

The Role and Significance of Rural Entrepreneurship in Namibia: Benefits, Challenges, and Prospects

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Abstract: According to Namibian Labour Force Survey 2013, 41% of the youth were unemployed while national unemployment was at 29%. This calls for alarm on policy makers to engage attempts to solve the problem of unemployment. This study explores rural entrepreneurship as another alternative for creating employment for the youth and poverty reduction. It is a known fact that some opportunities emerge in rural areas due to migration of new residents, retired people and businessmen attracted by local amenities. This coupled with cost saving on rents and workforce, lower competition and less stressful work environment makes rural areas ideal for SMEs. The methodology adopted for the study was exploratory and the study found out that rural entrepreneurship has both challenges and benefits. The challenges include lack of finance, unavailability of managerial experience, lack of market access, poor infrastructures and lack of innovation, while the benefits included reduction in income inequality, reduction in unemployment and increase in economic development in rural areas.

1. Introduction

The biggest challenge facing Namibia today is the problem of addressing poverty and unemployment, finding a fair solution to the land debate and getting to grips with the AIDS epidemic, which affects more than 45% of the population in some northern areas (Williams, 2008: 369). Namibia is also vulnerable to short and long term environmental shocks as all major sources of growth depend heavily on its fragile ecosystem (World Bank, 2016). Foreign demand in each sector is cyclical, seasonal or unpredictable, which also affects employment, income and governmental revenue.

1.1 Background to the Study

According to the Namibian Labour Force Survey 2014 Report (p. 37), the majority of the Namibian population (52%) dwells in rural areas, and if any meaningful development is to be achieved, there is need for the Government to initiate development plans which involve the rural communities. This is in line with the Vision 2030 of Namibia becoming an industrialized country. A large chunk of the food consumed in Namibia comes from the rural areas, though the rural population is experiencing a plethora of problems like high poverty levels, high unemployment rate etc. it still has potential for economic development and growth.

Developing rural areas can improve not only the quality of life but also the economic well-being of the peoples' lives. Rural entrepreneurship has the capacity of driving innovation that can not only increase access to food, but also create employment and alleviate poverty.

1.2 Statement of the Problem

Most rural economies in Sub-Saharan Africa are characterized by high illiteracy rate, low income levels, high unemployment rate, malnutrition, high population rate, poor infrastructures etc. Introducing rural entrepreneurship can create indigenous companies, which can create jobs and alleviate poverty. The local resources can be optimally utilized in entrepreneurial ventures by the rural population for example, better farm produce distribution which can result in rural prosperity. This can reduce rural –urban migration. Namibia has natural attractiveness of many rural areas, attracting tourists which have become drivers of many rural economies.

To increase development in rural areas, the supply of entrepreneurs must be increased. However, the lack of knowledge of rural entrepreneurship to the rural communities coupled with their understanding of this rural entrepreneurship concept and the unavailability of the institution of relevant promotional policies may hinder the achievement of the anticipated results. Thus the focus of this study is not only to investigate the role and significance of rural entrepreneurship to the Namibian economy, but also its challenges, remedies and prospects.

1.3 Research Objectives

- To understand and find out the challenges facing rural entrepreneurship in Namibia;
- To examine how beneficial rural areas are, for entrepreneurship activities;
- Assess the contributions of rural entrepreneurship towards solving the problem of unemployment and economic development in Namibia;
- To explain the prospects of rural entrepreneurship in the Namibian economy.

1.4 Aims and Significance of the Study

The significance of this study is to suggest that if the concept of rural entrepreneurship is implemented in all regions of Namibia, the benefits will include promotion or increase in rural development, SMEs in rural areas are labour intensive and as such they will serve as an antidote to problems of unemployment, reduction in income inequality, increase in balanced development in all regions of the country and there will be fostered economic development in rural areas. This will result in an increase or growth on the GDP.

2. Literature Review

2.1 Introduction

In this section, this study assesses and evaluates the readings from various scholars in order to get more relevant information intended to meet the goals of this study.

2.2 Theories of entrepreneurship

The word entrepreneur originated from French word “*entrepredre*” which means to undertake. In the business context, it means individuals who undertake the risk of new enterprises. Richard Cantillon a French economist considered an entrepreneur as a risk-taker who bought goods at a certain price to sell at an uncertain price with the aim of making a profit. Carl Menger on the other hand in Holt (2003) views an entrepreneur as a change agent who transforms resources into useful goods and services creating circumstances leading to industrial growth. He gave the case of grain in the field, which has low value, but when harvested and milled into flour and transformed to bread has a higher value. This is the process of value addition done through food processing and manufacturing

Austrian Economist Joseph Schumpeter, considers innovation as one of the main characteristics of an entrepreneur. According to Schumpeter, innovation can take the form of combination of resources into something new such as new products, new production methods and new forms of organizations. Peter Drucker observes that all new small businesses have many factors in common but to be an entrepreneur the enterprise has to have some special characteristics over and above being new and small. Indeed entrepreneurs are a minority among new businesses. They create something new, something different, they change or transmute values (Holms et al, 2001). Entrepreneurship can be considered as a process of creating value through the recognition of a business opportunity and mobilizing factors of production with management skills to bring the enterprise into productivity under conditions of risk and uncertainty.

Entrepreneurship therefore shapes the direction of the enterprise and the performance of the enterprise depends on the creativity, risk-taking and innovation, which are key features of entrepreneurship. At present, there is no single definition of entrepreneurship. It all depends on the focus of the one defining it and from which perspective one looks at it. Some researchers look at entrepreneurship from the economics view, sociology and psychology, others look at it from the management perspective, while others look at it from the social perspective. Entrepreneurship is therefore a multidimensional concept (Bula, 2012a).

According to Kuratko (2009), a theory of entrepreneurship is a verifiable and logically coherent formulation of relationships, or underlying principles, that either explain entrepreneurship, predict entrepreneurial activity (for example, by characterizing conditions that are likely to lead to new profit opportunities or to the formation of new enterprises), or provide normative guidance (that is, prescribe the right action in particular circumstances). A strong SME sector is critical in terms of the goods and services it provides to large enterprises, informal and micro-enterprises. This section first introduces the theories of entrepreneurship and then reviews various theories that underlie the critical success factors and challenges facing SMEs in accessing credit facilities. Specifically, pecking order theory and credit rationing theory are explained.

The problems faced when it comes to financing SMEs can best be explained using the Pecking order theory and the Credit Rationing Theory.

2.2.1 The Pecking Order Theory (POT)

This theory states that the cost of financing increases with asymmetric information. This determines the capital structure of SMEs. When raising capital, businesses prefer financing that comes from internal funds, then debt and finally issuing new equity. Raising capital is considered a last resort. It was developed by Myers (1984)

and Myers & Majluf (1984) and is based on the argument that the 'inside' management is better informed of the true value of the firm than the 'outside' investors. These information asymmetries result in varying costs of additional external finance, as potential investors perceive equity to be riskier than debt. They propose that firms fearing the problems of undervaluation arising from information asymmetries prefer to finance investment projects with internal funds initially. When internal equity is depleted, they use debt financing before resorting to external equity. Ibbotson, Sindela & Ritter (2001), argue that the POT is even more relevant for the SME sector because of the relatively greater information asymmetries and the higher cost of external equity for SMEs. These factors demonstrate that SME managers source their capital using a pecking order of, first, their "own" money (personal savings and retained earnings); second, short-term borrowings; third, longer term debt. A number of studies report that firms operate under a constrained pecking order, and do not even consider raising external equity (Howorth, 2001). Availability of preferred source of financing, coupled with demand preferences determines how firms adhere to POT. The supply of finance depends on many factors, particularly the stage of development of the firm. The most important source of funding for start-up firms is the personal funds of the firm owner, and funding from friends and relatives.

2.2.2 Credit Rationing Theory

This theory focuses on the financing gap analysis. In their formulation, Stiglitz and Weiss (1981), argued that agency problems (a conflict of interest between management (agents) and the shareholders (owners) of the organization) and information asymmetries are the major reason why SMEs have constrained access to finance. They argued that only SMEs know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms have superior private information (asymmetric information). Hence, the bank manager makes decisions under asymmetric information, and operates under a moral hazard and adverse selection risk. Stiglitz and Weiss (1981) explained the choice among different financing sources under conditions of asymmetric information and credit rationing. Asymmetric information can lead to credit rationing conditions by modifying the risk-return distribution; this fact encourages banks to refuse capital for investments and produces divergence between capital demand and supply (Alfo & Trovato, 2006). Constrained access to finance derived from financial institutions' credit rationing behaviour might not be efficient because managers work under conditions of asymmetric information. This may result in less profitable investments getting financed while more profitable investments are being left out and thus resulting in adverse selection and moral hazard risks. Therefore, asymmetric information can explain asymmetric of credit among firms with identical characteristics, the lenders not being aware of the exact bankruptcy likelihood for the firms, know only that this likelihood is positive and therefore choose to increase debts' cost. Start-up small firms are more likely to be affected by information asymmetry problems. Deakins, North, Baldock and Whittam (2008) argued that those information asymmetries are more acute in new and technology-based propositions. They argued that at an early stage, information is limited and not always transparent and assets are often knowledge-based exclusive associated with the founding entrepreneur. Especially with manufacturing and technology based firms, entrepreneurs may be reluctant to provide full information about the opportunity because of concerns that disclosure may make it easier for others to exploit. There are some categories of SMEs that will face additional problems due to lack of security, such as young entrepreneurs or those from deprived areas.

Credit rationing refers to the situation where lenders limit the supply of additional credit to borrowers who demand funds, even if the latter are willing to pay higher interest rates. It is an example of market imperfection, or market failure, as the price mechanism fails to bring about equilibrium in the market. Credit Rationing Theory by Stiglitz & Weiss (1981) is argued that the interest rate itself affects the risk of the loan due to two factors. First, is adverse selection; that is, only more risky projects would come forth for loans at higher interest rates; and second, moral hazard, as borrowers who have been granted the loan at a higher interest rate would undertake a more risky project in order to earn higher expected returns. As a result, at higher interest rates, the expected return from a loan would start decreasing after a point due to higher defaults. Thus, in the presence of information asymmetry in the market for loans and costly monitoring, banks would not use interest rates alone to equate demand and supply, but would ration credit.

Constrained access to finance derived from financial institutions' credit rationing behaviour might not be efficient because managers work under conditions of asymmetric information. This may result in less profitable investments getting financed while more profitable investments are being left out and thus resulting in adverse selection and moral hazard risks (Gichuki et al., 2014).

Therefore, asymmetric information can explain asymmetric of credit among firms with identical characteristics, the lenders not being aware of the exact bankruptcy likelihood for the firms, know only that this likelihood is positive and therefore choose to increase debts' cost. There are some categories of SMEs that will face additional problems due to lack of security, such as young entrepreneurs or those from deprived areas. In addition, there may be asymmetries arising from location as well as sector. For example, owners of SMEs in

rural environments may face difficulties with access to bank finance. Small firms are more likely to be rationed because they are seen as particularly risky. Although they might be willing to pay more to compensate for the additional risk, the banks will refuse to raise the interest rate sufficiently to equate supply and demand.

2.2.3 Schumpeter's Theory of Innovation

A dynamic theory of entrepreneurship was first advocated by Schumpeter (1949) who considered entrepreneurship as the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development. Schumpeter further embarks upon 'new combinations' of the factors of production which he succinctly terms, innovation. The entrepreneur activates the economy to a new level of development. Innovation as a concept was first introduced by Schumpeter as a key factor in entrepreneurship in addition to assuming risks and organising factor of production. Schumpeter talks of entrepreneurship as "a creative activity". An entrepreneur is an innovator who brings new products or services into the economy. Here regards innovation as a tool of entrepreneur, who is viewed as the 'engine of growth', he/she sees the opportunity for introducing new products, new markets, new sources of supply, new forms of industrial organization or for the development of newly discovered resources. The concept of innovation has four corollaries:

- The introduction of a new product with which consumers are not yet familiar or introduction of a new quality of an existing product.
- The new method of production being introduced that is not yet tested by experience in the branch of manufacture concerned.
- The new market opening that is a market on to which the particular branch of manufacturer of the country in question has not previously entered, whether or not this market has existed before.
- A new source of supply of raw material conquest and the carrying out of the new organisation of any industry.

Schumpeter is one of the first major theorists to put the human agent at the centre of the process of economic development and is very explicit about the economic function of the entrepreneur. The entrepreneur is the prime mover in economic development; his function, to innovate or carry out new combinations. Schumpeter makes a distinction between an innovator and an inventor. An inventor discovers new methods and new materials. On the contrary, an innovator is one who utilises or applies inventions and discoveries in order to make new combinations. An inventor is concerned with his technical work of invention whereas an entrepreneur converts the technical work into economic performance. An innovator is more than an inventor because he does not only originate as the inventor does, but goes much farther in exploiting the invention commercially

2.3 Rural Entrepreneurship

According to Petrin (1994), rural entrepreneurship is described as a force that mobilizes other resources to meet the unmet market demand, the ability to create and build something from practically nothing, the process of creating value by pulling together a unique package of resources to exploit an opportunity. It is that entrepreneurship that strives for value addition to rural resources in rural areas by mostly engaging the rural folk. It emerges at village level taking place in a variety of fields of endeavour such as business, industry, agriculture and acts as a potent factor for economic development. The difference between rural entrepreneurship and entrepreneurship is that the rural entrepreneurship applies the methods of entrepreneurship to exploit the untapped potential in rural areas so as to bring about economic growth and development (Nwankwo et al., 2017). It can take place in the form of individual, group or in the form of co-operatives. According to Saxena (2012), rural entrepreneurship can be regarded as an attempt to create the management for risk-taking appropriate to opportunity, as well as to mobilize human, material and financial resources in order to fulfil the project in rural areas.

3. Methodology

The methodology employed in this paper was an exploratory design. Burns and Bush (2006), argue that exploratory research design is referred to as gathering information in an informal and unstructured manner and has to rely as well on qualitative techniques in which the review of related readings from various scholars were engaged in order to get relevant data to support the study of this nature. Different scholarly articles were searched on rural entrepreneurship and those found meaningful were applied to this study.

4. Reporting of Research Outcomes / Findings

4.1 Benefits

From the literature read, the study found out that on contributions to economic growth, SMEs are not only regarded as engines of economic growth, but that they also:

- create employment opportunities; infact they create more employment opportunities per unit of investment because of their labour intensive operations.
- contribute significantly to improved living standards, poverty reduction and also bring about substantial domestic or local capital formation.
- have a higher net job creation than large firms.
- are more innovative, competitive and dynamic in nature than large firms.
- assist in training entrepreneurs.
- generate income and provide a source of livelihood for the majority of low income households in the country.
- employ about 20 % of the Namibian population and contributes 12% to the GDP (Arnold et al, 2005). An analysis of the official employment and unemployment figures between 1997 and 2008 revealed Namibia's huge crisis of mass unemployment. In 2000, the overall unemployment rate (according to the broad definition) stood at 33. 8% and increased to 36.7% in 2004 and further to a record of 51.2% in 2008. The situation for women and young Namibians was far worse with youth unemployment reaching around 75% in 2008. These figures reveal that Namibia's jobs were shrinking with the overall number of formal sector jobs being reduced by almost 20% from 401 203 in 1997 to 331 444 in 2008. For Namibians to survive there is no choice, they have to turn to the SME sector.
- They provide feeder industry services as they serve as major suppliers of intermediate goods and components to large-scale industries. By so doing there are opportunities for local skills development.
- SMEs offer businesses a quick response to their target market and customers. Due to their structure and sizes, business plans can be flexible and implanted which is vital for economic growth. Their flexibility to change helps businesses to adapt to market trends and reduces future crisis.
- SME's require small start-up capital making them cost effective. Additionally, the management size and structure is small, which makes the decision making process faster. Communication, innovation flow and organizational goals are easily integrated into such systems as well as a response to new innovation, customer's complaints and propositions being attended to without long protocols.
- The unemployment crisis and inefficient income distribution among most regions and communities within Namibia can be solved by expanding and investing in SMEs.
- SMEs offer a boost to business and economic growth, because they create a strong relationship with consumers, which is a boost for business and economic growth. Customers are attached to specific brands because of trust and communication, which is a huge advantage SMEs have in this present economy. Being close to your customers is significant to business and economic growth.
- SMEs are important role players in contributing to the transition of agriculture led economies to industrial ones, SMEs help in the absorption of productive resources at all levels of the economy and contribute to the building of flexible economic system in which small and large firms are interlinked (Fida, 2008).
- SMEs offer training ground for the development and growth of local entrepreneurs by acting as a nursery, usually for indigenous population, they serve as vehicles for the propagation and diffusion of innovative ideas for far-reaching endeavours.
- The SME sector serves as a means by which traditional industry transits to modern industrial sector. Actually it acts as a springboard for launching the economy into a vibrant modern sector.
- SMEs mitigate the rural-urban migration by offering urban economic activities in rural areas.
- SMEs have ability to fuel economic growth because they create new jobs, expand the tax base, and are drivers of innovation.
- SMEs enhance competition and entrepreneurship hence have external benefits on economy wide efficiency, innovation and aggregate productivity.

4.2 Challenges

The following are the challenges of SMEs in economic growth:

- Lack access to finance for start-ups, including high cost of short term credit constitutes a major impediment to the growth of SMEs in Namibia.
- Adaptation to technological changes. Majority of the businesses are unable to keep up with technological developments. They rarely innovate. Absence of research and development.

- Lack of market research. This often makes SMEs to under invest in activities and services that could potentially enhance their productivity.
- Unregulated competition: SMEs are easily crowded out of business due to the stiff competition that they get from the already established large scale businesses that currently operate in Namibia. There is also stiff competition from Chinese firms.
- Lack of entrepreneurial/business training. Low skills in this area make SMEs not to perform cost/profit analysis and thus end up making losses.
- Weak demand for products, due to low consumer purchasing power..
- Crimes, theft and corruption
- High cost of services like electricity and telecommunication.
- Compliance with the legislation tends to be a big challenge for majority of the businesses due to the bureaucracy and cost involved in registering the businesses, obtaining the necessary operating permits and licenses. SMEs have less capacity than larger firms to navigate through complexities of regulations (Stork, 2010).

However for Namibian SME sector to achieve its full potential, it has to do at least some of the following initiatives:

- Institute effective strategies for reforming the SMEs sector by appropriately advising the government on policy formulation and execution. The formulation should involve SME owners/managers.
- Offer access to long-term capital and lower the cost of short-term credit.
- Offer relevant advisory services to state governments on how best to support and invigorate SMEs in their domains bearing their peculiarities and circumstances in mind.
- Identify and assess SMEs critical requirements in the areas of capacity building, skills gap, knowledge, skills and process.
- Remove poor inter and intra-sectoral linkages that make it difficult for the SMEs to enjoy economies of scale production.
- Remove bureaucratic bottlenecks and inefficiency in the administration of incentives that discourage rather than promote SME growth.
- Improve market demand for products.
- Reduce taxes that have always resulted in high cost of doing business.
- Improve on corporate governance so as to promote fairness.
- Improve on poor entrepreneurial skills arising from inadequate educational and technical background for many SME operators.

It is crucial to note that removing the above bottlenecks, will improve the SME growth and development in Namibia. Actually, the SME future prospect in Namibia is very bright as opportunities in the sector outweigh the challenges. There are opportunities in new growing sectors, such as entertainment and leisure clusters, low-tech sectors clusters like footwear and high tech clusters like ICTs. The study thus concludes that the future prospect is bright.

5. Conclusion

The objective of this study was to find out the role and significance of rural entrepreneurship to economic growth in Namibia specifically, the contributions to the economy and to highlight the difficulties faced by SMEs in their operation in rural areas. The study found out that SMEs contribute to the economy in various ways. They create employment opportunities for the unemployed, mostly the youth, reduce poverty among Namibians both in rural and urban areas, mitigate rural –urban migration, acts as source of income to the employees working in those firms, reduce income inequality among Namibians and contribute approximately 12% GDP in Namibia. Actually, SMEs drive growth, innovation, development and job creation where the scale and diversity of large firms are insufficient to meet investment and employment needs of the nation. However, they face a myriad of problems such as lack of access to finance, lack of technical know-how, and lack of access to markets, poor infrastructures and managerial incompetency among others.

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