UNIVERSITY OF KWAZULU-NATAL

PROBLEMS AFFECTING THE GROWTH OF MICROFINANCE INSTITUTIONS IN NAMIBIA: AN OPERATIONAL, REGULATORY AND LEGISLATIVE PERSPECTIVE

by

Leevi Jordan Tshoopara

Student Number: 203518369

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Supervisor   :   Professor W. Geach

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Abstract

The study aims to examine problems that hinder the creation of a sustainable Microfinance industry in Namibia. It looks into the assertion that certain Microfinance Institutions (MFIs) have problems that hinder them from being able to service clients and still be able to remain profitable.

A Microfinance Institution (MFI) is defined as an institution that provides financial services to people and small and micro enterprises that do not have access to commercial bank loans. Categories are a credit union, savings and credit co-operatives (SACCOs), non-Governmental Organizations (NGOs), self-help organizations or specialized banks (Mushendami, Kaakunga, Amuthenu-Iyambo, Ndalikokule & Steytler, 2004). The study looks at three critical aspects of operational, regulatory and legislative framework. The current regulations that are in place are administered by the Namibia Financial Institutions Supervisory Authority (NAMFISA) and the Bank of Namibia, for the protection of clients against unscrupulous practices by MFIs.

Out of 347 MFIs, a purposeful sample population was drawn and 34 Questionnaires administered due to time and financial constraints. The Questionnaires were distributed to MFIs and individuals in the industry. From these 25 responses were received during the survey. A descriptive statistical analysis was used in deciphering the data. The results are that the Namibian MFIs are new, but out of 11 factors, four were outliers, being the challenges of fraud, consumer education, lack of resources and high costs. The main recommendation is that the MFI industry must establish a fund through charging levies for client education and to look at the transparency of operations and costs to encourage both MFIs and clients to better understand the terms of engagement. Further recommendations include ensuring that MFIs develop products which meet the needs of clients in urban and rural context. Also to address the issue of lack of funding in the form of a strategy to arrange for exit strategies after donor withdrawal, in order for MFIs to survive based on their internal revenue base. Lastly, the regulatory environment in Namibia needs to be improved with the government introducing clearer principles for market participants. The government needs to become an enabler for the provision of financial services.

Abbreviations and Acronyms

AALS	--	Affirmative Action Loan Scheme
AFRACA	--	African Rural and Agricultural Credit Association
Agribank	--	Agricultural Bank of Namibia
DFN	–	Development Fund of Namibia
FIA	–	Financial Intelligence Act
FIM Bill	–	Financial Institutions and Market Bill
GIPF	–	Government Institutions Pension Fund
ILO	-	International Labour Organisation
IMF	--	International Monetary Fund
MDGs	–	Millennium Development Goals
MFI	–	Microfinance Institution
NACP	–	National Agricultural Credit Programme
NAMFISA	–	Namibia Financial Institutions Supervisory Authority
NDC	–	National Development Corporation
NDP	–	National Development Plan
NGOs	–	Non-governmental organizations
NPC	–	National Planning Commission
POCA	–	Prevention of Organised Crime Act
SACCOs	–	Savings and credit co-operatives
SBCGT	–	Small Business Credit Guarantee Trust
SCA	--	Savings and Credit Associations
SMEs	–	Small and Medium Enterprises

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CHAPTER 1
INTRODUCTION AND PROBLEM STATEMENT

1.1   INTRODUCTION AND PROBLEM STATEMENT

A Microfinance Institution (MFI) can be defined as an institution that provides financial services to people and small and micro enterprises that do not have access to commercial bank loans. A microfinance institution can either be a credit union, savings and credit co-operatives (SACCOs), non-governmental organizations (NGOs), self-help organization or specialized banks (Mushendami, Kaakunga, Amuthenu-Iyambo, Ndalikokule, Steytler, 2004).

Microfinance is further defined as services comprising micro-savings and micro-credit as well as other financial services such as micro-insurance, micro-leasing and transfer services (AFRACA, 2002).

Transactional (money lenders), mutual or personal (friends and neighbours) lending and transactional practices have been developed and modified into what we understand the microfinance sector to be today. Generations have done this within their own communities, using their own systems and methods, without any external assistance or resources. The microfinance sector is new in that it has primarily developed as a response to the inability or apathy of commercial banks and the formal financial system to serve the needs of low-income households and micro-enterprises (Microfinance Framework, 2011).

Mushendami et al., (2004) conducted a study with the aim of identifying the role that the microfinance institutions (MFIs) play in the Namibian economy. The study indicated that the Government of Namibia has launched numerous programmes which include the Affirmative Action Loan Scheme (AALS) of Agricultural Bank of Namibia, the National Agricultural Credit Programme (NACP) of the Ministry of Agriculture, Water and Rural Development, operations of parastatals such as the National Development Corporation (NDC), the Development Fund of Namibia (DFN), international NGOs such as Lisikamena as

well as Savings and Credit Co-operatives, however these programmes have not adequately addressed the problem of access to credit.

Therefore, this study will focus on problems which affect the growth of MFIs in Namibia from three different perspectives, namely an Operational, Regulatory and Legislative.

1.2   PROFILE OF FINANCIAL MARKET DEVELOPMENT IN NAMIBIA

Since independence, the Namibian government has taken great strides towards consolidating and reviving the economy through various national development plans such as National Development Plan (NDP) and Vision 2030.

As a part of its strategy as evidenced through its program known as Namibia Financial Sector Strategy: 2010-2030 (2009: 4) which is being driven with the assistance of Bank of Namibia, the Namibian government has attempted to diversify the economy and develop more specifically the financial sector, with the dual goal of creating employment opportunities for Namibians and addressing socio-economic imbalances inherited from colonial times that prevented active participation of the majority of the population in active business practices.

The World Bank (2011) maintains that Namibia is a politically stable upper middle-income country with a per capita income of approximately US$4,310. The Namibia Financial Institutions Supervisory Authority (NAMFISA) (2011) annual report indicated that their non-banking regulatory oversight extended over 3,800 regulated entities with assets of over N$ 120 billion as at the end of their financial year. On the banking front Bank Namibia as the central bank is responsible for the supervision and regulatory functions of all commercial banks (Bank of Namibia, 2012).

During the last two decades, the Bank of Namibia (2007) reported that the number of commercial banks increased from three main banks, namely Standard Bank, First National Bank and Nedbank through its local arm called Commercial Bank of Namibia, to five banks after the advent of independence (through the inclusion and opening of Bank Windhoek and City Savings and Investment Bank).

The number of banks has however decreased to four again during 2000/1 calendar year due to the amalgamation of CSIB into the First Rand Group. Fides Bank, whose focal area of business is the funding of SMEs was granted a license and started operations in 2009. This has increased the scope of banking products in the market, however it has not been able to fully address the issues at hand (Bank of Namibia; 2010 a).

According to NAMFISA (2011), apart from the five commercial banks (including Fides Bank), there are other non-bank financial institutions that have operations in Namibia. An example of one such non-bank financial institutions is the pension funds. The total registered pension funds has grown fast since Namibia gained independence with an estimated N$ 64 billion of which GIPF accounts for approximately 60%, however these assets are not the only ones in the financial system.   These non-bank financial institutions accounted for more than half of the total assets of the financial system, accounting for about a combined value of N$ 120 billion. Prominent development bodies which are governed by their own acts and regulations are a third type of non-bank institution and include institutions such as Agricultural Bank of Namibia, the Namibia Development Corporation and the National Housing Enterprise.

NAMFISA (2011: 8) has recognized that some weaknesses exist and has attempted to respond to these and others by redrafting the financial sector charter known as the Financial Institutions and Market Bill (FIM Bill) with the assistance of the International Monetary Fund (IMF).

1.3   ESTABLISHMENT OF MICROFINANCE INSTITUTIONS IN NAMIBIA

With the aim to satisfy the need for financial services for the low income households and the SMEs, Namibia like other countries, has embarked upon alternative models of banking such as village banks, rural banks and community banks (Bank of Namibia; 2010a). Namibia as a market participant has also followed suit with the introduction of legislative and regulatory amendments such

as the Financial Institutions and Market Bill (FIM Bill) to bring this change about (NAMFISA, 2011).

According to Bank of Namibia (2010a) a number of banks such as First National Bank and Standard Bank Namibia operate micro-lending facilities, which provide loans in smaller portions to individuals who are formally employed and to SMEs through the Small Business Credit Guarantee Trust (SBCGT). The SBCGT was formed in June 1999 by the Namibian and German Governments to provide formally registered SMEs with guarantees in the form of collateral in order to qualify for bank loans (Small Business Credit Guarantee Trust, 2011). For the facility to be availed to small business, the SBGT (2011) has put forward certain requirements pertaining to information from borrowers when applying for a facility, before credit is extended.

An example of such information includes business plans (which require registration details from the Ministry of Trade and Industry), the SBCGT will guarantee up to 80% of the credit facility to a maximum of N$ 250 000 only, the ability to provide a deposit (which require the applicant to have excess or reserves to provide as a deposit to source further funding), personal financial statements (that require an auditing firm or bank account records), proof of registration of the business whether in a close corporation or private company format, bank account records, guarantees through security or collateral. Banks require various forms of collateral for their loans. All these forms of information deter the clients and therefore most clients feel that it's a lengthy process.

Bank of Namibia (2010b: 6) acknowledged some of the efforts that the Government of the Republic of Namibia has initiated in the promotion of SMEs which mainly include the existence of a dedicated department which deals with SME issues in the Ministry of Trade and Industry, the establishment of various physical infrastructure to provide an enabling environment for production and trading by the SMEs, as well as to provide financing to the SME sector.

Despite the abovementioned efforts the challenges still remain, especially in terms of SME financing and therefore there is a need to find a workable solution to those challenges, which will enable more SMEs to grow and ultimately contribute to economic growth and poverty reduction.

The Bank of Namibia (2010b: 27) made reference to numerous barriers to growth faced by SMEs that are common throughout the world. These can be broadly outlined as follows:

- Business regulatory supervision (how easy it is to open and close a business and obtain the necessary operating permits and licenses for example);
- Infrastructural development (unpredictable electricity supply, logistics of getting produce to market);
- Corruption;
- Access to finance (across the full range of financial services, not just credit);
- Management capacity (having the skills across a wide range of disciplines, many of which are specialized/technical);

If the banks are not able to fit the gap left over due to lack of financial service providers, this could potentially be filled by MFIs.

1.4   DEFINITION OF THE RESEARCH PROBLEM

As established through the NAMFISA (2011) and Bank of Namibia (2010b) reports, there are shortages that need to be addressed on the availability and access of finance to SMEs. This shortage can be examined through three critical aspects:

- Operational, namely quality of service, quality of loan book;
- Legislative, namely which statue is applicable and whether it's able to be implemented;
- Regulatory, namely who is responsible for regulating the industry, is it NAMFISA?

For the purpose and objective of this study, the establishment and growth of MFIs through the above fields, that being Operational, Legislative and Regulatory will be considered and examined.

The purpose of this study will be to look at main hurdles which are hindering the growth of microfinance service providers in Namibia. The study will review and provide resolutions to problems in terms of the above main facets of the industry as well as look at other hindrances such as lack of capital, fraud within the industry and companies, high costs and poor information technology to mention but a few. The objectives of the study are:

1. To determine the main problems which hinder the growth of microfinance institution in Namibia from an operational, legislative and regulatory perspective?
2. To determine the severity of the impact of problems on MFI service providers.
3. To determine other problems that may hinder the growth of MFIs.
4. To suggest best practice applications that will address the problems.

1.5   ORGANISATION OF THE STUDY

The study is divided into five main chapters with several subsections as follows:

- Chapter 1 introduces the research problem, statement of the problem and purpose of the study.
- Chapter 2 will provide relevant theory and empirical aspects found in literature on microfinance.
- Chapter 3 will focus on issues related to research methodology; where research design, methods of data collection and analytical techniques will be presented.
- Chapter 4 will focus on interpretation and analysis of the research results
- Chapter 5 will provide a conclusion, recommendations and highlights on areas for further research.

1.6   SUMMARY

The MFI has been defined as institutions providing financial services to people lacking access to commercial banks. Various programmes and services providing loans to customers in Namibia are described. The study defines the problems hindering the growth of MFIs from operational, regulatory and legislative perspectives and profiles the financial market.

In chapter 2, literature pertaining to the problem statement and the three perspectives identified are reviewed next.

CHAPTER 2
LITERATURE REVIEW

2.1   INTRODUCTION

A Microfinance Institution (MFI) is defined in Chapter 1 of this study and the point is also made in that chapter that the concept of 'microfinance' is not new in Africa or around the world. Reports and studies published by Bank of Namibia (2010b) reflect a dire situation for the Namibian SMEs and only through proactive initiatives can we address these problems.

According to the National Planning Commission (2011) report on Vision 2030, the Namibian Government has specifically made commitments to address the achievement of the Millennium Development Goals (MDGs), through the introduction of strategies such as Vision 2030 which is a policy initiative driven by the National Planning Commission (NPC), with the main aim of poverty eradication. Means are needed to mobilize financial resources to meet these development objectives. In order to support the SME sector it is critical to identify the growth problems and ensure that adequate solutions are found (NPC, 2011).

The Bank of Namibia (b) (2010: 39) study indicates that lingering deficiencies in the enabling environment still create a sustained and constrained access of SMEs to finance. The enabling environment is defined here to include both financial infrastructure and the overall legal and regulatory framework for financial institutions and instruments. MFIs in turn have restrictions, which we will try to address in this study, that need to be resolved prior to creating a sustainable flow of facilities to clients. Creating sustainable MFIs, which deliver microfinance at affordable and convenient conditions, helps SMEs fulfill their potential and create a livelihood for the owners.

While the solutions differ vastly, ranging from community banks and solidarity groups, revolving funds and guarantee funds to major on-lending schemes involving commercial banks, their objectives are but the same, namely to ensure

reliable and sustainable services that allow the poor to access financing to promote entrepreneurship in their villages or towns (ILO, 2011).

Based on the above broad definitions as put forth, the initiatives for the provision of financial services to the poor segment that do not have access to formal financial system constitutes what is known as microfinancing, whereas, institutions that provide microfinance services are known as Microfinance Institutions or MFIs.

The general objective of this chapter will therefore be to explore some insights identified in the literature study: concept of microfinance, types of microfinance services and the need of microfinance services in Namibia. The identified role of operational, regulatory and legislative frameworks and their impact on the growth of MFIs in Namibia will also be discussed in this chapter.

2.2   THE CONCEPT OF MICROFINANCE

Microfinance is defined as services comprising micro-savings and micro-credit as well as other financial services such as micro-insurance, micro-leasing and transfer services (AFRACA, 2002).

Tucker (2004: 6) highlighted that the main objective to sustainability, is establishing the importance and availability of microfinance as a tool to be used in poverty alleviation for poorer or low income groups. The main challenge is the need for mainstreaming microfinance, focusing on the operational, regulatory and legislative aspects of MFIs.

This calls for a supportive legislative environment to be created and put in place. While each country has its own unique characteristics and growth phases, Tucker (2004: 7) states though that each microfinance sector goes through the following basic and fundamental development phases, namely a start-up phase, an expansion phase, a consolidation phase and an integration phase.

Tucker (2004: 7) defines the start-up phase for product development and introduction in the market. Staff members are hired that can render services and

ensure good return. The next stage is the expansion phase, in which MFI's intensify existing operations through branches. The success achieved at this stage motivates other microfinance operators to set up similar businesses. This stage usually leads to increase in available finance and further mobilisation of additional funds.

In the consolidation phase successful MFIs are focusing on business sustainability. The needs of staff are looked at and financial management strengthened. At this stage the microfinance sector formalise its operations by following normal industry norms.

The sector then enters into the integration phase by the end of the consolidation phase when a well- structured regulatory framework is in place. This allows for the development of the microfinance sector and for regulatory oversight from central banks. In this phase MFIs become an integral part of the formal financial sector, and are usually regulated by a Central Bank. There are a variety of financial services and products offered for the both SMEs and other lower segments in the financial market (Tucker, 2004).

2.3   TYPES OF MICROFINANCE SERVICES

The different types of microfinance services can be broken down into the following broad groups:

1. <u>Micro-Credit</u> – micro-credit is a part of microfinance, which is the provision of a wider range of financial services to the very poor and therefore Gobezie (2004) defines these as facilities that have numerous differentiating factors, such as (1). Loan size, (2). Loan term, (3). Flexibility and so on. Micro-credit is a financial innovation that is generally considered to have originated with the Grameen Bank in Bangladesh (Llanto, undated: 24). Micro-credit emphasizes building capacity of a micro-entrepreneur, employment generation, trust building, and help to the micro-entrepreneur on initiation and during difficult times.

2. <u>Micro-Saving</u> – can be explained as services that complement micro-credit as they too constitute a large portion of the demand by SME's and segments of the poor. According to Gobezie (2004: 19) in most cases poor people want to save most of the time, whilst borrowing far less and therefore there needs to be a consorted drive to inject more back in the form of economic activity.

3. <u>Micro-Insurance</u> – micro-insurance is a term increasingly used to refer to insurance characterized by low premium and low coverage limits, sold as part of the micro-credit facility and designed to service low-income and poor people as well as SME's not served by typical social or commercial insurance schemes. Gobezie (2004: 15) further states that by developing insurance products that are focused on the poor, it will help address issues that insurance institutions have with long term profitability and provide protection for the SME's and the poor against large and more destabilising shocks.

Micro-insurance provides protection for low-income households against specific perils in exchange for premium payments proportionate to the likelihood and cost of the risk involved (Tong, H. L., 2009). The provision of insurance therefore helps to minimize the risks associated with lending money to the poor.

2.4 THE NEED OF MICROFINANCE SERVICES IN NAMIBIA

According to NAMFISA (2009), the regulatory framework for microfinance institutions and services has not yet been created, however microfinance services are provided for in the charter for good practice in microfinance in Namibia which was signed by the Ministers of Trade and Industry, Agriculture, Water and Rural Development, the Director General of the National Planning Commission and the Governor of the Bank of Namibia and other different legislations, such the Banking Institutions Act, Usury Act, Agricultural Bank Act, Namibia Development Corporation Act, Post and Telecom Act, Co-operative Act and NGOs.

The Government, through its agent NAMFISA, is in a process of formalizing this through the introduction of the Financial Institutions and Markets Bill (FIM Bill), however this is still in draft form and being discussed.

Collateral seems to be a major stumbling block, with many potential clients not being able to source adequate levels of collateral to be able to make use of the facilities at commercial banks. The distance between rural villages and urban centres where most commercial banks are situated seems to also be a major hindrance to clients. Rural infrastructure is poor, thus making it difficult for banks or any other service provider to sustainably provide and cater for needs relating to financial services (Mushendami et al., 2004).

The study conducted by the Ministry of Agriculture (2006: 3) defined co-operatives as a socio economic development alternative for rural communities. These co-operatives are democratically managed, member based, self-help groups that act for the benefit of their members. The Ministry of Agriculture (2006: 13) study further indicated that one of the main constraints co-operatives faced in implementing their activities was the lack of credit.

Mushendami et al., (2004) made reference to the view that the microfinance institutions play an important role in the economy. The Government and NGOs have undertaken numerous programmes and activities to improve access to credit in the financial sector economic development.

These programmes include the affirmative action loan scheme (AALS) of Agricultural Bank of Namibia (Agribank) which can be accessed through the Agribank website, the National Agricultural Credit Programme (NACP) of the Ministry of Agriculture, Water and Rural Development, operations of parastatals such as the National Development Corporation (NDC), the Development Fund of Namibia (DFN), international NGOs such as Lisikamena, Cooperation for Development (CD), as well as Savings and Credit Co-operatives (Mushendami et al., 2004).

These programmes have not adequately addressed the problem of access to credit with the reasons for such poor performance being the lack of appropriate legal framework and high default rates (Mushendami et al., 2004).

2.5 PROBLEMS IMPACTING ON THE GROWTH OF MFIS

The role that the operational, regulatory and legislative framework as firstly highlighted in the study conducted by Mushendami et al. (2004) and reflected in Table 2.1 below, has on the performance of microfinance activities offered by various institutions in Namibia requires specific attention and hence, specific reference will be made to these frameworks in greater detail below.

1. Operational Framework will address what needs to be in place in order for an MFI to deliver effective, responsive and sustainable microfinance services in both the Rural and Urban Markets of Namibia.
2. Regulatory Framework will address the following issues: the need to regulate the MFI activities and provide insight into the regulators of the microfinance operations.
3. Legislative Framework will address the issue surrounding the proposed legislation as well as look at what form of legislation there currently is that focuses on MFI operations in Namibia.

Table 2.1: Framework problems challenging the Microfinance Sector in Namibia

Framework	Topics
Operational Framework	• Service quality • Client focused products • Quality of loan books • Credit Information Systems • Consumer Education • Low Population Density • High costs • Fraud • Lack of capital resources
Regulatory Framework	• Micro-lending Association Guidelines • Namibia Financial Institutions Supervisory Authority Act No. 03, 2001
Legislative Framework	• Financial Institutions and Markets Bill "FIM Bill"

Adapted from Postrick Mushendami, Esau Kaakunga, Mirjam N.E. Amuthenu-Iyambo, Vitalis Ndalikokule, John Steytler 2004. ; Volschenk, J. 2002.

2.6   OPERATIONAL FRAMEWORK

Microfinance institutions need to implement standards that focus on various critical success factors such as Service Quality through Efficiency, Sustainability and Outreach to name but a few.   As the microfinance industry evolves, these standards become more critical in the success of the business.

Rigorous financial discipline and management is required so as to attract commercial capital that is of a stable and consistent nature (i.e. not prone to withdrawal out of the Namibian market at whim). The challenge now is for practitioners, regulators and policy-makers to uphold and adhere to these standards to ensure a more transparent and sustainable commercial microfinance industry in the country.

Therefore this framework is key to the sustained growth of the industry and therefore requires attention as to which factors are hindering its development and prosperity. The following list details the problems that MFIs are experiencing from an operational perspective (note that the list is not exhaustive, but does try to touch on the main issues that are hindering operational efficiencies as derived through this study questionnaire).

2.6.1   Service quality

Greeley (2005) through his presentation encouraged the improvement of service quality through better institutional performance. The element of transparency of services offered should also be considered and promoted. ExitPoverty.org (2011) promotes the fact that MFIs should endeavour to make client focus a normal means of conducting business, through efforts such as staff training and incentives, financial education for customers and customer satisfaction programs. The quality of service should be both convenient and timely. Quality of service should therefore be seen as an integral part of moving the MFIs and the industry into the correct direction.

2.6.2   Client focused products

Macharia (2005: 4) stressed the need for client needs to be addressed by MFIs and this entails the need to have more client focused products that meet the needs of the client. Without the appropriate product offerings, MFIs would not be in a position to attract quality clientele. These client needs included easy and fast access to loans, variety and choice of products, easy loan transaction, business training and advice, no collateral and a good and comfortable confidence level in the MFI. A study by Dingcong (2001) indicated that the institutional mentality of most MFIs has traditionally been product-driven rather than market-driven, where a MFI provides highly standardized loans with limited variation in the terms. With the growth of competition within the microfinance industry, MFIs need to become more aligned to their clients' needs and threats of competition, if they envisage attracting clients (Dingcong, 2001: 5).

In addition, Dingcong (2001) concluded that MFIs business origins either began with a monopolistic or oligopolistic position, being based either on the fact that they were the pioneers, or because donors subsidized their presence at the onset of the business in a field that is unprofitable and requires external intervention to ensure sustainability and identified numerous industry practices and methods that have been adopted for Product Development. These methods used to develop new products generally followed four key phases of financial service product development Dingcong (2001: 27) thus:

1. Research to identify needs and opportunities;
2. Design and pilot-testing;
3. Monitoring and evaluation of the pilot test;
4. Revision and scaled-up implementation.

2.6.3   Quality of Loan Books and Financial Sustainability

Sharma (2008: 1) states that people perceive sustainability in different ways with their being different perceptions such as a sustainability being able to generate cash to pay salaries and operational costs at the expense of not growing your business larger and other who regard it as an ability to expand the business at the

expense of being a cash cow, and it is therefore difficult to arrive at a consensus on this issue.

Sharma (2008: 32) further states that the quality of the loan book is imperative to the success of the MFI as they are essentially credit driven institutions. Not only do the repayments received fund the operations of the company, they also ensure that there are adequate funds to revolve and lend onto new clients. A delinquency rate of loans has to be properly controlled so that the bad debt ratio is not excessively high. Fitch (2008: 3) advocates for the improvement of loan books through the use of lower leverage, a more diversified loan book by individual customers and better asset quality. These initiatives should be encouraged to gain a more stable financial performance from MFIs. Finally, according to NAMFISA (2009), MFIs in Namibia are governed by the Usury Act 73 of 1968 when it comes to the interest rates to be charged on a product. However additional controls are still needed to ensure that clients are not over-exposed to loans from different MFIs that could impact on the loan book quality and financial sustainability of the MFI.

2.6.4   Credit Information System

Luoto, McIntosh and Wydick (2002: 1) stated that increases in lending among the poor have created a need for credit information systems that provide potential lenders, such as MFIs and banks, with borrower information that is accurate and easily accessible. One of the key areas listed by MFIs as inhibiting innovation and development in the industry are IT system limitations. This relates to extraction of useful management information from IT systems and the unavailable skills to correctly analyse the information and data, so that it can improve efficiency (Luoto et al., 2002).

The absence of information sharing has led to a weakening performance of microfinance in certain markets and therefore the availability of correct and readily available information has become a key component for MFIs that want to ensure that they operate based on best practices and methods (Ministry of Agriculture, 2006: 6).

Credit bureaus have seen an increase in the role they play towards improving credit market information, as this has also helped them penetrate newer markets such as credit facilities to the poor (Rozycki, 2005). As competition in microfinance lending intensifies, borrower information becomes all the more important to MFIs and co-operatives for planning, controlling and decision-making purposes (Ministry of Agriculture: 2006: 6).

Today as increasing number of players become engaged in microfinance, the problem of credit pollution and multiple borrowings is also increasing. As noted earlier, the availability of freely available credit information will be able to address this problem as MFIs would be able to ensure that proper credit checks and reviews are conducted. In Cambodia, this need for a comprehensive credit bureau that would collect, maintain and share both positive and negative information on borrowers was identified as a tool that would eliminate information asymmetries (Tong, H. L., 2009). The views of information asymmetry are also shared by Rozycki (2005: 14) with the outcomes being that clients are less incentive to pay back due to higher premiums caused by lack of proper information about the client. The availability of credit bureaus help reduce risks in lending and encourage a more responsible attitude towards lending that will ultimately lower delinquency and strengthen the credit and financial system.

Despite the many benefits of having a credit bureau, many MFIs fear that the sharing of information may lead to a loss of clients to competitors. Another issue is confidentiality and the effectiveness of current credit bureau services that are operating in the market. MFIs must understand the needs, preferences and alternatives of the client as to how they make use of financial services (Rozycki, 2005). Such information will be useful to the institutions in refining the current services and designing new ones so as to target the correct quality of clients.

2.6.5 Consumer Education

A customer education report highlighted that a communication strategy needs to be developed that guides MFIs on what messages to disseminate and the right channels to use. The following are issues which could be solved through the effective education of clients (AMFIU, 2004).

1. Trust amongst MFIs and their clients do not always exist, and sometimes they attempt to mislead each other through misinformation.

2. Clients find that they don't always understand the complicated structures of the loan facilities which they source or apply for.

3. Clients provide false information so that they can qualify for facilities. This is a dangerous practice as it leads clients into incurring additional loans that were no necessary. Desperate staff members usually allow this to happen as they have an interest in growing the deal flow due to it sometimes being linked to salary increment or performance bonuses. The phenomenon is known as the 'debt trap'.

4. Secure savings opportunities do not exist and therefore most potential clients end up consuming these funds on non-essential materials.

5. Clients cannot distinguish between the different types of institutions, and call them all "banks" instead of differentiating between them and MFIs, who have a different modus of operation.

Zainabu (2010: 3) advocates that for the customer education to have positive impact, the respective campaigns should make use of different languages and added messages that particularly focus on the needs for members of savings and credit cooperatives (SACCOs). Customer education should also try making use of additional channels, including a news study and possibly the introduction of the music and other art forms to contribute further through non-conventional channels of communication.

Other means and materials for communication such as posters, pamphlets, flip-charts, news study inserts and media such as radio slots should also be used. The consumer education campaign should be initiated with an extensive stakeholder

interaction so that the message to be delivered would be done in such a manner as to meet the identified gaps in the understanding of consumers.

Most consumers show a lack of knowledge or understanding in the following fields highlighted as follows: 1). rights, 2). responsibilities, 3). types and uses of different financial products and 4). the differences between various types of financial institution and group (Perdomo, M., 2008). The following assertions were made by (Perdomo, 2008), namely:

1. <u>Rights</u> – Customers have a right to transparent information, particularly concerning any contract they sign with a financial institution. Customers should be treated with overall respect and protected from pressure and over-aggressive marketing.
2. <u>Products</u> – Customers need to rely on the products that they envisage making use of. In most cases customers do not do proper due diligences.
3. <u>Responsibilities</u> – Consumers should understand and respect the terms of their contracts that they enter into.
4. <u>Institutions</u> – No institution is right for everyone and therefore may not be able to serve poor, or remote, populations.

2.6.6 Low population density

According to Gupta (2008), rural areas are often characterized by poor infrastructure, low population density, low levels of literacy and relatively less economic opportunities. These areas often lack well-trained professionals and have insufficient support from the other sectors. Mostly they are informal sectors and lack institutionalization. Distance has three different effects on microfinance activities: it affects the nature of the demand, transaction and monitoring costs. Distant borrowers by their intrinsic characteristics are more risky, therefore MFIs adapt their policies to cope with them through more restrictive conditions (What is Microfinance, 2011b).

Secondly, Gupta (2008: 3) makes reference to the high transactional costs which make access to microfinancing insurmountable and make interest rates higher. Thirdly, Pedrosa and Doas (2006: 1) found that monitoring is costly due to distance and that the quality of portfolio worsens due to the costs of managing and monitoring a loan. These effects all lead to microfinance institutions to screen clients more carefully to ensure financial sustainability (Pedrosa et al., 2006: 1). Such strategy however comes at the cost of access, especially for the poorest. The cost of distance is actually born in part by borrowers, who face higher interest rates and more constraints to obtain a loan, but is also faced by the marginal credit-constrained household who is then excluded from the semi-formal credit market (Pedrosa et al., 2006).

2.6.7 High costs

The Association of Micro-finance Institutions of Uganda (AMFIU) advocates that MFIs should strive to become self-sufficient through generating income through revenues which would be able to cover costs (What Is Microfinance, 2011b). AMFIU has identified the following sustainable means of income that must cover the following basic costs, namely:

1. Operational Costs:
2. Internal Operational Costs such as salaries, information systems, fixed and variable overheads;
3. External Operational Costs such as transport, communication, accommodation and lodging of staff.
4. Financial Costs:
5. Cost of capital and inflationary variables that ensure that the real value of the assets is maintained;
6. Provision for bad debt that lead to loan losses;
7. Surplus to enhance and ensure sustainability and continued lending.

In Namibia loan recovery problems and relatively high costs make it difficult for some MFIs to cover their costs of operation from loan revenues. This affects their sustainability, hence they are unable to achieve broader growth and micro lending

that is done in small loan sizes leads to high operational costs. The high transaction costs of such small loans render lending practices unprofitable for most Namibian MFIs (Mushendami et al., 2004).

2.6.8   Fraud

Yong, T. 2005 presented certain features of MFIs that make them more vulnerable to fraud and these can be identified as follows (Yong, 2005):

1. Decentralized nature of MFIs.
2. Weak information systems-information systems must be able to detect instances of delinquency at the loan officer level.
3. The fact that loan officer's incentives are tied to productivity in the form of bonuses and salary increases.
4. Weak or non-existent internal control procedures.
5. High employee turnover.
6. Non-standardization of multiple loan products.
7. Handling of cash by loan officers and other field staff.
8. Internal controls not keeping pace with rapid growth of MFI
9. Close relationship between client and loan officer resulting in collusion to defraud. This happens especially in rural areas where the loan officer and the client are from the same village or community.

The above has led to common types of fraud found at MFIs such as (Yong, 2005):

1. Fictitious Loans
2. Loan Officers collecting cash and not paying it over to the MFIs
3. Loan Officer colluding with clients

MFIs have had to adopt the following internal controls and risk management procedures so as to decrease the above fraudulent activities (Yong, 2005):

1. Segregation of duties
2. Adherence to policy and procedures
3. Physical security of files and legal documents

4. Custody and movement of files

5. Supervision of staff at the branch level

6. Procedures for cash collection

7. Detailed character references and credit reports for field staff at recruitment

8. Documented established procedures

9. Accountability and transparency

10. Orientation of all new employees

11. Effective and timely loan management system which reflects branch and loan officer performance

12. Set approval limits for each level of management

13. Loan officers should not be involved in the disbursement process

14. Client should have proper identification at disbursement

15. Documented collection policies for delinquent loans

16. Specific policies regarding refinancing, rescheduling and multiple loans

17. Periodic Internal Audits of branches and loan officers' portfolios (Microfinance Framework, 2011).

2.6.9   Lack of capital resources

Wessen (2008: 8) indicated through their research in Ethiopia, that institutional capacity and lack of loan capital are the main constraints to growth in outreach and sustainability of the MFIs in the country. Securing sources of funding has therefore become an integral part of the business dealings of MFIs, with large sums of money and effort being expended on this exercise (Griffin, 2008).

2.7   REGULATORY FRAMEWORK

The infancy stage of microfinancing in Namibia requires a need for the regulatory framework to support all diverse sets of microfinance institutions, whether bank, NGO or cooperative, recognizing the strength of each type of institution in delivering quality microfinance services. Mushendami et al., (2004: 15) looked into the different regulatory and supervisory frameworks that are functional and highlighted them as follows:

Namibian Financial Institutions Supervisory Authority (NAMFISA) is a statutory body established by the Namibia Financial Institutions Supervisory Authority Act, 2001 (Act No. 3 of 2001) to supervise and regulate non-banking financial institutions in Namibia. NAMFISA is a non-profit organization, which is fully financed through a levy, registration and penalty fees system. Its main function is to supervise the compliance with laws regulating the following financial industries (NAMFISA, 2010):

1. Pension Funds (Pension Funds Act, 24 of 1956)
2. Friendly Societies (Friendly Societies Act, 25 of 1956)
3. Short-term Insurance (Short-term Insurance Act, 4 of 1998)
4. Long-term Insurance (Long-term Insurance Act, 5 of 1998)
5. Medical Aids (Medical Aid Act, 25 of 1995)
6. Micro-lending and credit agreements (Usury Act, 73 of 1968 and Exemption Notice)
7. Capital Markets (Stock Exchanges Control Act, 1 of 1985)
8. Unit Trust Schemes (Unit Trusts Control Act, 54 of 1981)

Although each of the above industries is governed by its respective pieces of legislation, Government has however drafted the Financial Institutions and Markets Bill in order to consolidated and harmonize the laws regulating financial institutions and financial markets in Namibia. The Bill has been released for public comment but has not yet been promulgated (NAMFISA: 2011). NAMFISA has set its scope on ensuring that the Financial Services industry is properly regulated.

2.8   LEGISLATIVE FRAMEWORK

The charter for good practice in microfinance forms the basis of a legal framework for microfinance in Namibia. In the absence of a specific law that regulates microfinance, as the FIM Bill has yet to pass through the lawmakers, these services are regulated by the following legislations, the Banking Institutions Act, the Usury Act, the Agricultural Bank Act, the Cooperative Act, the NDC Act, Post and Telecommunications Act. Institutions that fall outside the ambit of these laws are registered as non-governmental organizations (NGOs) who are in most cases

self-regulated. The intention of the bill is to incorporate all major pieces of legislation into a single document and it is regarded as a top priority as reflected by NAMFISA (2011: 12). The Bank of Namibia (2010a) has also introduced certain legislation that is aimed at ensuring that MFIs are not abused to launder monies and that the source of all donations can be traced and proven through the Financial Intelligence Act (FIA) and Prevention of Organised Crime Act (POCA). The charter and these acts are briefly examined below.

2.8.1   The Charter for Good Practice in Microfinance

Although not an act, the charter does require some compliance through good practices. The history of the charter for good practice in microfinance in Namibia is that it was signed off by the Ministers of Trade and Industry, Agriculture, Water and Rural Development, the Director General of the National Planning Commission and the Governor of the Bank of Namibia.   The above-mentioned institutions provide microfinance services and some of their governing principles are highlighted below as discussed by Mushendami et al., (2004: 15):

- "To focus their attention on the need of people who do not have access to collateral and guarantees.
- To encourage that beneficiaries become owners and managers of MFIs through different approaches.
- To encourage the use of a community-based approach for the delivery of microfinance services.
- To provide loans according to borrower credibility and reliance.
- To not provide loans according to use for consumption or as investment in production.
- To use social pressure (peer pressure as a means to enforce repayment since legal action is not viable).
- Savings groups should be encouraged as these serve as self-help organizations for clients that do not have financial services backing and support.
- To separate responsibility for financial and non-financial services in order to secure and sustain activities".

According to Mushendami et al. (2004: 15), the charter has certain flaws of which the main one is that it does not prescribe responsibility for regulatory functions and also just promotes the use of self-help groupings. In addition, the charter is not an Act, thus, there is no specific institution which is responsible for its implementation.

2.8.2 Governing Acts in Namibia

Mushendami et al., (2004) in their report looked at and defined the following acts into the following broad definitions:

2.8.3 Banking Institutions Act, No. 2 of 1998

"The Act provides under Section 2 of Application of the Act, the legal framework for the conduct of banking business in Namibia, based on international best practices, and comprises regulatory measures for the establishment of a sound financial system" (Mushendami et al., 2004: 16).

2.8.4 Usury Act, No. 73 of 1968

"This Act provides for the advancement of micro loans. Section 2 (1)(a) of this Act empowers the Minister of Finance to direct the Registrar of Financial Institutions to limit interest rates that may be charged on micro loans. These micro-lenders fall within the ambit of the Namibia Financial Institutions Supervisory Authority (NAMFISA) that monitors compliance to the Usury Act. The Usury Act is one of the pieces of legislation that are being incorporated into the FIM Bill" (Mushendami et al., 2004: 16).

2.8.5 Agricultural Bank Act, No.13 of 1944

"This Act is limited to consolidating legislation relating to the Agricultural Bank of Namibia. The Agricultural Bank is a parastatal established to lend money to commercial and communal farmers in Namibia. The Act also provides for lending and guarantees to agencies and societies that support the agricultural industry. The narrow focus of the Act on one sector, namely the Agricultural Sector, makes it difficult for potential borrowers in other sectors to make use of these facilities" (Mushendami et al., 2004: 16).

2.8.6 Namibia Development Act, No. 18 of 1993

"This legislation is limited to the establishment of the Namibia Development Corporation (NDC). NDC is government owned institution created to develop and support the Namibian economy through the provision of appropriate financial resources. Sections 18 and 19 of the Act place no restrictions on NDC's lending policy and it can offer financial assistance to micro borrowers" (Mushendami et al., 2004: 16).

2.8.7 Post and Telecom Act, No. 19 of 1992

"The Act provides for the establishment of the Post Office Savings Bank. It also provides for the control of the Post Office Savings Bank, which is wholly owned by government. The Act allows the Post Office Savings Bank to mobilize deposits, but prohibit it from lending money to borrowers including micro borrowers" (Mushendami et al., 2004: 16).

2.8.8 Co-operative Act, No. 23 of 1996

"The Co-operative Act of 1996 gives the regulatory powers over savings and credit co-operatives (SACCOs) to the Division of Co-operative Development (DCD) in the Ministry of Agriculture, Water and Rural Development. SACCOs are allowed to take deposits from and give credit to members only. The DCD is a regulatory authority for SACCOs" (Mushendami et al., 2004: 16).

2.8.9 Non-Govermental Organisations (NGOs)

"The World Bank defines NGOs as private organizations and programs that pursue activities to relieve poverty and suffering, promote the interests of the poor and encourage business activities within this group of affected persons, protect the environment, provide basic social services and undertake community development within impoverished communities" (World Bank, 2011). There are no specific laws that regulate the operations of NGOs in Namibia. NGOs are licensed and are able to provide various services such as credit. However, these NGOs are prohibited from mobilizing savings. As a result of lack of an appropriate legal framework, their internal controls tend to be weak (Mushendami et al., 2004: 16).

2.8.10 Financial Institutions and Markets Bill (FIM Bill)

According to NAMFISA (2011: 12) the institution is vigorously addressing the compilation of this bill, however they acknowledge that there is a lack of capacity from their side. The delay with the introduction of a formal regulatory tool puts a further burden on the industry and its clients. Without proper guidance, MFIs find it hard to implement new strategies to ensure that operational problems such as high costs, service quality and others are addressed.

2.9 SUMMARY

Microfinance and MFIs are defined and types and need of services highlighted. Taking the aforementioned problems in consideration, Namibian MFIs are generally facing some challenges ahead from an Operational, Regulatory and Legislative front. These challenges and problems can be defined as follows:

1. Achieving sustainability on an operational, financial and institutional basis and at the same time contributing to poverty alleviation among the poor. This has been a challenge that MFIs around the world have had to face however aggressive strides are needed to address this issue properly as can be seen from the initiatives put forward by NAMFISA (2011: 12) to ensure that there is proper legislation and regulatory environments in place.

2. Fraud and the preventative measures are creating irreparable damage to the image of MFIs as they are seen to be a money spinning scheme of the owners as opposed to addressing the pressing needs of poverty.

3. Consumer education that will address the need of the rural population

4. Adoption of best practices in pricing, good governance, institution of appropriate information systems and development of appropriate products that meet the needs of the target market and are within acceptable norms.

5. Ensuring that a competitive regulatory environment is created and maintained. Although MFIs rely on the guidance of institutions such as

NAMFISA, which can lobby the lawmakers to ensure that the legislation allows for the regulator to perform his duties without hindrance. This would improve the integrity of the industry and lead to more reputable establishments being created.

6. Finally, the need is put forward for legislation as soon as possible, so as to allow the MFIs to have a clear understanding of their boundaries when it comes to setting up an entity that complies with all laws and best practices.

The next chapter, namely Chapter 3 will look at the research methodology applied to the study to determine the outcome of the problem statement.

CHAPTER 3
RESEARCH METHODOLOGY

3.1   INTRODUCTION

This chapter explains the research design, methods of data collection and analytical techniques that were used in the analysis of data. This research made use of a standardised questionnaire with the main objective of the survey to rank common problems that affect the growth of MFIs in Namibia.

3.2   THE POPULATION AND SAMPLE

The sample included the following:
1. Commercial Banks that provide microfinance services in Namibia
2. The non-bank financial institution that provide microfinance services in Namibia
3. The Rural/Community Banks that provide microfinance services in Namibia
4. Non-Governmental Organisations "NGOs" that provide microfinance services in Namibia

According to Bank of Namibia (2009b: 157) the total number of banking institutions was 5 (five) registered Commercial Banks, however the 1 (one) being a provisional approval granted to ABSA to set up a representative office in Namibia. Only 2 (two) commercial banks in Namibia have SME and Microfinance Departments as evidenced through information posted on their websites (Bank Windhoek, 2012) and (First National Bank, 2012). Non-banking institutions that were approached were 18 (eighteen) and these included institutions that are not commercial banks but do provide microfinancing of some sort to SMEs or the poor. Examples include the likes of the Development Bank of Namibia, Government institutions Pension Fund, Kongalend and Blue Financial Services (Namibia). These institutions have their offices in Namibia, with most operating from Windhoek. The researcher approached 10 (ten) rural and community banking facilitators that fell within the definition of either Savings and Credit Co-operative Societies "SACCOS" or Savings and Credit Associations "SCA" as these are governed under the same legislation, namely Co-operatives Act no 23 of 1996. According to the Ministry of

Agriculture (2006: 4) there are only 10 co-operatives that provide savings and credit activities, whilst most of the registered co-operatives are operating in the rural areas. A total of four (4) Non-Governmental Organisations (NGOs) were approached to review the questionnaire and three (3) provided response.

3.3 THE QUESTIONNAIRE DESIGN

The literature review and study was done on the main problems as defined by studies conducted by authors such Mushendami et al., (2004), Greeley (2005), Macharia (2005: 4), Luoto, McIntosh and Wydick (2002: 1), and these problems are normally associated with the lack of growth of MFIs. These issues were evaluated against responses as ranked by MFIs officers as being the main problems impacting on the growth of MFIs in Namibia.

3.4 DATA COLLECTION

3.4.1 Questionnaires

An ordinal scale of 0 to 4 was used depending on the extent to which the respondent considers that particular problem as a challenge in their MFI. (See Appendix A).

The sample population was composed of 20 organisations who received self-administered questionnaires and 14 individuals who were approached by the researcher with the data collection instrument. In total 34 questionnaires were used in the study. (See Table 3.1).

3.4.2 Interviews

Due to time and cost constraint it was conducted along with questionnaires to all members of the sample. Self-administered interviews yielded lower results amongst SACCOs and non-bank financial institutions, compared to face-to-face interviews. The response rate increased due to the presence of the researcher who used the same questionnaire during individual interviews.

3.4.3   Documentary Review

A desk review process was used to collect data from various sources concerning secondary sources during the literature review. It was used to gather data and information from books, reports, file libraries and the Internet.

3.5   RESPONSE TO SURVEY

Of the **34** MFIs sampled, **25** responses were obtained. See Table 3.1 for more complete breakdown of the responses.

Table 3.1: Number of responses received versus total MFIs sampled

MFI	Questionnaire	Personal interviews	Total responses received	Total MFIs sampled
Commercial banks	2	-	2	2
Non-bank financial institutions (Micro-lenders, Pension Funds, DBN, NamPost, etc.)	8	10	12	18
Rural / Community banks	3	-	3	3
NGOs	4	-	3	4
SACCOs	3	4	5	7
Total	**20**	**14**	**25**	**34**

3.6   DATA ANALYSIS

As the data are ordinal, non-parametric tests using a statistical program (R) was used. The study used descriptive statistics and correlation analysis to analyse the data gathered (The R Foundation for Statistical Computing, 2012). The results are shown in chapter four.

3.7   SUMMARY

A survey was conducted for primary data collection to supplement secondary data obtained from a desk review. A questionnaire was prepared and a purposeful sample population selected for interviews. 34 Questionnaires were used and 25 responses obtained.

R, a free and open source statistical analysis software, was used to analyse the data and the results are discussed in chapter 4 next.

CHAPTER 4

ANALYSIS AND INTERPRETATION OF THE RESEARCH RESULTS

4.1   INTRODUCTION

The aim of the chapter is to present the findings and discussion points based on responses that were received from sampled microfinance institutions. Each respondent was asked to respond to the best of their ability and as truthful as possible, so as to ensure that the outcomes of the survey were as objective as possible.

The following types of Micro-finance Institutions were approached for this study survey:

4.1.1   Micro-lenders

NAMFISA (2011: 48) reflected that the total micro-lenders in Namibia were 347 as at 31 March 2011. Of these, 6 (six) were term lenders,[who lend for a period ranging from 6 (six) months to 60 (sixty) months. The rest were pay-day lenders or cash loan providers, who lend for a period of up to 30 (thirty) days. These institutions range from cash loan providers to lenders that provide funding for Solar Energy Products, such as Kongalend. The cash loan institutions make up a larger part of the MFIs in Namibia. All micro-lenders are registered, monitored and supervised under the Namibia Financial Institutions Supervisory Authority (NAMFISA) Act. Of the registered lenders, 48% are sole proprietors whilst 45% are close corporations and the balances are private companies. (NAMFISA, 2011: 48).

4.1.2   Savings and Credit Co-operatives Societies (SACCOS)

The SACCOS are regulated under the Co-operatives Act No. 23 of 1996, providing for the non-financial prudential management of all co-operatives. The co-operatives are registered with the Ministry of Water, Rural and Forestry. SACCOS are sanctioned by law to mobilize deposits from more than 20 people and are democratically managed, member based, self-help entities that are designed to

address the socio-economic needs of its members. Currently there are 10 (ten) co-operatives who are involved in the mobilizing of savings and providing credit, primarily to rural based members. Of the 10 (ten), 7 (seven) are multipurpose and the remaining three are pure savings and credit. The use of borrowed money varies from financing members' small businesses and providing for basic needs such as paying school fees, medical and burial expenses (Ministry of Agriculture, 2006: 4).

4.1.3   Savings and Credit Associations (SCAs)

SCAs are voluntary associations of people who are mostly in the rural and village surroundings. They operate as self-help groups, aiming at assisting members who lack access to financial services from commercial banks by providing saving services and small loans. The main aim is to use the borrowed monies to cover medical expenses, school fees, and so on. SCAs are regulated under the Co-operatives Act No. 23 of 1996 (Ministry of Agriculture, 2006).

4.1.4   Non-Governmental Organizations (NGOs)

The World Bank defines NGOs as private organizations and programs that pursue activities to relieve poverty and suffering, promote the interests of the poor and encourage business activities within this group of affected persons, protect the environment, provide basic social services and undertake community development within impoverished communities (World Bank, 2011). The term NGO can be applied to any non-profit organization which is independent from government. Specifically looking at the Microfinance Industry, these would be donor funded programs providing microfinance services especially to the rural based communities (World Bank, 2011). They are not subjected to statutory regulation and supervision, therefore most are self-regulated.

4.1.5   Public Financial Institutions

These would be institutions established by an act of Parliament that allowed them to function as micro-financiers of certain sectors. They are usually regarded as Parastatals, as the Government is usually a shareholder in the

venture. The main players are Development Bank of Namibia, Agricultural Bank of Namibia and NamPost. The survey has also been sent through to the Government Institutions Pension Fund (GIPF), which during the course of 1990s and early 2000 ran a programme designed to fund SMEs through the Development Capital Portfolio. This allowed for initiatives to be funded using the assets of the pension fund.

Table 4.1: Types of Microfinance Institutions Surveyed

Micro-Finance Institution	Regulatory Framework	Services provided	Prominent Players
Micro-lenders	NAMFISA Act	1.Target mainly the unemployed rural based clients with the remainder of the 2. MFIs serving both employed and unemployed clients in the Urban areas. 3. Driven by profit and a smaller element of socio-economic factors	1. Kongalend Financial Services (Pty) Ltd 2. Blue Financial Services (Pty) Ltd 3. Business Financial Solutions (Pty) Ltd
NGOs "Non-Governmental Organizations"	NGO self-regulated	1.Donor funded 2.Social returns are imperative. In most cases funding is sourced from outside the country "foreign donations".	1. Koshi yo Muti "KY". 2. Project Hope 3. Shack Dwellers Federation of Namibia. 4. Credit for Youth in Business
SACCOS " Savings and Credit Co-operative Societies"	Co-operative Act of 1996	1. Usually groups of single minded investors or savers. 2.Group focus	1. Katima Savings and Credit Co-operative Ltd 2. NANTU- Likwafela Savings and Credit Co-operative Ltd 3. Khorixas Savings and Credit Co-operative Ltd
SCAs " Savings and Credit Associations"	Co-operative Act of 1996	Informal association. Focus is on meeting daily needs.	
Development Bank of Namibia	Development Bank Act no 08 of 2002	SME. Development Areas such as Sanitation, Housing, Economic development.	1. DBN
NamPost	Postal and Telecom Act no 19 of 1992	Rural funding. Focus is on clients that don't have access to formal banking institutions	2. NamPost
Commercial Banks	Banking Institutions Act no 02 of 1998	SME focus. Profit driven with minimal socio-economic factors to consider.	1. Bank Windhoek 2. First National Bank

Adapted from Postrick Mushendami, Esau Kaakunga, Mirjam N.E. Amuthenu-Iyambo, Vitalis Ndalikokule, John Steytler 2004.

4.1.6 Commercial Banks

Commercial banks are registered under the Banking Institutions Act No. 2 of 1998 and are regulated by the Bank of Namibia. Bank Windhoek and First National Bank have started departments that focus specifically on small business borrowings and have created expertise in these fields. The Small Business Credit Guarantee Trust (SBCGT) was formed as a way to help SMEs borrow monies from commercial banks, through making access to collateral more accessible.

4.2   THE PROFILE OF RESPONDENTS

4.2.1   Average age

The average age of MFI, NGOs and SACCOs are reflected in Table 4.2. The table shows that the Namibia Financial Services sector is rather young, between 8-15 years on average, except for NGOs and commercial banks that are aged that are aged 18 and 30 years respectively. These financial institutions provide service and products aimed at the most disadvantaged group, were only introduced after independence of the country in 1990. Table 5.3 shows the Average Age of the above mentioned institutions examined in this study.

Table 4.2: MFIs by average age

MFI	Average age
Commercial banks	30
Community banks	8
Non-bank financial institution	12
NGOs	18
SACCOs	15

4.2.2   Microfinance products

4.2.2.1 Financial services

The survey concluded that all types of MFIs such as commercial banks and SACCO's provided some form of credit services through micro-loans and other

products. In addition to these financial services, most MFIs except NGOs provided savings services. According to Mushendami et al., (2004: 16) NGOs are legally restricted from raising deposits from the public. The survey also concludes that insurance service is the smallest financial service being offered through one commercial bank to mainly cover the loans advanced in the form of microfinancing.

4.2.2.2 Non-financial Services

The survey concluded that educational, health and domestic services were predominantly offered by SACCOs, whilst community project services are offered by SACCOs and non-bank financial institutions (such as the Development Bank of Namibia) only. This spread of services shows that SACCOs are closer to their customers by offering a wider range of microfinance services than the others. The survey results have been supported by the findings of Ministry of Agriculture (2006: 19) that concluded that co-operatives have the greatest potential for socio-economic growth which can reduce poverty and improve livelihood of its members. Table 4.3 below shows the number of MFIs by microfinance product criteria examined in this study.

Table 4.3: Number of MFIs by Microfinance product criteria

MFIs	Financial Services			Non-Financial Services			
	Credit	Savings	Insurance	Education	Health	Community Projects	Domestic
Commercial Banks	2	2	2				
Rural/Community Banks	3	3					
Non-Bank Financial Institution	12	3	3			2	
NGOs	3						
SACCOs	5	3		3	3	3	3
Total	**25**	**11**	**5**	**3**	**3**	**5**	**3**

4.2.3 Gender

Llanto (2005: 28) concluded in his study that both the Grameen Bank and the Association for Social Advancement "ASA" Bangladesh both had preferences in

lending practices, namely the Grameen Bank focused on women from low-income households, whilst ASA looked at the poor and landless labourers or farmers, especially poor rural women. The survey however concluded that unlike the findings of Llanto (2005: 28) the MFIs had no gender differentiation when providing microfinancing services and that all genders were considered during the application process.

4.2.4 Provision of microfinance services on the basis of individual or group or both approach

The survey concluded that most MFIs included in the sample use an individual approach unlike the study conclusion of Llanto (undated: 28) that indicated that the preference of the Grameen Bank was for group guarantees whereby group solidarity is used to ensure repayment responsibilities are adhered to. Therefore the study found that loans were made to individuals in 78% of the cases, as opposed to following the Grameen Bank model of only group lending methods to ensure group guarantees. Figure 4.1 shows provision of microfinance services by individual or group or both approach criteria.

Figure 4.1: Provision of microfinance services on the basis of individual or group or both approach criteria
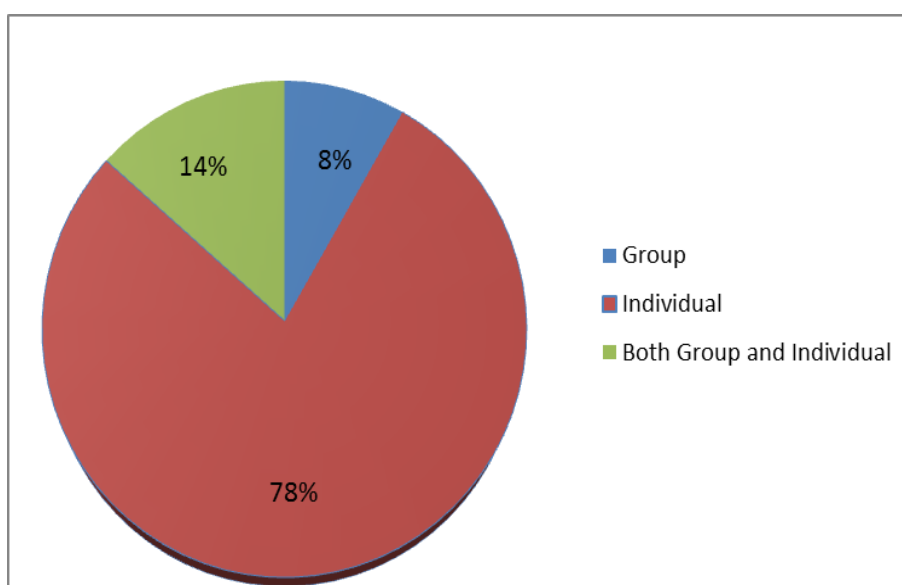
4.2.5 Provision of Microfinance Services on Basis of Employment Criteria

The study by Llanto (2005: 29) has concluded that financing was designed mostly for urban-based borrowers with predictable cash flows, e.g. petty traders, vendors, food processors and others. Cloete, Keeja, Muyambo (2007: 9) stated in their study that microfinancing was still predominately focused on salaried beneficiaries and that there should be a drive to include more classical beneficiaries of microfinance such as the poor and unemployed for it to have a more positive impact on poverty alleviation. This corresponds with the findings from the study that although MFI's are designed to focus on the alleviation of poverty and to assist those that are unemployed to provide some form of sustenance, most institutions namely 65%, still focus on those that have some sort of income, whether formal or not. When we refer to informal work, this can be classified under circumstances such as selling of meat at an informal meat market or sweets at the corner of a road. Figure 4.2 shows provision of microfinance services on basis of employment criteria examined in this study.

Figure 4.2: Provision of microfinance services on basis of employment criteria
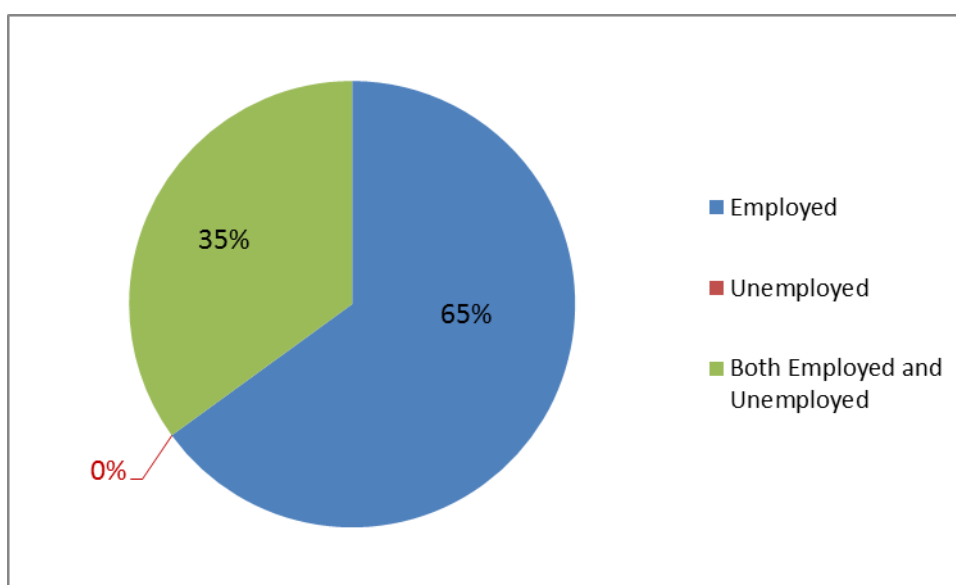
4.3 MFIS EXPERIENCING PROBLEMS IMPACTING ON GROWTH OF THEIR ORGANISATIONS AND ORDER OF PROBLEMS AS RANKED BY RESPONDENTS

I conducted a survey in order to gain a better understanding of growth related challenges MFIs face. I identified a list of potential problems and arranged them into a questionnaire (see Annexes A). Respondents, in the survey, were requested to rank each of the problems by the extent to which it posed a challenge to the growth of their respective MFIs in Namibia. I used a two factor ranking for each problem. First, respondents had to specify whether the identified problem was in fact an issue by, selecting either "Yes" or "No", Once an issue was acknowledged, respondents then had to rank the severity of the problem on a 4-point Linkert scale; with a ranting of 01 (a Small Problem) to 04 (a Severe Problem). Figure 4.3 summarizes the findings of the survey.

Figure 4.3: Ranking of problems by Namibian MFI respondents (overall average from the 25 respondents)

Average Ratings of Problems (source is the survey questionnaire)

Problem	Rating
Service Quality to Consumers	1.96
Client Focused Products	1.92
Quality of Loan Book and Financial Sustainability	1.96
Credit Information System	1.92
Consumer Education	2.68
Low Population Density	1.72
High Costs	2.88
Fraud	2.80
Lack of Capital Resources	3.16
No Charter of Good Practice in Microfinance	1.92
Lack of clearly defined Governing Acts in Namibia	2.24

The survey had a total of 25 respondents. Consequentially, all respondents were able to identify with the problems specified in the questionnaire – there were zero "No" responses.

A *Lack of Capital Resources* was identified to be the most severe problem (Avg = 3.16, STD = 0.85), faced by the respondents, followed by *High Cost* (Avg = 2.88, STD = 0.83) and *Fraud* (Avg = 2.80, STD = 0.87).
Conversely, *Low Population Density* (Avg = 1.72 , STD = 0.98) was found to be the least problematic followed by Client Focused Products, *Client Information Systems* and *No Charter of Good Practice in Microfinance* which all tied at an average rating of 1.92 (STD = 0.95).

4.3.1 Spearman Rank Correlation

I also conducted a correlation test to determine whether there was a statistical relationship between the various problem areas depicted in Figure 4.3. Table 4.4 shows the Spearman Rank Correlation (SRC) coefficients with a 5% significance level (α = 0.05). The SRC measures the strength of the relationship between two variables (row-column pairs). When the correlation coefficient (r_s) value is close to 1.0 to 0.9 there is a strong relationship between variables. This means that changes in one value are strongly correlated to changes in the second variable. In Table 4.4 there is a very strong relationship (r_s = 1.0) between *Credit Information System* and *No Charter of Good Practice in Microfinance*, Although one cannot make any conclusive inferences based on this value, one can assume that as the practices in microfinance improve, there will be a related improvement in the innovation of credit information systems.

Similarly, we have a positive correlation between two variables when the correlation coefficient (r_s) is positive value between 0.8 and 0.5. As one variable increases/decreases in value, similarly the second variable also increases/decreases in value. Table 4.4 shows that there are positive correlations between a number of different variables, the most significant being between the variables *Lack of Clearly Defined Governing Acts in Namibia* and *Credit*

Information System (r_s = 0.788)*; and *Lack of Clearly Defined Governing Acts in Namibia* and *No Charter of Good Practice in Microfinance* (r_s = 0.788).

In contrast we have an inverse correlation when the correlation coefficient (r_s) is negative. This means that as one variable increases in value, the second variable decreases in value. Although there are no statistically significant negative correlations in Table 4.4 I do, however, want to highlight that there are a number of weak negative correlations between variables, the most notable being between *Lack of Capital Resources* and Fraud (r_s = -0.428), see Figure 4.4. Once again, one can assume that has capital resources dwindle, there is an increase in the number of fraudulent activities. However, one cannot draw conclusions from this figure alone.

The closer the correlation coefficient (r_s) is to 0.0 (for both positive and negative values) the weaker the relationship between variables. As a result, changes in one variable are not correlated with changes in the second variable. Although several of the values in Table 4.4 are close to 0.0 none of them equate to zero therefore infer that there is a relationship between the problem variables – all be it weak, I used a 2-tailed pairwise comparison to determine the statistical correlation between two variables, Using α = 0.05, if the Sig (2-Tailed) value is greater than 0.05 than there is no statistically significant correlation between the two variables. If, however, the Sig (2-Tailed) value is less than or equal to 0.05 there is a statistical correlation between the two variables.

Figure 4.4: Lack of Capital Resources and Fraud Relationship

Table 4.4: Spearman Rank Order Correlations (Significant p < 0.050) shows the relationship between problem variables

		Quality of Service	Client Focused products	Quality of loan book and financial sustainability	Credit information system	Consumer education	Low population density	High Costs	Fraud	Lack of capital resources	No charter of good practice in microfinance	Lack of clearly defined governing acts in Namibia
Quality of Service	Correlation Coefficient	*************	.723**	.711**	.659**	.408*	.696**	-.192	-.051	.131	.659**	.645**
	Sig. (2-tailed)		.000	.000	.000	.043	.000	.357	.809	.532	.000	.001
Client Focused products	Correlation Coefficient	.723**	*************	.667**	.491*	.479*	.622**	-.279	.012	.249	.491*	.532**
	Sig. (2-tailed)	.000		.000	.013	.015	.001	.177	.954	.229	.013	.006
Quality of loan book and financial sustainability	Correlation Coefficient	.711**	.667**	*************	.738**	.542**	.779**	-.290	.044	.139	.738**	.694**
	Sig. (2-tailed)	.000	.000		.000	.005	.000	.160	.836	.509	.000	.000
Credit information system	Correlation Coefficient	.659**	.491*	.738**	*************	.482*	.750**	-.217	.113	-.024	1.000**	.788**
	Sig. (2-tailed)	.000	.013	.000		.015	.000	.297	.592	.910	.	.000
Consumer education	Correlation Coefficient	.408*	.479*	.542**	.482*	*************	.410*	-.030	-.141	-.008	.482*	.614**
	Sig. (2-tailed)	.043	.015	.005	.015		.042	.887	.502	.971	.015	.001
Low population density	Correlation Coefficient	.696**	.622**	.779**	.750**	.410*	*************	-.175	-.030	.107	.750**	.655**
	Sig. (2-tailed)	.000	.001	.000	.000	.042		.404	.888	.612	.000	.000
High Costs	Correlation Coefficient	-.192	-.279	-.290	-.217	-.030	-.175	*************	.193	-.128	-.217	-.272
	Sig. (2-tailed)	.357	.177	.160	.297	.887	.404		.355	.543	.297	.189
Fraud	Correlation Coefficient	-.051	.012	.044	.113	-.141	-.030	.193	*************	-.428*	.113	-.033
	Sig. (2-tailed)	.809	.954	.836	.592	.502	.888	.355		.033	.592	.875
Lack of capital resources	Correlation Coefficient	.131	.249	.139	-.024	-.008	.107	-.128	-.428*	*************	-.024	.012
	Sig. (2-tailed)	.532	.229	.509	.910	.971	.612	.543	.033		.910	.954
No charter of good practice in microfinance	Correlation Coefficient	.659**	.491*	.738**	1.000**	.482*	.750**	-.217	.113	-.024	*************	.788**
	Sig. (2-tailed)	.000	.013	.000	.000	.015	.000	.297	.592	.910		.000
Lack of clearly defined governing acts in Namibia	Correlation Coefficient	.645**	.532**	.694**	.788**	.614**	.655**	-.272	-.033	.012	.788**	*************
	Sig. (2-tailed)	.001	.006	.000	.000	.001	.000	.189	.875	.954	.000	

Legend (CORRELATION):

Very strong negative	Moderate negative	Weak negative	No correlation	Weak positive	Moderate positive	Very strong positive

-1 ← 0 → +1

CORRELATION

White cells indicate a very weak statistical correlation

2-tailed coefficient <= 0.05 = statistically significant correlation
2-tailed coefficient > 0.05 = no statistically significant correlation

4.4 OPERATIONAL FRAMEWORK

The main factors, as identified in Figure 4.3, which hinder the growth of MFIs are summarized below:

1.   Lack of capital resources (3.16)
2.   High costs (2.88)
3.   Fraud (2.80)
4.   Consumer education (2.68)

In the subsequent sections, each of the abovementioned problems is discussed and addressed.

4.5   REGULATORY FRAMEWORK

On the regulatory front, the lack of regulatory clarity seems to be a common factor that is hindering growth. Regulators have not been able to ensure that all players understand the industry and comply with reporting requirements that have been set out to help the regulator ensure that they focus on the correct areas.

4.6   LEGISLATIVE FRAMEWORK

The lack of laws to govern most MFIs has been identified as a problem by respondents to the study questionnaire. Most MFIs are not complying with standards of good governance because of this. NAMFISA is in a process of looking into this through the introduction of the new amalgamated bill, however to date; this bill is in a draft format and is not being applied.

A Charter of Good Practice within the industry is also one of the other factors that is a common problem for MFIs in Namibia. Although these are prudential means of conducting business, the fact that they are not law means that MFIs need not comply with them.

4.7 SUGGESTED BEST PRACTICES VERSUS SELECTED PROBLEMS INDENTIFIED BY RESPONDENTS

The objectives of the study were to identify the problems that had the most impact and discuss their applicability to MFIs in Namibia. The second part of the review should therefore look at addressing these problems, so as to ensure that there are solutions for MFIs that operate within this market.

The following section will look at the four main problems surveyed and suggest solutions based on best practices that have been researched in the market.

4.7.1 Lack of Capital Resources

The results from the survey reveal that most MFIs still find the lack of a donor or capital resources as a prohibiting factor. Although the Spearman Correlation does not have a strong correlation co-efficient towards some of the other main problems, the lack of capital resources would be a primary hindrance to attaining financial independence and sustainability as highlighted by Wessen (2008: 8). A culture of dependency and inefficiency could arise due to the lack of capital as MFIs would be solely reliant on funding through donors.

In Namibia, donor funding has been limited over the last few years. Institutions that relied heavily on this type of funding were forced to close due to the fact that the donors pulled out due to strategic reasons. Therefore in the absence of other donors, most donor-funded MFIs found it impossible to operate without that financial backing. The lack of funding limits the ability of the MFI to meet the needs of clients as supported by Griffen (2008).

Taxation incentive through Government could reverse the trend that we have been seeing on the lack of capital. Donors or other sources could be tempted through these tools to invest their monies through riskier, yet more tax efficient means such as MFIs, only if the tax incentive is lucrative.

Finally, MFIs should try to source alternative means of funding that fall within their lending terms, such as issuing unlisted bonds or paper. The problem however with this initiative is the need to have a credit rating (such as from Fitch) and track record of sustainability (having operated for a number of years profitably).

4.7.2   High Costs

High operational costs were cited as one of the main problems of MFIs, especially driven through processing, transactional and administration costs (AMFIU, 2011). The interest rate charged is in most cases not sufficient enough to cover the costs as the Usury Act no. 73 of 1968 limits the percentage charged and therefore MFIs find it difficult to break-even.

Processing of loans linked to clients in the rural areas is higher than urban areas because of the transportation cost element. On the operational side, the lack of a formal track record for the clients makes it difficult to assess the credit worthiness of clients and therefore leads to more work being done, so as to ensure that clients are of the correct calibre.

4.7.3   Fraud

Staff and clients can collude to perform the act of fraud. Fraud inhibits growth as it erodes profits and causes inefficiency in the MFI. The lack of strong internal controls can also make fraud possible, as there are no control measures to ensure that business is done correctly. Improved reporting and transparency help to deter acts of fraud as staff and clients are cautious to perform such acts because the books are scrutinized and reviewed properly (Yong, T., 2005).

Group lending practices to clients has proven to be very effective, especially with the collection as clients are forced to adhere to the terms because if one of the members defaults it has an impact on the credit worthiness of the remaining clients. The use of community leaders also has the same effect as group lending and is usually as effective. Greater screening of loan applicants has also helped to minimize the fraud in MFIs with

clients with dodgy track records being sifted out at the application phase. Training is needed to help staff identify and prevent fraud before it happens.

Finally, regulators that continuously review the status of MFIs, usually pick up on fraudulent activities of staff and clients. With proper supervision and analysis, this can decrease the occurrence of fraud.

4.7.4   Consumer Education

The education levels of clients, especially in terms of financial literacy, were another of the problems that MFIs found to inhibit growth. Clients that lack formal exposure, usually find it difficult to understand the liabilities associated with the loan contracts that they enter. As most of the loans made are used for consumption as opposed for growing their asset base, clients find it difficult to avoid the debt trap and end up either incurring further loans to cover their lifestyle or simply defaulting. Transparent information on the products ensures that staff understands what they are entering and usually make an effort to abide to these terms and possibly look at different communication mediums as advocated by Zainabu (2010: 3). The availability of acts and best practices also helps clients in understanding the industry.

4.8   OVERALL RESPONSES

When respondents were probed to indicate five issues that can significantly increase financial services through MFIs to Namibians, one matter was raised for the urban groups, one for both urban and rural, while three issues were found very important to the rural consumers.

More specifically, they mentioned that for urban-based clients, Government should introduce the creation of a SME Bank that focuses and acts as an MFI. For both rural and urban target groups, tax incentives are needed if funding is raised through an MFI.

For rural groups, what is considered important are the following three issues:

1. Rural electrification that would allow for the establishment of satellite offices with proper ICT facilities;

2. Government must improve the road network facilities to ensure travel access to wider rural communities, and lastly;

3. The need was expressed for the improvement of financial literacy for women so as to allow them to make more use of MFI's facilities.

4.9 CONCLUSION

The findings of this chapter have revealed that there are four main challenges that stand out, namely; fraud, consumer education, lack of financial resources and high costs. These problems are not the only ones however they seem to create the greatest problem for Namibian MFIs. The best practices applied to alleviate these problems are not the panacea; however they do help to decrease the recurrence of the problems.

The survey further found that most MFIs focused on the provision of credit to clients. The availability of micro-insurance has proven not to be lucrative, whilst the savings arm, although provided especially in SACCOs, was not too widely used.

The main source of funding for most of SACCOs is members only; although the SACCOs are few, there is no coordinated move to source external funders such as Donor agencies.

The Namibian MFI industry is relatively new, even though most of the commercial banks have been in operation for more than 15 years. Most of these service providers have only now seen the need to focus on funding through MFI units as most of the informal traders and clients are based within this portion of the industry.

4.10 SUMMARY

There are 347 Micro-lenders registered with NAMFISA. The survey showed that formal banks and MFIs provide credit services to customers. However from the 25 institutions surveyed 3 (three) provided non-financial services which included education, health, community and domestic services. Services are mostly provided to employed customers in urban areas.

From 11 (eleven) impediments rated, four had the highest impact on MFI operations, these are in order of importance, lack resources, high costs, consumer education and fraud. On regulations there is no clarity and in terms of legislation, it is still in the making. A test has been carried out between service quality and the products offered to establish a relationship.

In chapter 5, the main conclusions and recommendations of the study are provided.

CHAPTER 5
SUMMARY AND RECOMMENDATIONS

5.1   INTRODUCTION

The purpose of the study was to examine problems that hinder the creation of a sustainable microfinance industry in Namibia. The study looked into the assertion that certain microfinance institutions (MFIs) have problems that hinder them from being able to service clients and still be able to remain profitable.

Firstly, an overview of the main issues from an operational, regulatory and legislative framework were highlighted and discussed. These included items such as fraud, high costs and lack of resources.

Secondly, a survey was conducted through the use of a questionnaire and based on those findings, certain key elements were highlighted as having significant correlations to one another and that they are also critical in the performance of the MFIs in the industry and based on the perceptions of 25 MFI respondents, certain key problems were highlighted as being key problems.

Lastly, best practices are suggested as solutions in addressing the main problematic issues raised in the survey.

5.2   SUMMARY OF MAIN FINDINGS

In this study an overview of the general profile of MFIs in Namibia was given as expressed by MFI respondents during the survey. Generally the findings can be summarized as follows:

1. The Namibian MFI industry is relatively new, even though most of the commercial banks have been in operation for more than 15 years. Most of these service providers have only now seen the need to focus on funding through MFI units as most of the informal traders and clients are based within this portion of the industry.

2. Micro-insurance service is not offered by most MFIs; it appears not to be familiar among Namibian MFIs except for those that make use of insurance on the credit facilities made to SMEs. Most SME and individuals opt to go to the conventional insurers, namely Old Mutual and Sanlam for insurance as opposed to looking for other means.

3. The main sources of funding for most SACCOs are mostly through members only; although SACCOs are few, there is no coordinated move to source external funders such as donor agencies.

Eleven factors impacting on the growth of MFIs in Namibia were ranked in order of significance and overall responses indicated that the four main problems impact on the growth of Namibian MFIs are ranked by the 25 MFI respondents as follows:

1. Lack of enough capital resources to lend to clients. (3.16 out of 4).
2. High Costs of doing business. (2.88)
3. Fraud from internal and external parties. (2.80)
4. Consumer education. (2.68)

Lastly, some best practices are suggested for the twelve common problems used in the survey and these have now been incorporated into the recommendations as highlighted in the final section of this research study.

5.3   RECOMMENDATIONS

In order to alleviate the problems that most MFIs have been experiencing in the Namibian market, the following may be necessary.

Firstly, the regulatory environment in Namibia needs to be improved with the government introducing clearer principles for market participants. The current initiative to incorporate all the legislation into the FIM Bill might prove to be too bulky for the normal client to interpret and therefore the regulator must find alternative means on how to educate clients on the operations of MFIs. The government needs to become an enabler for the provision of financial services.

Secondly, the MFI industry can also look at creating a fund which is funded through levies charged to MFIs to educate clients. The cost of this should not be passed to the client through increased costs, however MFIs should incur this as this would help to alleviate one of the main problems that they have.

Thirdly, transparency of operations and costs should be encouraged so that MFI and clients understand the terms of engagement. Without this, each party will be suspect of the motives of the other and there will not be a culture of trust amongst the participants.

Fourthly, MFIs should assure that the products developed meet the needs of clients. This can be achieved through market research conducted through either universities or simply through surveys in newspapers or magazines.

Lastly, MFIs should arrange for exit strategies for their funders so as to ensure that post-donor funding, they can survive. This should include strategies as to how they would source funding such as issuing bonds or commercial study.

The above recommendations have attempted to provide solutions to some of the problems and further studies should be conducted to focus on some of the other best practices that can be implemented.

5.4   FURTHER RESEARCH

Further studies should be encouraged on suggestions made by respondents and by formalising the MFI industry through proper legislation and encouragement from Government to set up a MFI houses. Although students could conduct these studies, the Government should be the one to lead the initiative.

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APPENDIX A:

QUESTIONNAIRE

PROBLEMS AFFECTING THE GROWTH OF MICROFINANCE INSTITUTIONS IN NAMIBIA: AN OPERATIONAL, REGULATORY AND LEGISLATIVE PERSPECTIVE
Questionnaire

Type of Microfinance service provider………………………………….

(Commercial bank, Non bank financial Institution, Rural /Community bank, NGO, SACCOS).

Year established………………………………………………………….

Which financial products do you offer? (tick the applicable service)

- Financial service

    Credit…………………………

    Savings……………………….

    Insurance……………………..

- Non-financial services provided (tick the applicable service)

    Education……………………..

    Health…………………………

    Community projects……….……

    Domestic……………………..

    Any other (mention)……………………………………………………..

4. **Does your organization provide a service to?** (Put a tick in the appropriate block):

Only Women	☐	Only Men	☐	Both	☐
Only Groups	☐	Only Individuals	☐	Both	☐
Only employed	☐	Only unemployed	☐	Both	☐

5. **Who are the major donors or investor?** (Please only indicate whether they are domestic or international, no names required)

…………………………………………………………………………………………

6. **Number of borrowers (clients) Individuals & groups who had received loans so far**…………………………………………………………………………..

Number of Branches/offices providing Microfinance services………………

Which geographic areas do you serve? (Put a tick in the appropriate block):

Only Rural ☐   Only Urban ☐   Both ☐

Number of Regions covered………………………

Please indicate whether (Yes or No) you currently experience the following issues/problems as a challenge in your organization. If your answer is "Yes", please rank that factor/problem by putting a tick against a relevant code concerning to which extent does that factor/problem affect your organisation from expanding microfinance services in Namibia to your target market.

Ranking codes:

4- the factor is a severe problem.

3- the factor is a moderate problem.

2-the factor is a minor problem.

1-the factor is a small problem.

0-the factor is not a problem

Problem	Yes or No		1 Small Problem	2 Minor Problem	3 Moderate Problem	4 Severe Problem
Service quality to customers	Y	N	1	2	3	4
Client focused Products	Y	N	1	2	3	4
Quality of Loan Book and Financial Sustainability	Y	N	1	2	3	4
Credit Information System	Y	N	1	2	3	4
Consumer Education	Y	N	1	2	3	4
Low population density	Y	N	1	2	3	4
High costs	Y	N	1	2	3	4
Fraud	Y	N	1	2	3	4
Lack of capital resources	Y	N	1	2	3	4
Lack of regulatory clarity (especially on which regulator is responsible for certain enforcement of clauses stipulated in the Acts)	Y	N	1	2	3	4
No Charter for Good Practice in Microfinance	Y	N	1	2	3	4
Governing Acts in	Y	N	1	2	3	4

Namibia (that are either not clear on what is required nor do they specify the penalty if not complied with)					

Other problems (Please mention them specifically)

....

....

....

....

Suggest five things that can be done to significantly increase financial service through MFIs to the Namibians in the Rural/Urban areas

First:

....

....

....

Second:

....

....

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Third:

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....

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Fourth:

....

....

Fifth:

....

....

APPENDIX B:
ETHICAL CLEARANCE CERTIFICATE

UNIVERSITY OF KWAZULU-NATAL

INYUVESI YAKWAZULU-NATALI

Research Office, Govan Mbeki Centre
Westville Campus
Private Bag x54001
DURBAN, 4000
Tel No: +27 31 260 3587
Fax No: +27 31 260 4609
mohunp@ukzn.ac.za

8 August 2011

Mr LJ Tshoopara   (203518369)
Graduate School of Business
Faculty of Management Studies
Westville Campus

Dear Mr Tshoopara

PROTOCOL REFERENCE NUMBER: HSS/0701/011M
PROJECT TITLE: Problems Affecting the Growth of Microfinance Institutions in Namibia: An Operational, Regulatory and Legislative Perspective

In response to your application dated 5 August 2011, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.
PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

....
Professor Steven Collings (Chair)
HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE

cc. Supervisor: Prof W Geach
cc: Mrs C Haddon, Faculty of Management Studies, J Block, Westville Campus

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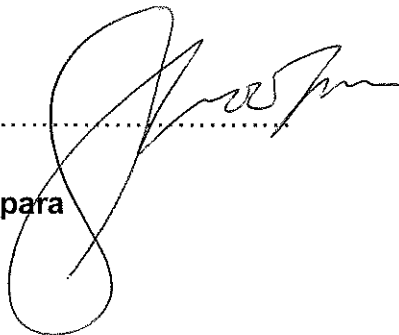
Declaration

I, **Leevi Jordan Tshoopara**, declare that

- The research reported in this dissertation/thesis, except where otherwise indicated, is my original research.

- This dissertation/thesis has not been submitted for any degree or examination at any other university.

- This dissertation/thesis does not contain another person's data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.

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Signed:...

Mr Leevi J Tshoopara