

# THE ROLE OF MICRO CREDIT SCHEMES IN THE GROWTH OF SMALL AND MICRO BUSINESS ENTERPRISES IN BOTSWANA

C. R. Sathyamoorthi and B.S. Khupe\*

**Abstract:** Small and micro enterprises in Botswana are relatively young. (G.Sunny & V. Babikanyasia, 1994). Although this is the case, the Government has long recognized the importance of developing the small business and all efforts are made to encourage them through various assistance programmes. In its policy formulation processes, the Botswana government is guided by four major economic factors: Rapid economic growth, economic independence, sustained development and social justice. These are principles enshrined in the country's National Development Plan for the past two decades (Government of Botswana, 1988 a).

For its part, SMME encourages rapid economic growth by increasing employment prospects thereby enabling economic independence by reducing dependence on imports (Government of Botswana, 1988 b); contributes toward sustained development by upgrading citizen skills through on-the-job training and providing essential training for employees who would be better empowered to start other own businesses (Government of Botswana, 1988 a). SMME also promotes social justice by creating sustained employment for unskilled workers (Alexander, 1983).

The biggest stumbling block towards flourishing of small and medium enterprises in Botswana is finance and the Botswana government has both realized this fact and raised to the occasion by way of establishing a Micro Credit Scheme administered by the National Development Bank. The study looked into the role played by the scheme in the growth of small and micro enterprises. Two sets of questionnaires were distributed for data collection, one targeting the National Development Bank (NDB) administration and the second to the beneficiaries of the scheme. The study revealed that the scheme has been partial successful in addressing its intended objectives. The most prominent problem faced by the scheme administrators being overdue loan repayments which have over time mounted to unsustainable levels. A scheme re-structuring is recommended with an aim of addressing problems identified by the research study.

## INTRODUCTION

Botswana is a land-locked country, which attained independence in 1966. The discovery of Diamonds in early 70's gave a boost to Botswana's economic development. Of late, the government has wisely diversified its activities to improve its economic performance. It has now placed great emphasis on the development of Micro, Small and Medium Enterprises in the country to both improve the current level of economic performance and manpower skill diversity. Although detailed official statistics of Small, Medium and Micro Enterprises are lacking in Botswana, the Task Force established by the Ministry of Commerce and Industry to look into issues relating to SMME has estimated that there are approximately 56 300 such businesses currently

operating in Botswana, employing 125 000 people, inclusive of business owners. The 1996 study by Newell reveals that the overall contribution of SMME sector towards GDP is quite significant. It is proved beyond doubt that one major contribution of SMME is job creation.

A sustainable economic development of any country is characterised by the use of its indigenous resources towards the renewal and acceleration of industrial growth. Any country aiming towards a self-supporting status must build a strong manpower base, which has the ability for right judgement, initiative, and determination to conceive and launch new enterprises and also ensure that the ventures are economically successful (Dinwiddy, 1974). The government has, therefore, recognised the

\* Department of Accounting and Finance, Faculty of Business, University of Botswana, Gaborone, Botswana

importance of SMME development and hence taken cognisance of issues of financial assistance, which have been hindering the growth of such businesses in the country.

#### MICRO, SMALL AND MEDIUM BUSINESSES DEFINED

The Small, Medium and Micro Enterprises Task Force (April, 1998), has developed definitions for the three business categories. For all intent and purposes, this paper shall assume definitions that have been adopted by the Botswana Government as drawn from the recommendations of the Task Force.

#### Micro-Enterprises

"A micro-enterprise is an enterprise which has less than six workers including the owner and an annual turnover of less than P60 000" (approximately US\$ 10000:Chapter 3: 9).

#### Small Enterprises

"Small enterprises employ less than 25 paid employees, and have an annual turnover of between P60 001 and P1 500 000" (approximately US\$250 000 as the limit: Chapter 3: 10).

Micro and small business enterprises can be defined in various ways but the common denominator in all of these definitions is that they employ few persons and are characterized by small amount of capital and turnover. This is a point amplified by the United States Committee for Economic Development (USCED) in their description of small business enterprises. USCED states that a small business will have at least two of the following characteristics:

- ◆ Managers are also owners;
- ◆ Owners supplied capital;
- ◆ Area of operation mainly local; and
- ◆ Small in size within the industry.

#### Medium-Sized Enterprises

"Medium-sized enterprises employ less than 100 paid employees and have an annual turnover of between P1 500 001 and P8 000 000" (approximately US\$1.3m as the limit: Chapter 3: 10).

The Government of Botswana has accepted the criteria proposed by the SMME Task Force for defining the three categories of enterprises which are based on annual turnover and number of persons employed with the exception of the upper limit for the turnover of medium-sized enterprises for which it has opted for a lower figure of P5 million instead of P8 million (Policy on SMMEs in Botswana, Government Paper 1, 1999).

#### MICRO CREDIT SCHEME ADMINISTRATORS, THE NATIONAL DEVELOPMENT BANK (NDB)

A micro credit scheme, known as Micro Business Finance Scheme (MBF), is a pool of funds set aside by the Botswana government to promote, both financially and otherwise, micro and small business enterprises in the country. The scheme provides loans ranging from P500-P20 000 to citizens to engage in new business ventures or improve already existing business. Loans are given at an interest rate of 15% per annum, and repayments to be made in a maximum period of 36 months. Loan approval and granting is subject to proven business ability to generating enough cash to timely honour the agreed loan instalments. One among many prerequisites to qualify for the loan, the applicant's current total annual income should be less than P40 000, a condition deliberately set to ensure MBF exclusively targets Micro Enterprises. The scheme commenced on 1st June 1999.

To ensure full compliance to the set prerequisites, competence and professional administration of the fund, the National Development Bank was appointed as fund

administrators. The National Development Bank was established under an Act of Parliament in 1963. The bank is the government's arm on matters of finance (both at advisory and operational level) and operates under the control of the Board of Directors appointed by the Minister of Finance and Development Planning. The bank provides a wide range of financial services to the business community at large.

## LENDING PROCEDURES

### Loan Screening Methods

The main deciding factor when considering an application for a loan is whether the proposed project is capable of generating sufficient cash flows to service the loan. The NDB also considers the marketability aspect of the goods or services the business proposes to offer and its future potential. Further, the entrepreneur-to-be must display reasonable comprehension of bookkeeping and managerial skills.

In all cases of rejected applications, the affected applicants are fully furnished with reasons for rejection so that they are given a fair chance to revisit their weak points. But basically, it is information on monthly sales and expenses projections which plays a pivotal role in determining the loan amount approved.

### Loan disbursement

Once an application is approved, a letter of offer is sent to the applicant inviting him/her for a compulsory 5-day course on records keeping and business management. A certificate of attendance issued thereafter should also be submitted to NDB offices prior to signing the loan contract. Money is disbursed in the form of cheques drawn by the bank over the counter in favour of either the applicant or an identified supplier.

### Support Services

After disbursement of loans, a credit officer at the National Development Bank will visit the

projects to check whether funds have been used for intended purposes, i.e. purposes stipulated in the loan contract.

## Loan Repayment Procedures

The entrepreneurs can pay instalments through commercial banks by means of stop orders, direct debits or even over the counter cash/cheque payments. It is the duty of identified NDB officers to ensure that correct amounts are timely received from all loan beneficiaries and to take necessary action against defaulters or potential defaulters, including making 'house calls' and physically collecting overdue payments.

## OBJECTIVES THE STUDY

The following are the main objectives of the study:

- ♦ To critically examine the micro credit scheme run through the National Development Bank;
- ♦ To determine the extent of loans awarded to micro entrepreneurs;
- ♦ To establish the distribution pattern of the loans both geographically and by business sector;
- ♦ To assess the level of accessibility to such funds by micro business entrepreneurs;
- ♦ To identify, both administrative and operational, problems that have over time affected the productivity levels of the scheme and suggest remedial action.

## STATEMENT OF THE PROBLEM

Restricted access to finance is considered to be a major obstacle in the development and growth of micro, small and medium size business enterprises in the country. The Task Force Report (Government Paper 1, 1999) has identified finance as a major constraint in the development of micro enterprises in Botswana. In response, the Botswana government

established a micro credit scheme, a development well received by the business community. The main issues of contention are; (i) whether the provision of easily accessible funds targeted solely at micro businesses is in itself a self-contained solution to all of the problems faced by the micro business sector; (ii) if at all funds distributed thus far are adequate to satisfy the financial needs of the targeted group of entrepreneurs; and (iii) whether there are any economic indications of positive developments in the targeted business sector in Botswana. This research paper will endeavour to provide answers only to some of these issues. A research at a much wider scale would be needed to answer all of the questions raised.

It is however worth mentioning at this early stage that government sources have already reported a high rate of loan re-payment defaults, a problem which may detrimentally affect both the success and the long-term sustainability of the scheme.

#### DATA ANALYSIS

A survey was conducted to solicit information for the study by administering two types of questionnaires. One questionnaire was administered to small business entrepreneurs who had benefited from the MBF scheme in the two cities of Gaborone and Francistown. Another questionnaire was administered to the Operations Manager of National Development Bank responsible for coordinating the scheme. The survey was carried out during the months of November and December 2000.

#### MBF CREDIT SCHEME BENEFICIARIES: RESEARCH RESULTS AND FINDINGS

A list of 190 small-business loan beneficiaries in Gaborone and 50 in Francistown was obtained from the NDB offices. Information

on approved loans is filed according to size of the enterprise and the business sector /industry. Three convenient business sector categories were identified: Manufacturing, Retail and Service. A stratified random sampling method (with business sector as a criteria) was found to be most appropriate approach. The population constituted strictly of micro size businesses (as defined in the introduction).

From the aforementioned list, a sample of 95 entrepreneurs in Gaborone and 25 in Francistown was selected using the sampling method described above. Out of these, only an aggregate of 60 entrepreneurs responded; 45 in Gaborone and 15 in Francistown. The low response rate (50%) could be attributed to difficulties experienced in locating the identified entrepreneurs and for some located businesses the entrepreneurs were not present in their places of business. The problem was further compounded by a significant number of sampled entrepreneurs who were reluctant to participate in the exercise.

#### Findings

The table below shows numbers that constituted businesses in the three different sectors of manufacturing, retail and service from the sample.

Business Sectors	Number of Respondents	Percentage
Manufacturing	8	13%
Retail	38	63%
Service	14	24%
Totals	60	100%

13% of the surveyed entrepreneurs were involved in some form of manufacturing business. For the purpose of this research, manufacturing includes, among others,

construction and agriculture. In spite of having the lowest number of finance beneficiaries, it was however interesting to note that the manufacturing sector was the most diversified relative to retailing and service, i.e. the variety of goods produced was wide.

Retail constituted 63% of the respondents. Retail financing proved to be heavily skewed towards vendors engaged in sale of clothes. 24% of the respondents were in the service sector, of which activities included motor vehicles repairs and maintenance, professional services (secretarial, photocopying etc) and provision of public transport. The level of service sector diversity proved to be fairly comparable to that of the manufacturing sector.

It emanated from the study that the retail business benefited most from the financial assistance but, ironically, managed to attract only a few types of businesses. The funds disbursed to retail business went to a very limited classes/cartagories of business ventures. A significant number of approved loans related to retailing than to manufacturing and service sectors. The study also revealed that, unlike both the service and manufacturing sectors, the retail businesses covered both the formal and informal platforms almost evenly.

#### Loan Purpose

The goal of financial assistance policy can broadly be divided into two; either to start-up a new, yet promising, business venture or to finance the expansion of an already existing business. 47% of the sampled businesses fell into the earlier category while 53% fell into the latter. Further the study revealed that of all the new businesses started with MBF assistance, retail sector had the lion's share.

The pattern of business promotion through MBF scheme mentioned above is very much in line with the findings of previous studies, which showed that the retail sector is the most rapidly growing sector in micro enterprises.

However, the absence of some business activities such as confectionary, road maintenance, supermarkets, security and service (filling) station, was apparent in the survey - another scope for further study.

Micro loan is a source of initial capital and working capital to most micro-enterprises. 34% of the funds received were used to acquire fixed assets and 66% of the funds were converted to working capital. The fixed assets bought mainly included motor vehicles, plant and machinery and office equipment. Stock was the most prominent component of working capital, mostly consisting of goods for resale.

Although generally applicable to both the retail and service sector, the fixed asset to working capital ratio stated above was found not to be compatible with the manufacturing sector. Instead, manufacturing firms used 85% and above of the funds to acquire fixed assets. Overall, it was observed that fund utilisation was a variable of the type of business.

#### Place of Operation

The table below is information relating to place of operation *vis-a-vis* the type of business. Street vending appeared to be the most prevalent form of running the business where formal commercial plots are rarely used. This could be attributable to both the general shortage of commercial shop spaces in the cities and high rates for the available few.

Place of operation	Percentage
Mobile shop	7%
Shops in commercial plots	5%
Home business	38%
Street vendors	50%

It will be noted that these results are consistent with those of numbers engaged in each business category, i.e. the majority of businesses are street vendors which would be engaged in retailing. Manufacturers would be expected to have a more permanent base hence would be the few (5%) in commercial plots.

### Business Ownership

Sole proprietary were found to be the most popular type of business ownership for micro businesses, as opposed to other types such as partnerships, private companies, public companies and societies, e.g. cooperatives. Micro businesses are by definition so small that the number of employees (including the owner) does not exceed six (refer to introduction). With the finance scheme having a credit limit of a mere P20 000, it is therefore logical that sole proprietorship is the most common form of ownership given its simplicity.

### Education

The study also looked into the level of education of the selected business entrepreneurs

Level of education	Manufacturing	Retailing	Service	%
Primary education	-	18	6	40%
Secondary education	3	12	4	32%
Tertiary education	2	-	6	14%
None	2	6	-	14%
Total	8	36	16	100%

The above table shows that 40% of the micro entrepreneurs had primary education, 32% had secondary education and 14% had tertiary education. A previous study (Briscoe, 1995) showed a slightly lower percentage on level of education and it is, therefore, encouraging to note that the level of education has improved since then.

### Age Group

Age Range	Percentage
21-40	55%
41-60	46%
60 and above	4%

The above table shows that a 55% majority of selected entrepreneurs belonged to the age bracket of 21-40. From these findings, it can be deduced that micro business is dominated by an age group of persons who are at the prime of their lives, full of potential, which can carry through economic development into the long run.

Furthermore, this age bracket composes of persons who are at varying stages of the learning curve in business, i.e. ranges from those with little or no experience at all to those well versed with business operations. In a nutshell, the most active age group in micro business comprises of a combination of beginners and veterans who are all below the age of 41, a scenario most conducive for a developing country.

### MICRO CREDIT SCHEME ADMINISTRATORS (NDB): RESEARCH RESULTS AND FINDINGS

A comprehensive questionnaire was served to the operations manager of NDB directly responsible for receiving application forms, assessing credit worthiness, approving the loan and monitoring loan repayments.

### Background Information

One of the main objectives of the micro credit scheme is to improve or ease accessibility to credit with a view of promoting economic empowerment, independence and diversity. The NDB was shouldered with the responsibility of actualising this vision both in the short and long term. Part of the reason for choosing NDB, apart from professional competence in handling such tasks, was that it has a network of branches throughout the length and breadth of the country and that by virtue of being a government bank it carries more social responsibilities than commercial.

### Loans Disbursements

Micro loans are disbursed through the nine branches of the National Development Bank. These branches have been set-up in various parts of the country including remote areas so that micro entrepreneurs, wherever they are, can have easy access to micro loans.

The micro credit scheme was introduced on 1<sup>st</sup> June 1999 with a seed capital of P 150 million and was expected to run until 31<sup>st</sup> March 2001. Statistics show that the entire amount was fully distributed by the end of November 2000.

The table below shows that small business

entrepreneurs received micro loans to the tune of P186 million distributed throughout the country in a period of 17 months. This was made possible by the outstretched branches of the bank and the immense effort put in public education. The bank covered both rural and urban areas. The study reveals that 47% of the funds disbursed were in the villages (rural areas) and 53% of disbursed loans went to micro entrepreneurs in towns or urban areas. It is interesting to note that the branch at Serowe has the second largest loan disbursement, despite the fact that it is a village branch. Again, the loan amount disbursed by this branch is higher than the micro loans disbursed by Selibe-Phikwe and Francistown branches that are more developed and populated than Serowe. Factors that contributed to the disbursement of such a large funds is another area for further research.

Research shows that of the total applications received in Gaborone, only 50% was approved. If the same rate is applied across the board, it would imply that a total of 43 720 applications were countrywide and only half were successful. These results prove that the popularity of the micro business credit scheme is deeply entrenched in the failure by existing structures to meet the financial needs of micro entrepreneurs.

Agency Branches	Approved loans	Disbursed loans in value (Pula)	Percentages of disbursed loan
Francistown	2690	19000000	10.26
Gaborone	6196	50000000	26.88
Kanye	2571	17000000	9.14
Mahalapye	1675	18000000	9.68
Maun	1160	8000000	4.30
Molepolole	931	8000000	4.30
Selibe-Phikwe	2474	21000000	11.29
Serowe	3748	43000000	23.12
Tsabong	415	2000000	1.08
<b>TOTAL</b>	<b>21860</b>	<b>186000000</b>	<b>100</b>

SOURCE: NDB Gaborone, November 2000

### **Lending Criteria and Administration**

The Ministry of Commerce and Industry formulates the lending criteria for micro loans. The way the micro credit scheme is administered by National Development Bank has a direct bearing on the accessibility to credit by micro entrepreneurs. The study measured the level of satisfaction among the borrowers on the micro credit scheme through an analysis of the following factors; loan size, repayment period interest rates and collateral prerequisites.

#### *Loan Size*

The scheme provides loans in the range of P500 to P20 000. Loans from other financial institutions have much limited range and restrictions. This has made the micro credit scheme popular among small and micro entrepreneurs.

#### *The Repayment Period*

The repayment period is up to 36 months, which is allocated on the basis of the amount disbursed and type of business the entrepreneur is engaged. The study reveals that 59% of the entrepreneur respondents were generally happy with the repayment period and the 41 % felt that the period should be extended. Based on the above, it can be reasonably concluded that the period given to entrepreneurs to repay the loan is appropriate for the micro businesses.

#### *Interest Rates*

Micro loans are advanced at a fixed interest rate of 15% per annum. Previous studies show that small and micro entrepreneurs were generally unhappy with the high interest rates charged by financial institutions, a factor which acted as a barrier to access credit funds. It is assumed that if the entrepreneurs are comfortable and can afford the charged interest rate on micro loans, then the barrier would not

exist, thus easing the access to credit funds. However, 91% of the respondents felt that the interest rate is too high for them as micro entrepreneurs. They were of the opinion that there was no material difference between the interest rate charged by National Development Bank and by commercial banks. The interest rate charged on the micro loans has, therefore, affected the actual amounts borrowed by an individual entrepreneur although the popularity of the credit scheme was least affected by interest factor (as clearly indicated by the rate and magnitude of loan disbursement).

#### *Collateral*

Loans offered by financial institutions are to be supported by security or personal guarantee. A personal guarantee requires a list of assets owned by the borrower, which can be used as a security in case of default. Such a requirement can be a problem to some borrowers who may not possess such assets.

Most of the entrepreneur respondents thought that the need for collateral security hinders access to credit funds. Entrepreneurs were asked as to whether a security should be a standard prerequisite in loan application. 75% of them felt that the small entrepreneurs might not be able to offer a security. The remaining 25% felt that such a security would act as a motivation to the borrower to repay the loan in time. Because of the absence of collateral condition in the MBF scheme, it can be reasonably concluded that micro finance is far more easily obtainable compared to other sources of funds provided by financial institutions at commercial levels.

### **FURTHER RESEARCH FINDINGS RELATING TO SUCCESSES AND FAILURES OF THE MICRO CREDIT FINANCE SCHEME**

#### **Employment Generation**

The study revealed that the selected enterprises



that received assistance under the scheme employed over 70 Batswana, thereby generating employment for citizens. This shows that on an average, each business employed at least one person. To put these employment statistics into perspective, it should be noted that the study was conducted at a very early stage after the implementation of the scheme, implying that most of the studied businesses were newly-established and at their infant stages of growth. With time, as these businesses grow, the employment statistics would also be expected to gradually improve. Earlier studies have also indicated that employment generation is one of the important contributions of Small, Medium and Micro enterprises in Botswana (Alexander. 1983). Similarly a study on SMMEs in Botswana has projected that SMMEs would be accountable for 50% of formal employment. All these clearly indicate that Micro credit scheme has contributed significantly to citizen employment and economic empowerment.

#### **Arrears in Micro Business Finance**

It is reported that the lending bank is experiencing problems of arrears in micro business finance. The micro credit scheme was originally designed to be self-sustaining, i.e. money collected as loan repayments and interest meant to be rolled-over as fresh loans to other applicants. But the mounting arrears and defaults are fast proving to be a threat to both the scheme's success in the short-term and survival in the long-term. In August 1999, arrears reported were to the tune of P15 million (Business News-Botswana Guardian) and by November 1999 it had increased to P21 million. This is an increase of 6 million in a period of 3 months. Thus arrears increased at a rate of 16% per month.

Among the selected micro entrepreneurs, more than 75% had repaid less than one-half of the instalments due and 7% had not paid back

a single instalment. The study looked into possible reasons for this undesirable situation and the following were the findings.

#### ***Knowledge About Business***

Most of the micro entrepreneurs lack realistic business planning and implementation skills and it is always unclear to them in which direction their business is heading. They are unable to forecast their businesses cash flows, lack marketing skills, hence they are not able to market their products in a competitive environment and generate enough funds to meet their financial obligations as and when they fall due.

#### ***Tracking of Loans***

Loans are advanced for business purposes only, but there are weak control mechanisms to ensure loans were used strictly for intended purposes. If the loans were used for purposes which are not income generating, the borrower will find it very difficult to repay the loans in time.

#### ***Business Competition***

This is the age of competition and this has proved quite a challenging barrier to entry to contend with. Some of the borrowers engaged in business ventures blindfolded, i.e. without hindsight of the added advantage of their well-established competitors. This would result in their businesses under-performing to a point of failing to generate enough funds required to service the loan instalments.

#### ***Support Services***

After disbursement of funds, the credit officers are expected to visit the ventures financed under the scheme and confirm that everything is in order. The study revealed that credit officers monitor projects through telephonic interviews and site visits in case of defaults. It was reported

that the officers' supervisions are often hindered by lack of transport and other logistical problems; hence not all projects are monitored thoroughly.

### *Collection of Instalments*

The borrowers can pay instalments through banks by arranging stop orders, direct debits or pay over the counter. Credit officers go around collecting over due payments and the bank also makes use of the services of debt collectors. The main difficulty faced by the bank is that the entrepreneurs move from place to place, given that the majority are street vendor making it extremely difficult to locate them due to absence of a permanent business address.

### *Awareness of the Scheme*

It was observed that micro businesspersons have limited understanding of the scheme; hence there is a high possibility of them mistaking micro loans for Financial Assistance Policy, another parallel programme which takes the form of grants. 75% of the entrepreneurs are aware of F AP but 50% do not know the main difference between the two schemes, where micro credit scheme provides loans to be repaid within a period of 36 months and the F AP offers grants to entrepreneurs. This may have contributed to the resulting high volume of default.

### *Management*

The success of the business depends on efficient management, but it appears that most micro enterprises are poorly managed. Majority of entrepreneurs do not possess any kind of managerial skills as they have no formal business training or little experience in running a successful business. This may then result in uninformed business decision-making processes.

### *Poor Working Capital Management*

The study also revealed working capital management skills of micro business entrepreneurs leave a lot to be desired. A tendency by business owners to carry home the days' sales proceeds was highly prevalent. In fact 80% of business owners took home sales proceeds on daily basis and understand, let alone apply, the basic business entity concept which recognises a business as a separate entity from the owner. More often than not, cash taken home would meander its way into personal consumption, a tendency which then starves the business of the much-needed liquidity. Most businesses reported experiencing a very high rate of bad debts, a problem that arises from inability to deal firmly with family and community debtors. All these problems contribute to poor working capital management and hence inability to honour loan instalments.

Information from NDB management revealed the following problems experienced in the appraisal procedures.

- ◆ Most of the entrepreneurs are unable to calculate and account for their monthly sales, cost of sales etc, making it difficult to estimate the appropriate loan size;
- ◆ Most of the entrepreneurs exaggerate their projected sales figure to give an impression of a promising business to improve on chances to qualify for the scheme; and
- ◆ In most cases the entrepreneurs withhold information that can be of great help to credit officers in the appraisal of applications. Because of inadequate information, officers find it very difficult to identify areas of business and sectors to which funds should be channelled.

### CONCLUSIONS AND RECOMMENDATIONS

The inception of the micro business finance credit scheme is a development

that was overwhelmingly welcome by the business community. With an initial seed capital of P150 m planned for disbursement over a period of two years, P186m was actually disbursed within a period of 18 months. In spite of the 19% increase in the seed capital, an estimated 50% of applicants were still not catered for. Furthermore, figures show that the inception of the scheme significantly increased the number of newly-established micro enterprises, employment and economic empowerment. It can therefore be concluded that:

- ♦ Restricted access to finance is indeed a major obstacle in the development and growth of micro business enterprises in Botswana;
- ♦ The funds thus far distributed by the MBF credit scheme are not adequate to fully satisfy the financial needs of micro business enterprises in the country;
- ♦ The establishment of micro businesses, employment creation and citizen economic empowerment are some of the identified positive economic indicators that can be directly attributable to the MBF credit scheme.

Notwithstanding the above findings of the study, issues of both administrative and operational nature were brought up by the research, issues which threaten the very core objectives and good intentions of the Micro Business Finance credit scheme:

- ♦ The amount of arrears that had been accumulated by the credit scheme administrators, the National Development Bank, barely four (4) months after the scheme's commencement due to defaults amounted to more than P21m, and this is a figure estimated to grow at a rate of 16% per month. Further, an estimated 75% of loans beneficiaries had repaid less than one-half of the instalments due and 7% had

not paid back a single instalment. The rate at which these arrears and defaults are mounting is unsustainable and pose as an immediate danger to the scheme's success in the short-term and survival in the long-term

- ♦ While lack of (or restricted access to) finance may pose as a major obstacle in the development and growth of micro businesses, the research clearly shows that provision of easily accessible funds targeted solely at this business sector is not in itself a self contained solution. This is clearly demonstrated by the high rate of defaulters and failure by some of the micro business owners to effectively manage their businesses, problems that can be attributed to both the manner in which NDB administers the scheme and level of business management competence on the part of the micro business owners.

Recommendations are made towards salvaging the MBF credit scheme from the identified predicaments for the good of further development and growth of the micro business sector in Botswana.

## Recommendations

### *Loan Range & Interest Rates*

The loan range needs to be increased. Those who had borrowed the maximum amount felt that the amount of loan is inadequate. It is encouraging to note that this issue has already been addressed in the new Budget and the upper limit is raised from 20 000 to 150 000 and the repayment period increased from 3 years to 5 years. It was also suggested by the respondents that the interest rate of 15% was high and did not differ much from that of commercial banks. This rate was reviewed and brought down to 5%.

### *Security*

There should be no collateral security needed for micro loans as is the case now, but the administration should make it clear to the applicants that they are personally liable for the loans they have taken and have to personally guarantee the payments.

### *Formal Business Plan*

A well-drawn business plan is the key to business success. All those who apply for micro loans should be asked to produce a detailed business plan and should be verified and approved by the credit officers. This will help the entrepreneur to monitor his business expenditure and make sure that the loan received is utilised for which it was earmarked.

### *Viable Businesses*

It is important that the micro credit scheme lends only to businesses that are identified viable. It is, therefore, necessary to build a database that provides up-to-date information about the number of businesses operating in each area and the also trade that is under-subscribed. This will help potential applicants to choose the kind of business, which has not been adequately addressed by other businesspersons.

### *Screening of Applications*

Screening of applications should be more comprehensive and tight to eliminate all applications, which do not deserve assistance. The processing officer should be convinced that the applicant is capable of running the business successfully. These methods, however, should not be tightened simply for rejection of applications only but also for helping and redirecting the applicants towards potential viable projects, which they can manage.

### *Follow-up*

It is important to follow-up the business activities undertaken by the borrowers to make sure that funds are used for the right purpose. This can be done by regular visits by credit officers to the business premises and through observation and briefing. Their full time place of work should be in the field, making follow-ups of the projects' performances.

### *Administrative Machinery*

It is suggested that a steering committee be formed with selected businesspersons who received micro loans and credit officers to deal with problems faced by entrepreneurs. The committee should also assist credit officers to keep track of some entrepreneurs who move shift their business from place to place.

### *Training*

What appears to be the main reason for business failure in Botswana is the lack of entrepreneurial skills. Previous studies have revealed that most of our business entrepreneurs lack management, marketing and accounting skills. Efforts should, therefore, be put forward to train the micro entrepreneurs in the following areas:

- ♦ Record keeping and Reports: Bookkeeping, writing a business plan, capital expenditure, budgeting and preparation of financial statements.
- ♦ Marketing and customer relations: Strategies for marketing of products, customer service and handling debtors.
- ♦ Manufacturing: Modern techniques of manufacture, lowering of production of costs, effective purchasing etc.

Training programmes are to be tailored based on the specific needs of each category of micro businesses and the level of operation. It is, however, encouraging to note the Government

has, through the ministry of commerce and industry has mounted a number of training programmes to equip the micro entrepreneur with necessary skills to run his business successfully.

## BIBLIOGRAPHY

- Alexander, E., Mberere, J., & Setimela, M., (1983)  
 "Informal Sector Businesses in Four Botswana Communities," Ministry of Local Government and Lands,
- Baker, C. (1992)  
*Small Business Success Factors: Credit Management*, p23-24
- Briscoe, A. (1995)  
*Small Business Support in Botswana*, Morula Press, Business School of Botswana,
- Daniels, L., & Fisseha, Y. (1992)  
 "Micro and Small-Scale Enterprises in Botswana: Results of a Nation-wide Study," Gemini Technical Report, Ministry of Finance and Development Planning, Gaborone, Botswana Department of Industrial Affairs, Annual Reports
- Duncan, J.W. (1993)  
 "Dun's 5000 Survey Forecasts 2 Million New Jobs in 1993; Almost 80% of the Gain From Small Businesses," *D&B Reports*, Vol 42, Issue 4, July/August.
- Government of Botswana, (1999)  
*Policy on Small Medium and Micro Enterprises in Botswana*, Government Paper No; 1 Government Printers, Gaborone.
- Guardian Newspaper*, December 15, 2000
- Integrated Field Services, (1997/98)  
 "Catalogue of Training Programmes and Advisory Services"
- Newell, B. C., (1996)  
 "The Role of Small and Medium Sized Enterprises in Botswana's Economy," National Productivity Centre, October
- Morewagae, B. S, Monica Seemule and Henry Rempel (1995)  
 Access to credit for non-formal micro-enterprises in Botswana, Journal of Development Studies. National Development Bank & Small Business Promotion Agency, (1999)  
 Micro Business Status Report, Micro Business Finance, October
- SADC Secretariat, (1997)  
 Study on the Small and Medium Scale Enterprises in the SADC Region, October
- Sunny G., & Babikanyisa, V. (1994)  
 The Second Best: The Role and Constraints of the Non-Formal Sector in Botswana, p24
- Tshukudu, (2001)  
 "Micro Credit Scheme and Small Entrepreneurs: The Case of Botswana."