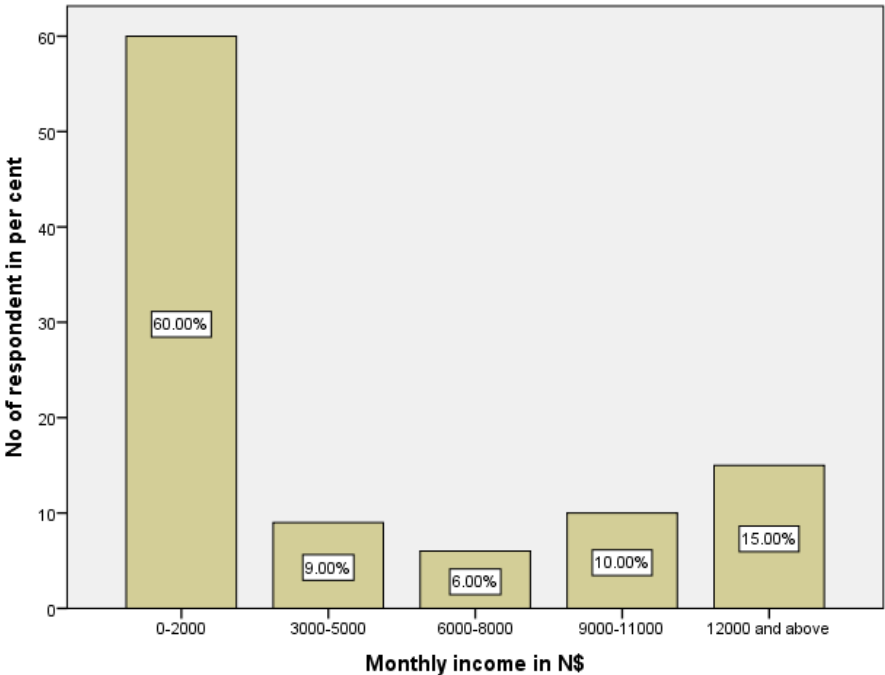


Figure 7: Monthly income (Onheleiwa and Onelago)

The vast majority of the two villages earn a monthly income between N\$0-2000. 60 per cent of the respondents of Onheleiwa and Onelago earn a monthly income between N\$0-2000. Only 15 percent of individuals who earns N\$1200 and above, which means even though

majority of the two villages of Omusati region's residents earns an income, most of them are still living in poverty. Even though lots of people are employed in Namibia, their wages are quite low to take them out of poverty. It is said that 72 percent of the population is in the labour force. Of the economic active population, 71 percent are employed of which 22 percent are employed in subsistence farming. In Namibia only 72.9 percent receive in excess of N\$1200. Therefore if the current domestic minimum wage of N\$1353 is applied, it means that Namibia have only 15 percent of the population which earn in excess of N\$1200.00, (Namibia Statistics agency, 2015/2016) This translate that the majority of Individuals living in Onhelelwa and Onelago of the Omusati region are in poverty because they earn below the poverty line of N\$4535,52, (National Planning Commission, 2016).

There are very few people who earns between N\$ 6000-8000 in onhelelwa and Onelago (6 percent). Moreover, if the majority in these two villages could have been earning this much, people would have been able to support their families to improve their standards of living and get them out of poverty in the long run. Some people would even been able to save up some money and use it later to establish small business that could employ some other fellow villages which can take them out of poverty.

4.3 Access to financial services

To identify whether there is a relationship between access to financial services and poverty, the study looked at investigated financial aspects including requirements to financial services, types of business enterprises financial services needed for, institutions and sources of financial services.

4.3.1 Requirements for financial services

Banks and other financial institutions usually consider certain requirements in order to provide financial assistance to companies, SMEs, clubs and individuals. The research investigated this aspect by looking at the requirements such as fixed pay slip, collaterals, educational qualifications and business plans as indicated in Figure 8 below.

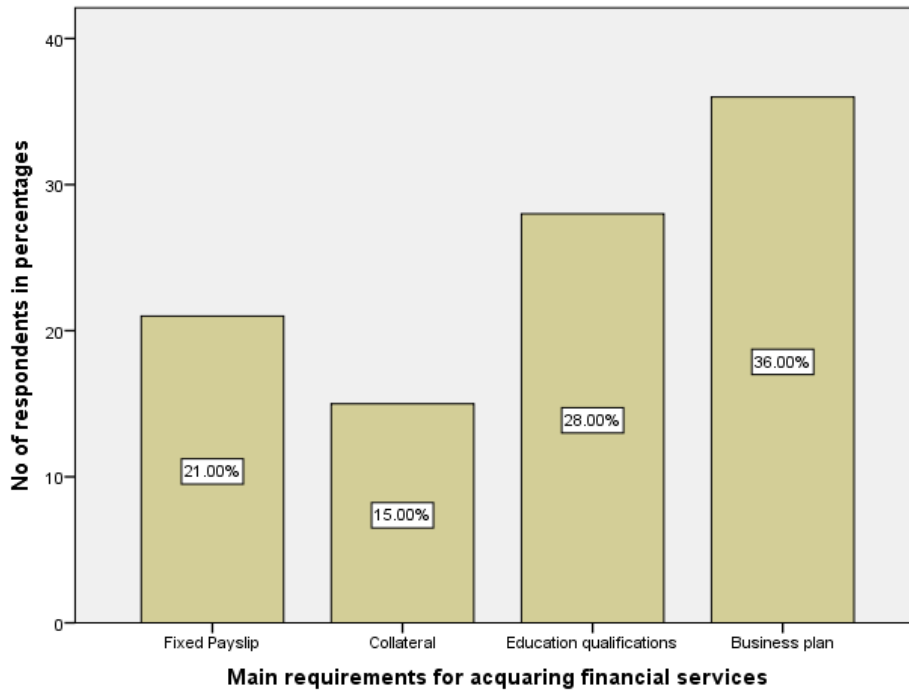
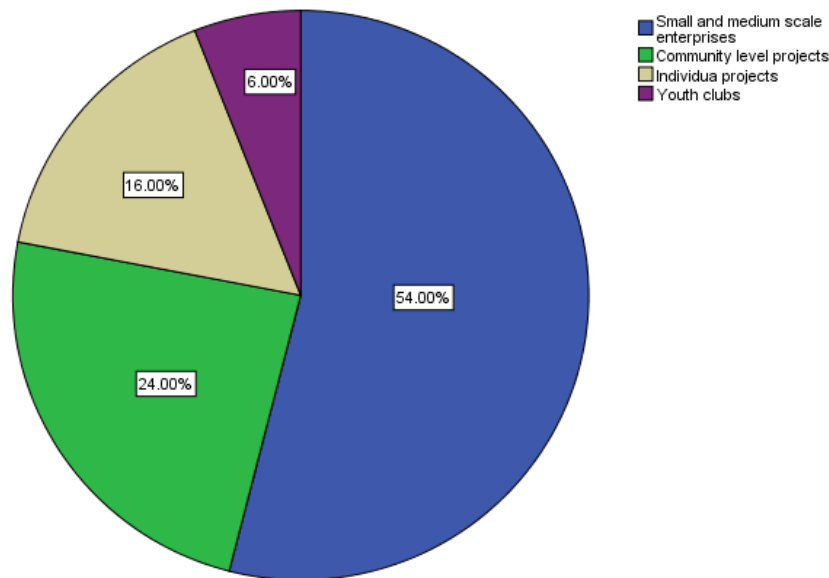


Figure 8: Requirements for financial assistance

The majority of the respondents (36 percent) have indicated that the main requirement to obtain financial assistance is a business plan, this means that for an individual to obtain financial assistance they should prepare and submit a business plan. Responds indicated that the second most important requirement is education qualification (28 percent), followed by fixed payslips at 15 percent. This indicates that unemployed and uneducated individuals do not qualify for financial assistance such as loans to start up their own businesses because they do not have fixed pay slips and educational qualifications. This also means that only those who are educated are able to write business plans. This pose a threat to the living standards of rural individuals because they are the least unemployed and uneducated in Namibia there by the majority does not have the required requirements to have access to financial services, thereby will remain in poverty. The least of the requirements is collaterals (15 percent), this just shows that a few people in this two villages does not own valuable assets such as properties and machineries which the banks can consider as security for them to qualify for loans, therefore for them they do not even consider collateral as an important aspect for acquiring a loans..

4.3.2 Types of enterprises in rural areas

There are several enterprises taking place in an attempt to reduce poverty in rural areas of Namibia. However, most of them are hindered by the lack of funds. These enterprises are categorised as shown in Figure 9 below.



Type of enterprises for which rural residents need financial assistance

Figure 9: Type of enterprises for financial assistance

The results show that small and medium-scale enterprises (54 percent) are the major business activities for which rural residents need financial assistance. This results shows that in the two villages, there are lots of individuals who wish to develop their own businesses which can create lots of employment opportunities that can take them out of poverty but it seems like because of lack of access to financial services, this individuals are not able to get loans to establish their businesses well, thereby they remain in poverty. Furthermore, community projects (24 percent) are a part of the leading business endeavours in rural areas, however, because of lack of knowledge among the villagers, the villagers are not able write project documents which can be approved to bring them opportunities. The results further show that youth clubs (6 percent) are the least contributors to poverty reduction in rural areas.

4.3.3 Sources of financial assistance

For rural enterprises to flourish there has to be reliable financial assistance. Figure 10 below presents the sources of financial services that assist enterprises in rural areas.

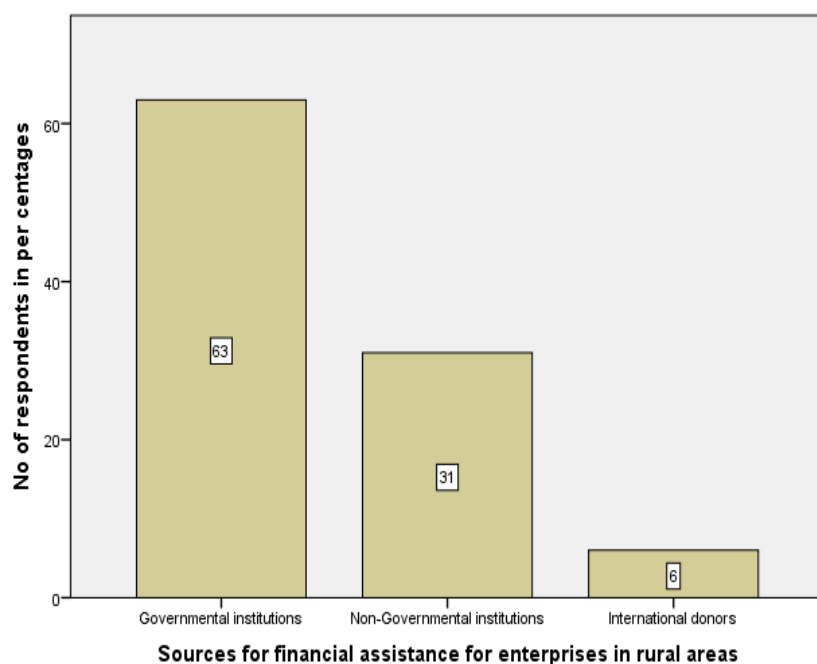
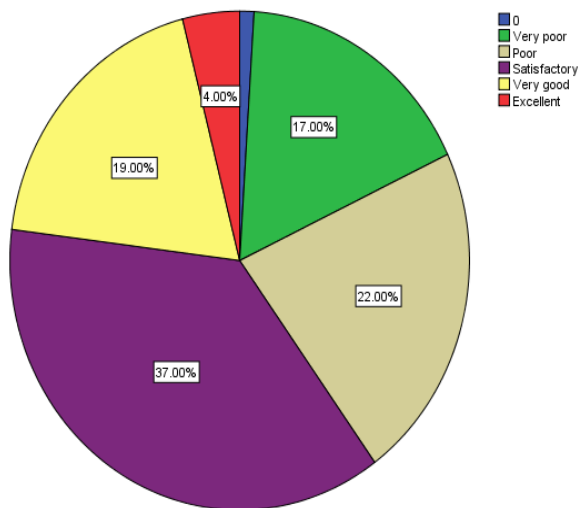


Figure 10: Sources for financial assistance for enterprises in rural areas

The majority of the respondents (63 percent) indicated that they obtain financial services form governmental institutions. Non-govenrmntal institions such as banks only contributes 31 percent financial assistance to the two villages.. The majority can not get financial assistance from the banks and other institutions because these financial institutions require collateral and fixed payslips which the respodants does not have. Therefore, it is quite difficult for the respondants to emprove their standands of livings because they will not be able to get funds to set up their own businesses to generate income for their fammilies and they are also not able to get funds to pay for their childrens’s school fees to educate them with a long term intention to be able to come take their parents out of poverty. In the end the poverty will just follow generations to generations leading to severe povety in the rural areas. There is relatively poor assistance from international invenstors (4 percent). This shows that rural people still need to put more efforts in exhibiting their enterprises in order to attract and obtain financial assistance from international donors.

4.3.4 Access to financial services in Omusati region (onheleiwa and Onelago)

There are different views regarding the contribution of access to financial services to poverty reduction in developing countries. Some researchers believe that it has an impact and some do not believe. Finger 11 below shows the results of the respondents in Omusati region.



Access to financial svices and poverty reduction in Omusati region (Onheleiwa and Onelago)

Figure 11: Access to financial services and poverty reduction

About 37 percent of the respondents believes that access to financial service contribute satisfactory to poverty reduction in the two villages. About 22 percent of the respondents believes that access to financial services contribute poor to poverty reduction in Onelago and Onheleiwa, In addition,17 percent believes that access to financial services contribute very poor to poverty reduction. Only 19 percent believes that access to financial services contribute very good to poverty reduction in the two villages in Omusati region. The least of 4 per cent of the respondents believe that access to financial services contribute excellent to poverty reduction in the region. About 56 percent (34 percent satisfactory and 19 percent) of Onheleiwa and Onelago believe that access to financial services somehow contributes to poverty reduction.

4.3.5 Access to banking (savings accounts and credit accounts) and poverty reduction

Banks are the most well-known institutions that offer financial services in the rural area of Namibia. Financial products which are popular to the rural people are savings accounts and credit accounts. However, most of the population resending in the rural areas do not believe in banking and other types of financial services due to lack of

education and knowledge. Figure 12 below indicates how respondents perceive access to banking and poverty reduction

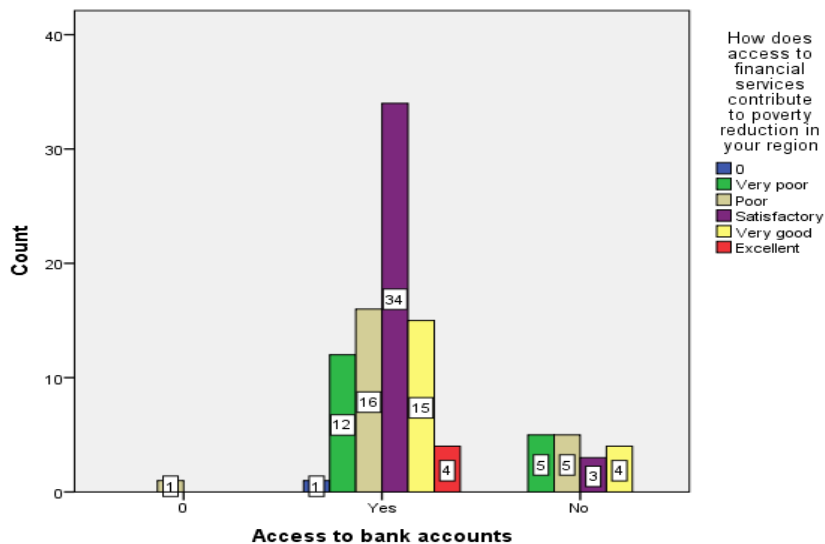


Figure 12: Access to banking and poverty reduction

About 34 percent of the respondents believes that access to banking (savings and credit) satisfactory reduce poverty in Onheleiwa and Onelago villages. 16 percent of the two villages believe that access to banking contribute poor to poverty reduction in Onheleiwa and Onelago. Only 15 percent of the respondents believe that access to banking reduced poverty very good in their villages, this is because it is only those who have fixed payslips and collaterals can have access to credit and saving accounts which can enable them to establish their own businesses which can in return employ people and can take them out of poverty.

Only 4 percent of those who have access to banking believe that access to banking reduce poverty excellent. However, 5 percent of respondent do not believe that access to financial service contribute poor and very poorly to poverty reduction. Individuals does not believe that access to finance can reduce poverty because 47.5 percent of the Namibia population are of the opinion that you can easily live without a bank account, 37 percent of the Namibian population believe that if you are not employed you do not need financial services such as banking, 10 percent do not believe in banking at all, they believe in the traditional way of saving under the mattresses, (Namibia Statistic Agency, 2017)

Table 3: Correlation between access to financial service and poverty reduction

		Do you have a bank account?	How does access to financial services contribute to poverty reduction in your region
Do you have a bank account?	Pearson Correlation	1	-.112
	Sig. (2-tailed)		.269
	N	100	100
How does access to financial services contribute to poverty reduction in your region	Pearson Correlation	-.112	1
	Sig. (2-tailed)	.269	
	N	100	100

About a 100 participants from the two respective villages in omusati region responded to the question of whether or not access to financial services is related to poverty reduction in their region. However, the results shows that based on pearson’s correlation test there is a negative relationship between access to financial services and poverty reduction in the two regions because the sig. 2-tailed level is .269 and the relationship is negative -.112 (negative 11.2 percent) which means that even if access to financial services increase in the region, also poverty will increase drastically in those two villages. This would be mainly because of the requirements needed in order to access financial products. Financial services requirements which hinder individuals of Omusati region to remain in poverty are such as, lots of individuals have no fixed payslips because of lack of formal employment opportunities, Individuals who are engaged in small and medium enterprises usually, cannot provide business plans due to lack of knowledge because of their poor education level and lack of financial literacy. Individuals also cannot provide collaterals because they do not have valuable assets which can qualify them to be provided with loans to help them increase the sizes of their business. The other reason which will push away rural communities to access financial products is high transaction costs associated with the services which the poor could part take. However, there is no enough evidence to suggest that this relationship exists in two villages as it is not statistically significant.

4.3.6 Ways of how access to financial services contribute to poverty reduction in Omusati region

There are mixed feelings on how access to financial services can leads to poverty reduction in rural areas. Finger 13 shows the reactions of the respondents from the two villages in Omusati

region.

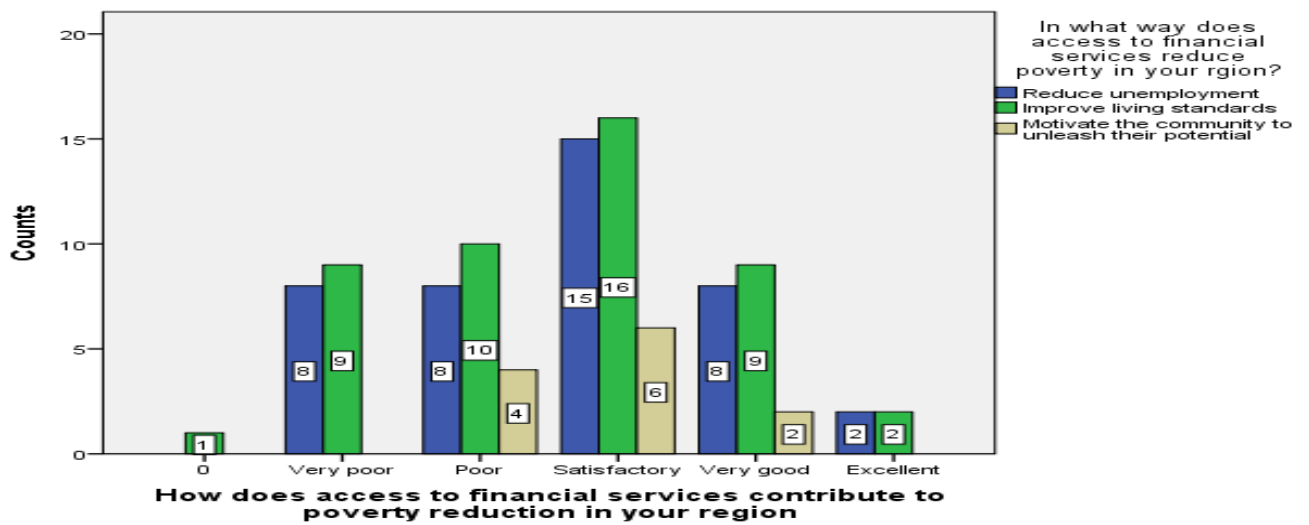


Figure 13: How access to financial services contribute to poverty reduction

About 16 percent of the respondents believe that access to financial services satisfactory contribute to poverty reduction in Onheleiwa and Onelago village in Omusati region and they believe that access to financial services have improved their standards of living. The study reveal that 15 percent of the respondent are satisfied that access to financial services have reduced poverty through reduction of unemployment. The study shows that 9 percent of the respondents believe that access to financial services has a very good impact on poverty reduction in the two villages in Omusati region by improving their standards of living. Only 2 percent believes that access to financial serves have very good impact on their villages through motivation of communities to unleash their potentials. The study indicate that 9 percent of the respondents believes that access to financial services contribute very poor to their standards of living. About 8 percent believes that access to financial service contributed very poor to their villages through employment creation. Only 2 percent of the respondents believe that access to financial service have contributed excellent to both employment creation and to poverty reduction in the two villages. One respondent did not answer all the questions.

4.3.7 Ways how access to financial services can be improved to reduce poverty in Omusati region (Onheleiwa and Onelago villages).

It would be beneficially to developing countries if financial institutions before setting up financial products and requirements to access financial services can make thorough country research on how their products can be best suited to both the rich and poor communities and how such financial services can contribute to poverty alleviation. In table 3 and finger 14 below shows the responses from individuals from Onheleiwa and Onelago village what they think should be done to improve access to financial services and to reduce poverty in the region.

Table 4: How access to financial services can be improved to reduce poverty

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Improve financial literacy among rural societies	50	50.0	50.0	50.0
	Introduce reasonable requirements	13	13.0	13.0	63.0
	Investigate the eligibility of enterprises/projects	11	11.0	11.0	74.0
	Give reasonable financial assistance	26	26.0	26.0	100.0
	Total	100	100.0	100.0	

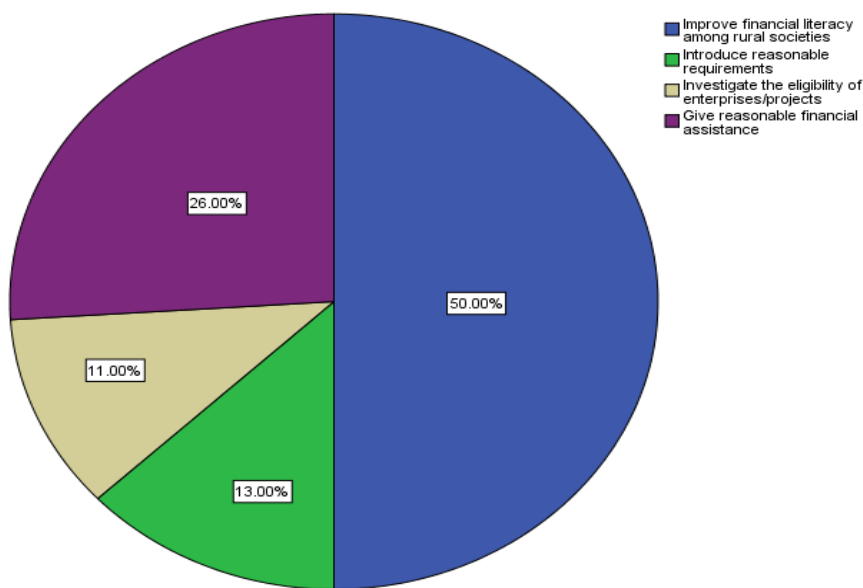


Figure 14: How access to financial services contribute to poverty reduction

The study reveals that 50 percent of Onheleiwa and Onelago respondents indicate that access to financial service can only be improved by financially literacy among rural societies, this reveal that rural poor need trainings on how to manage their finances and their enterprises as well as they need to be trained on how to write bankable business plans. About 26 percent of the respondents indicate that access to financial services can be improved if financial institutions give reasonable financial assistance to individuals.

The study reveal that 13 percent of the respondents indicates that financial institutions must introduce reasonable requirements for the rural communities to be able to have access to financial products such as credits so that they can obtain capital to start up their business which can employ community members to reduce high level of unemployment and so that community members can get credit to come up with small to medium scale gardens to produce daily food which will improve their standard of livings and reduce poverty in the long run. Only 11 percent of respondents indicate that financial institutions should investigate eligibilities of enterprises and projects.

4.4 DISCUSSIONS

Poverty is one of the leading challenges that rural areas are faced with. This challenge needs urgent attention in order to empower socially and economically the life of the poor individuals (Mujeri, 2015). However, in order to successfully eradicate poverty in rural areas it is worth understanding the fundamental problems. One of the root problems of poverty in rural areas is the poor access to financial services.

The findings of the study prove that there is a negative relationship between poverty and access to financial services. Even though several attempts have been made in the past up until now to reduce poverty in rural areas, the results of the study show that still more efforts need to be made in order to reduce poverty.

One of the main steps that need to be taken is improving access to financial services. This is crucial because no development can take place without access to financial services. If access to financial services for the poor segments of society is increased, the financial sector can play an important role in reducing poverty in developing countries (Rabobank, 2005).

Access to financial services implies the absence of several obstacles (Mujeri, 2015). This means for access to financial service to be improved a number of social aspects should be taken into consideration ranging from educational background, financial literacy, costs of transactions, employment status etc. This is basically due to the fact that in order to provide financial assistance to rural residents careful risk calculations are made by financial institutions. This means that there is a list of requirements that should be considered before granting any financial assistance and this should be tailor made to best suit both the poor and the rich. Additionally, many of these banks focus more on credit than on savings (Rabobank, 2005). Therefore, most of the rural residents do not meet the most pressing requirements such as business plans and fixed pay slips.

Most rural residents find it hard to meet requirements such as business plans because of their low level of education. As seen in the results, majority of the respondents have only grade 12 and the highest qualification (37 per cent) whereas 29 per cent of them do not have any qualifications. As a result, most of these individuals do not have skills to compile business plans.

Lack of finance is among many factors that stunt job creation in emerging markets, particularly in rural areas (World Bank and The ACET Way, 2012). According to the results of this study, another serious challenge is the high unemployment rate; 38 per cent in Onhelelwa and Onelago villages in Omusati region. This makes it hard for the unemployed rural residents to acquire financial assistance because one of the main requirements is the fixed pay slip (21 per cent). Therefore, for unemployed individuals there is almost no hope for financial support from some of the institutions such as banks.

The results reveal that governmental institutions are the leading financial service providers (63 per cent) in rural areas of Namibia. The government usually focus on small and medium-scale enterprises. Due to the fact that small and medium-scale enterprises are among the top business endeavours (54 per cent), this gives a firm ground for rural residents to overcome poverty in rural areas of Namibia. However, according to Mujeri (2015), it is likely that the factors which determine whether or not an individual or enterprise has access to finance will change but on a snail pace.

To resolve the problem, serious intervention from both governmental and non-governmental institutions to tackle the obstacles that hinder the poor from accessing financial services. This

includes financial literacy on financial products and services and what are the benefits banking accounts have as well as an establishment of permanent financial institutions such as banks in rural areas, Financial institutions must also look at providing reasonable financial assistance to individuals, financial institutions must come up with a system which offers reasonable requirements to the rural poor to enable them to get access to financial services such as loans.

5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Improving poor people's access to better financial tools can help speed up poverty reduction through supporting higher economic achievements. This study reveals that there is a negative relationship between access to financial services and poverty reduction in Onheleiwa and Onelago villages in Omusati region which is influenced by several factors. Rural poor regions are associated with household heads who have never had access to financial services in their lives, some household heads does not believe in financial services example, they believe in their traditional ways of banking of saving their monies under the mattresses. Therefore, in the Namibian context, despite countless attempts that have been proposed to solve developmental issues which affect economic growth and poverty reduction, it is evidently clear that a lot of efforts still need to be made.

Statistics reveal that Namibia's financial sector is doing well. Among other SADC member states Namibia has the second largest financial system (Kachingwe and Berthaud, 2013). However, financial inclusion is a serious issue that needs urgent attention. Due to recent improvements in financial inclusion approaches, many low-income households, as well as SMEs have limited access to financial services (Kachingwe and Berthaud, 2013).

a Access to Financial services affect mostly the poor who are residing in the rural areas due to the fact that they do not meet the required requirements. Therefore, a number of reasons need to be taken into account in order to address the matter of financial inclusions ranging from economical to social factors.

Access to finance especially to the poor is one of the essential tools for promoting inclusive economic growth and eradicating poverty in the country. By empowering the rural poor through access to financial services their potential for entrepreneurship is being unleashed and maximized.

However, Access to financial services areas alone may not be a sufficient solution to reduce poverty in the rural areas of Namibia. If Namibia wants to reduce poverty it should improve its education system by encouraging individuals to attain the highest qualifications (degrees,

masters degrees and doctorates) through giving study loans to every person who is admitted to tertiary institutions. Namibia must also look at improving access to infrastructure such as medical services, access to the markets access to technology as well as access to retail outlets.

5.2 Recommendations

The Namibian government together with financial institutions, private sector, government agencies and the non-governmental organisations need to come together to find new financial strategies to get people to have access to financial services that fits well to both the poor and the rich so that no one will be left out to access to financial services and at the same time those strategies must be aiming at reducing poverty to the rural poor.

There are also several social aspects including educational background, employment status, financial literacy, reduce transaction costs, reasonable requirements to have access to financial services etc. that should be taken into consideration by the key players to include them in their financial strategies as one of the key strategy which can elevate the poor out of poverty. One of the major ways to help the poor in rural areas of Namibia to overcome poverty is to strengthen and improve financial assistance for small and medium-scale enterprises in which the vast majority of the rural residents engage.

This study recommend that due to low level of education, there is a need for advisory support services to enrich rural communities with awareness and financial literacy about how to manage enterprises and training in drawing business plans as well as equipping them with knowledge and skills about business endeavours. Providing financial assistance to individuals who do not have skills in business and enterprises management will not yield any fruits. And this is the major risk financial institutions try to avoid.

Additionally, another area that needs strengthening is the lack of affordable professional services (consulting, law, accounting, etc.) and other support programs including governmental, formal and informal business networks (World Bank and The ACET Way, 2012). Potential financial assistance providers look into all these aspects prior to the provision of financial assistance.

Poverty affects massively rural areas in all parts of the world. However, it is worth understanding that the main problem is not poverty itself but the lack of knowledge about the extent of poverty which will consequently deficits the strategies to fight poverty.

Therefore due to the huge knowledge gap that needs to be taken into consideration as far as poverty and access to financial services are concerned, it is highly recommended that more studies should be carried out on contemporary factors around access to financial services and poverty reduction in rural areas. One of the most pressing needs is knowledge gaps, hence this study recommends that further comprehensive study should be undertaken on the contribution of financial management skills to poverty reduction in rural areas of Namibia.

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APPENDIXES

RESEARCH QUESTIONNAIRE

As part of my Master's Degree's thesis, I am conducting a survey under the topic: "*Poverty Reduction through Access to Financial Services in Rural Areas of Namibia: A Case of Omusati Region*". I will appreciate it if you could answer the questions below. The information contained in the questionnaire will be confidential and only for research purposes.

SECTION A: DEMOGRAPHIC DATA

Please mark with (x) against any option that is appropriate to your answer in the box provided.

A.1	AGE (YEARS)												
<table border="1"><tr><td>20-25</td><td><input type="checkbox"/></td></tr><tr><td>26-30</td><td><input type="checkbox"/></td></tr><tr><td>31-35</td><td><input type="checkbox"/></td></tr><tr><td>36 and above</td><td><input type="checkbox"/></td></tr></table>		20-25	<input type="checkbox"/>	26-30	<input type="checkbox"/>	31-35	<input type="checkbox"/>	36 and above	<input type="checkbox"/>				
20-25	<input type="checkbox"/>												
26-30	<input type="checkbox"/>												
31-35	<input type="checkbox"/>												
36 and above	<input type="checkbox"/>												
A.2	GENDER												
<table border="1"><tr><td>Male</td><td><input type="checkbox"/></td></tr><tr><td>Female</td><td><input type="checkbox"/></td></tr></table>		Male	<input type="checkbox"/>	Female	<input type="checkbox"/>								
Male	<input type="checkbox"/>												
Female	<input type="checkbox"/>												
A.3	MARITAL STATUS												
<table border="1"><tr><td>Married</td><td><input type="checkbox"/></td></tr><tr><td>Single</td><td><input type="checkbox"/></td></tr><tr><td>Divorced</td><td><input type="checkbox"/></td></tr><tr><td>Widowed</td><td><input type="checkbox"/></td></tr></table>		Married	<input type="checkbox"/>	Single	<input type="checkbox"/>	Divorced	<input type="checkbox"/>	Widowed	<input type="checkbox"/>				
Married	<input type="checkbox"/>												
Single	<input type="checkbox"/>												
Divorced	<input type="checkbox"/>												
Widowed	<input type="checkbox"/>												
+													
A.4	EDUCATIONAL QUALIFICATION												
<table border="1"><tr><td>None</td><td><input type="checkbox"/></td></tr><tr><td>Grade 12</td><td><input type="checkbox"/></td></tr><tr><td>Diploma</td><td><input type="checkbox"/></td></tr><tr><td>Bachelor Degree</td><td><input type="checkbox"/></td></tr><tr><td>Master Degree</td><td><input type="checkbox"/></td></tr><tr><td>Doctorate Degree</td><td><input type="checkbox"/></td></tr></table>		None	<input type="checkbox"/>	Grade 12	<input type="checkbox"/>	Diploma	<input type="checkbox"/>	Bachelor Degree	<input type="checkbox"/>	Master Degree	<input type="checkbox"/>	Doctorate Degree	<input type="checkbox"/>
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A.5	EMPLOYMENT STATUS												
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Employed	<input type="checkbox"/>												
Unemployed	<input type="checkbox"/>												
Self-employed	<input type="checkbox"/>												
Pensioner	<input type="checkbox"/>												
A.6	YOUR MONTHLY INCOME												

0-2000	<input type="checkbox"/>
3000-5000	<input type="checkbox"/>
6000-8000	<input type="checkbox"/>
9000-11000	<input type="checkbox"/>
12000 and above	<input type="checkbox"/>

SECTION B: INTERVIEW QUESTIONS

Please mark with (x) against any option that is appropriate to your answer in the box provided.

B.1	Did you ever acquire financial assistance to establish any business endeavours?								
<table border="1"> <tr> <td>Yes</td> <td><input type="checkbox"/></td> </tr> <tr> <td>No</td> <td><input type="checkbox"/></td> </tr> </table>		Yes	<input type="checkbox"/>	No	<input type="checkbox"/>				
Yes	<input type="checkbox"/>								
No	<input type="checkbox"/>								
B.2	Do you have a bank account?								
<table border="1"> <tr> <td>Yes</td> <td><input type="checkbox"/></td> </tr> <tr> <td>No</td> <td><input type="checkbox"/></td> </tr> </table>		Yes	<input type="checkbox"/>	No	<input type="checkbox"/>				
Yes	<input type="checkbox"/>								
No	<input type="checkbox"/>								
B.3	What are the main requirements for acquiring financial services?								
<table border="1"> <tr> <td>Fixed pay slip</td> <td><input type="checkbox"/></td> </tr> <tr> <td>Collateral</td> <td><input type="checkbox"/></td> </tr> <tr> <td>Educational qualifications</td> <td><input type="checkbox"/></td> </tr> <tr> <td>Business plan</td> <td><input type="checkbox"/></td> </tr> </table>		Fixed pay slip	<input type="checkbox"/>	Collateral	<input type="checkbox"/>	Educational qualifications	<input type="checkbox"/>	Business plan	<input type="checkbox"/>
Fixed pay slip	<input type="checkbox"/>								
Collateral	<input type="checkbox"/>								
Educational qualifications	<input type="checkbox"/>								
Business plan	<input type="checkbox"/>								
B.4	What type of enterprises do people acquire financial services for in the region?								
<table border="1"> <tr> <td>Small and medium scale enterprises</td> <td><input type="checkbox"/></td> </tr> <tr> <td>Community level projects</td> <td><input type="checkbox"/></td> </tr> <tr> <td>Individual projects</td> <td><input type="checkbox"/></td> </tr> <tr> <td>Youth clubs</td> <td><input type="checkbox"/></td> </tr> </table>		Small and medium scale enterprises	<input type="checkbox"/>	Community level projects	<input type="checkbox"/>	Individual projects	<input type="checkbox"/>	Youth clubs	<input type="checkbox"/>
Small and medium scale enterprises	<input type="checkbox"/>								
Community level projects	<input type="checkbox"/>								
Individual projects	<input type="checkbox"/>								
Youth clubs	<input type="checkbox"/>								
B.5	Which institution do the people mostly receive financial services in the region?								
<table border="1"> <tr> <td>Banking institutions</td> <td><input type="checkbox"/></td> </tr> <tr> <td>Non-banking financial institutions</td> <td><input type="checkbox"/></td> </tr> <tr> <td>Smaller intermediaries</td> <td><input type="checkbox"/></td> </tr> </table>		Banking institutions	<input type="checkbox"/>	Non-banking financial institutions	<input type="checkbox"/>	Smaller intermediaries	<input type="checkbox"/>		
Banking institutions	<input type="checkbox"/>								
Non-banking financial institutions	<input type="checkbox"/>								
Smaller intermediaries	<input type="checkbox"/>								
B.6	How do you rate the access to financial assistance in the region?								

1	2	3	4	5
1=Strongly disagree	2=Disagree	3=Undecided	4=Agree	5=Strongly agree

B.7 What is the main source of funds for the establishment of enterprises in the region?

Governmental institutions	<input type="checkbox"/>
Non-governmental institutions	<input type="checkbox"/>
International donors	<input type="checkbox"/>

B.8 How does access to financial services contribute to poverty reduction in the region?

1	2	3	4	5
1=Very poor	2=Poor	3=Satisfactory	4=Very good	5=Excellent

B.9 In what ways does access to financial services reduce poverty in the region?

Reduce unemployment	<input type="checkbox"/>
Improved living standards	<input type="checkbox"/>
Motivate the community to unleash their potential	<input type="checkbox"/>

B.10 How can access to financial services be improved to reduce poverty in rural areas?

Improve financial literacy among rural societies	<input type="checkbox"/>
Introduce reasonable requirements	<input type="checkbox"/>
Investigate the eligibility of enterprises/projects	<input type="checkbox"/>
Give reasonable financial assistance	<input type="checkbox"/>

Thank you ☺