Assessing Factors That Affect Women and Youth Micro-Entrepreneurs in Botswana

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Abstract

The study used quantitative and qualitative methods to investigate the environmental factors that affect the performance of a nationally representative sample of 590 women and youth microenterprises in Botswana. It further determined the extent the microenterprises have utilized the government institutional credit and capacity building programmes to expand their enterprises. The results suggest that women and youth microenterprises are engaged mainly in the trade and services sectors and are profitable. Most of the microenterprises were owned as individual proprietors and the main motivations for engaging in microenterprises included improvement of household income, creation of employment opportunities, and search for self-independence. The women and youth microenterprises were unable to access available government institutional credit and capacity building (e.g. Citizen Entrepreneurial Development Agency [CEDA] and Youth Development Fund) and capacity building through the Local Enterprise Authority (LEA) to expand their enterprises. The study recommends that to improve the investment climate for microenterprises through enhanced access to institutional credit, a specific institution modelled like a government microfinance institution that uses collateral substitutes in the delivery of credit to the micro-entrepreneurs, which is a more pragmatic model for delivery of credit to microenterprises, be created to cater for the credit needs of the microenterprises.

Keywords: Microenterprises, SMEs, women, youth, entrepreneurs, capacity building

1. Background

Small and medium scale enterprises (SMEs) play an important role in terms of employment creation (Mead 1994). According to the 2005/06 Labour Force Survey (LFS), the total number of informal sector workers was 156,515, which accounted for about 20 percent of

1 The authors acknowledge the research grant from Trust Africa and IDRC that funded the study
the labour force. In 1995/96 LFS, employment in the informal sector was 57,950, which was about 11 percent of the labour force (CSO 2007).

CSO (2009) observed that the majority of persons employed in the informal sector in Botswana were females (56.2 percent) and youth (24.9 percent). The females were also more likely to be self-employed without employees (75.0 percent) as compared to males. Most of the informal enterprises were also owned by women (67 percent) and youths (17 percent). This evidence suggests that the livelihood of women and youth is derived mainly from microenterprise activities in the informal sector. Given the fact that Botswana’s major policy drive is diversification of the economy so as to create employment opportunities (MFDP 2003), addressing the environmental constraints under which microenterprises operate in Botswana is of important policy concern to improve the livelihoods of the women and the youth, who are the main actors in the microenterprises sector. Microenterprises face the additional burdens of procedural and administrative problems relating to registration, licensing, formalization and resource acquisition, in terms of their access to and management of finance, space, land and human resources. One characteristic of microenterprises that contrasts to that of larger business is the relative larger presence of women as enterprise owners. In Tanzania, at least one-third of microenterprise operators are thought to be women (Wohlmuth, Alabi, Burger, Gutowski, Jerome, Knedlik, Meyn, and Urban 2009). A wide range of donor and national government programmes have targeted these women and supported their entry into the sector (Kantor 2001).

The key environmental factors which affect entrepreneurship include financing constraints, capacity constraints and government regulations (Manson and Mat 2010). Other factors that impact on successful entrepreneurship are motivation, determination, abilities, experience, market information and resources (Richardson, Howarth, and Finnegan 2004). In order to promote entrepreneurship, the Government of Botswana created two institutions, namely, the Local Enterprise Authority (LEA) and Citizen Entrepreneurial Development Agency (CEDA) to deal specifically with the issues of capacity building and provision of finance respectively. In addition, the Government of Botswana created a specific Youth Development Fund to provide funding to youth enterprises. Youth and women entrepreneurial development models are rooted in the notion that entrepreneurship will address systemic causes of poverty through the integration of youth and women into domestic and international markets (Salkowitz 2010). In doing so, women and youth are targeted in the institutional and structural frameworks of poverty reduction plans, national economic growth, and women and youth employment programs (Wohlmuth et al. 2009; Williams 2012).

1.1 The Local Enterprise Authority (LEA)

The Local Enterprise Authority (LEA) was established by the Small Business Act, Number 7 of 2004 as a Statutory Authority of the Government of Botswana (LEA 2012). In order to encourage the spirit of entrepreneurship and enterprise in Botswana, LEAs mandate encompasses provision of highly specialized development and support services which include facilitation of business planning; providing training, mentoring and advisory services; identifying
business opportunities for existing and future SMEs; facilitating access to markets; facilitating exploitation of government and large firms' procurement opportunities by SMEs; facilitating access to finance; facilitating technology adoption and diffusion; promoting general entrepreneurship and SME awareness. LEA targets all citizen owned enterprises in all sectors.

However for entrepreneurs to access LEA services, they are expected to apply to LEA and undergo a screening process before final selection to receive services. The screening process includes LEA’s assessment of the entrepreneurship skills and competencies of the entrepreneur to run a sustainable growth oriented business. The screening process provides LEA with a 'gap analysis' to determine what the entrepreneur actually needs to operate a sustainable business. This then guides LEA in the provision of business development skills to bridge the gap and to create a more holistic entrepreneur. It is only applicants who score 60 percent and above based on LEAs rating criteria who qualify to receive services. By implication some entrepreneurs are excluded from accessing LEA capacity building services (LEA 2012).

1.2 The Citizen Entrepreneurial Development Agency (CEDA)

The Citizen Entrepreneurial Development Agency (CEDA) was established by the Government of Botswana to provide financial and technical support for business development with a view of promoting viable and sustainable citizen owned business enterprises (CEDA 2012). CEDA was incorporated as a company limited by guarantee on April 12, 2001.

CEDA provides different lines of credit to entrepreneurs which include debt finance for retail operations, debt finance for services operations, the credit guarantee scheme, and invoice discounting. Under the debt finance for retail operations, the targeted clients are SMEs (such as restaurants, furniture shops, butcheries, hardware shops, hawkers, street vendors, bookshops). To access debt finance for retail operations, entrepreneurs are to have a proper trading place, good credit rating, relevant managerial expertise, evidence of sustainable market, and good collateral security. The debt finance for services operations target registered companies in the service sector. The additional eligibility requirements to access this fund include tax clearance, historical financial statements that demonstrate the profitability of the enterprises, certificate of incorporation, and trading licence. The credit guarantee scheme is intended for citizen owned businesses which intend to borrow from commercial banks but fall short of the level of collateral required by the banks. Under the credit guarantee scheme, entrepreneurs apply to the respective commercial banks which use their normal lending assessment criteria to determine the commercial viability of the projects. The projects that are assessed by the banks to be viable but do not have the necessary collateral are then recommended to CEDA which undertakes to guarantee them. CEDA provides a guarantee of 75 percent of the net loss incurred by the banks in the lending process. The mechanics of the

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2 LEA does not provide finance but facilitates access to finance from CEDA, Youth Development Fund and other financial institutions
3 Citizens must be aged 18 years and above
working of the credit guarantee scheme is such that in case of default, the bank realizes the security pledged by the entrepreneur and takes the necessary legal action to recover the balance. If the debt still remains, CEDA pays 75 percent of the net loss but legal action continues to recover the balance. The participating banks in the credit guarantee scheme include Barclays bank, Standard Chartered bank, Bank of Baroda, Stanbic bank and Bank of Gaborone. The loan amount under the credit guarantee scheme ranges from P10,000 (USD 1,250)\(^4\) to P4 million (USD 500,000). The invoice discounting facility enables the entrepreneurs to solve working capital problems by releasing cash tied up with debtors. The loan amount under the invoice discounting facility ranges from P500,000 (USD 62,500) to P4 million (USD 500,000). In principle, CEDA is a one stop centre to meet all the financing needs of entrepreneurs. However, the CEDA eligibility criteria for various financial products imply that not all entrepreneurs qualify to access the funds (CEDA 2012).

CEDA is argued to be facing a number of challenges which include: a financial strain and high levels of arrears; the incapability of CEDA entrepreneurs to compete in the national and international marketplaces; organizational and program inflexibilities and inefficiencies; an under representation of women and youth in CEDA; and a plethora of contextual variables that could lead to its decline (Hovorka and Dietrich 2011; Sentsho et al. 2007).

1.3 The Youth Development Fund (YDF)

The Youth Development Fund (YDF) is implemented by the Department of Youth under the Ministry of Youth, Sports and Culture (Youth Development Fund 2012). The District Youth Officers are responsible for screening of applications, coordination of appraisal and adjudication of all submissions and monitoring of approved projects. The Youth Development Fund targets out-of-school, marginalised and unemployed youth to venture into income generating projects. The maximum loan amount under the Youth Development Fund is P100,000 (USD 12,500), of which 50 percent is grant and 50 percent is interest free loan. It is a one off assistance and the youth are expected to graduate to utilise other financial intermediaries to expand and grow their establishments. A copy of valid certificate of business name/company registration is one of the requirements to access the Youth Development Fund.

1.4 The Youth Farmers Fund (YFF)

The Youth Farmers Fund (YFF) is administered by the Citizen Entrepreneurial Development Agency (CEDA). The YFF was created in 2005 to catalyze a growth in agricultural enterprises owned and operated by Batswana 18-35 years old (CEDA 2012). YFF participants are given low interest loans up to P500,000 (USD 62,500) with repayment periods of up to ten years.

This study therefore sought to investigate the environmental factors faced by women and youth SMEs and the extent to which institutional finance (through CEDA and the Youth

\[^4\] Exchange rate USD 1=P8.00
Development Fund) and capacity building (through LEA) have improved the investment climate for SMEs in Botswana.

2. **Statement of the Research Problem**

Empirical literature suggests that SMEs, especially those owned by women and youth, have constrained access to external finance from formal banks (Kapunda, Magembe and Shunda 2007; White and Kenyon 2001; Pissarides, Singer, and Svejnar 2003; Lin and Lin 2001). Access to external finance is important for start up and growth of SMEs to enable them to reach their full potential of enhancing household welfare and creation of employment opportunities. The constrained access to formal bank credit to SMEs is due to a number of factors which include discriminatory attitudes of financial institutions and lack of market information about women SME entrepreneurs at formal financial institutions level. The discrimination may be involuntarily built into the eligibility criteria for credit which is biased against women owned businesses. The traditional banking models for access to external finance from formal banks include collateral for loans, historical financial statements, and projected cash flow statements. The collateral preferred by banks usually constitutes of land and property, which women and youth do not own. In most African settings, land and property is owned by the men, hence the banks consider the men to be more credit worthy because they can provide collateral. Under traditional bank lending models, women can be rejected for credit because of informality, lack of credit histories and collateral, not fitting banks’ marketing strategies or client profiles, low education levels, lack of formal work experience and exclusion from entrepreneurial networks (Mansor and Mat 2010). Some scholars argued for introductions of special government credit schemes to provide external finance to SMEs at subsidized interest rates (Mukras 2003) and provision of capacity building to SMEs (Kourilsky, Walstad, and Thomas 2007; Nafukho and Muyia 2010) as a way of enhancing the growth of SMEs.

In a bid to address the problem faced by SMEs in accessing formal bank credit, the Government of Botswana created government credit schemes (CEDA and the Youth Development Fund) to provide credit to SMEs at affordable interest rates. In addition, the Government of Botswana created LEA with a specific mandate to provide capacity building to SMEs [CEDA 2012; Youth Development Fund 2012, LEA 2012]. Theoretically, these government initiatives were expected to improve the environmental investment climate for SMEs and enhance sustainable growth of the SME sector which would significantly contribute towards the realization of VISION 2016. However no empirical study has been done to assess the extent to which these government initiatives have met the financing and capacity building needs of SMEs, especially those owned by women and the youth. The questions are "What models are the government credit schemes (CEDA and Youth Development Fund) using to rate SMEs for credit?" Are they using traditional banking models or innovative models that are more appropriate to the SMEs?" These are the critical research gaps that this study attempted to fill through a survey of women and youth SME entrepreneurs, focus group discussions and key informant interviews.
This study therefore investigated the environmental factors affecting women and youth entrepreneurship in Botswana and the extent to which the investment climate for women and youth entrepreneurs has been improved by government institutional finance (through CEDA and the Youth Development Fund) and capacity building (through LEA). The study addressed the following specific research questions:

(i) What are the main environmental factors that affect women and youth entrepreneurship in Botswana?
(ii) To what extent have women and youth entrepreneurs utilized the government institutional support (credit and capacity building) to enhance the growth of their microenterprises?
(iii) Are the credit rating models more appropriate to microenterprises?
(iv) What are the policy recommendations to improve the investment climate for women and youth entrepreneurs in Botswana?

3. Empirical Literature on Determinants of Women and Youth Participation in SMEs

Empirical literature suggests that the key factors that influence women entrepreneurship include attitude, environment, and motivation. The pull/push model can be used to explain the motives why women start a business (Ekpe, Mat, and Razak 2011). The push factors include unemployment, redundancy, recession, inadequate family income, dissatisfaction with being employed, or the need to accommodate work and home roles simultaneously. The pull factors are motivated by the need for independence and the need to succeed better than others as entrepreneurs. The critical pull factors in entrepreneurship include education, attitude and experience. Education refers not only to formal education and training, but also practical experience from previous employment. Education and experience have positive effects on the probability of engagement in entrepreneurship.

White and Kenyon (2001) noted that youth and women are faced with limitations when starting a business and their businesses viability is questioned due to lack of financial opportunities. The possible avenues to external finance for SMEs include grants, soft loans, conventional banking credit and support networks. Developing relevant knowledge and skills through entrepreneurial education is important. Arguably, these should be fostered from an early age through educational institutions (Kourilsky et al 2007) and also skills development through methods of Life Long Learning (Nafukho and Muyia 2010).

Minniti (2010) also observed that the likelihood of engagement in entrepreneurship is influenced by economic and demographic characteristics of the individuals (such as age, education, work status, income, and access to networks). The other factors also include the individual’s perceptions of business opportunities, self-confidence and fear of failure. As enterprise undertakings involve risk-taking, only risk-neutral entrepreneurs are more likely to exploit entrepreneurial opportunity.
Minniti and Naude (2010) argued that the individual’s decision to engage in an entrepreneurial activity is a reflection of an occupational choice between self-employment and wage employment. This occupational choice will be influenced by the individual’s entrepreneurial ability, relative returns to entrepreneurship, capital constraints, entry costs and the opportunity cost of self-employment (such as loss of social security). The higher the returns in entrepreneurship, the higher the probability of an individual opting for self-employment. Minniti and Naude (2010) also observed that women tend to choose enterprises that provide greater flexibility for balancing work and family responsibilities, which are reinforced by gender and cultural beliefs.

Mansor and Mat (2010) noted that the motivational factors that influence business venturing include satisfaction and fulfillment of society's needs and wants. The critical factors that influence involvement of women in entrepreneurship are both economic and non-economic factors. The economic factors include dissatisfaction with the previous job and the need to improve the quality of living. The non-economic factors include a strong motivational factor which serves as internal pushing factors, while others are triggered by positive opportunities offered in business ventures.

Mansor and Mat (2010), based on a study of 436 women business establishments in the state of Terengganu in Malaysia, observed that environmental factors influence women's involvement in entrepreneurship include access to credit markets, experience, availability of technically skilled labour force, market access, and government regulations. Women are observed to be constrained in their access to formal bank credit as they are perceived to be risky borrowers due to lack of adequate collateral. This perspective is more pronounced in cultural settings where the women have less land and property rights as compared to men, and so cannot offer to the banks the preferred type of collateral (usually land and property).

Simsek and Uzay (2009), in a study of 63 women entrepreneurs in Turkey, observed that the main problems encountered by women included financial constraints, balancing family and business life and inexperience. Women entrepreneurs also suffered stress caused by time pressure, mental tiredness, balancing family and business life, physical tiredness and excessive expectations from men. The key factors that contributed to success of women entrepreneurs included self confidence, bravery, communication skills and level of education.

The desire to improve their standard of living (and/or movement out of poverty) is also a key factor that influences women’s entrepreneurship. Chamlee-Wright (1997), in a study in Ghana, observed that entrepreneurship is often a way out of poverty especially for women who have fewer opportunities in established labor markets. However, SMEs face a number of constraints that hinder their growth potential such as lack of access to external finance (Pissarides et al 2003; Lin and Lin 2001; Beck and Demirguc-Kunt 2006), regulatory and tax constraints (Levy 1993; Djankov, La Porta, Lopezde-Silanes, and Shleifer 2000). In order to strengthen SMEs as a poverty reduction measure in Botswana, Mukras (2003) argued that SMEs should be provided with capital at affordable interest rates and capacity building. In addition, deliberate effort should be made in encouraging the advancement of women in SMEs so as to
correct the imbalance in economic opportunities as well as to facilitate greater involvement of women in SMEs.

Hinton, Mokobi, and Sprokel (2006), in a study of the extent of access to the banking sector by SMEs in Botswana, found that approximately 15 percent of the SMEs were unbanked, with the highest proportion being small enterprises. In addition, a vast majority of employees of small enterprises were unbanked. This study concluded that increasing SMEs’ access to external finance could improve the growth of SMEs in Botswana. Furthermore, involving small business in the formal banking system by providing appropriate products and services could significantly contribute to the number of people with bank accounts in the economy.

Kapunda et al (2007), in a study on factors affecting the performance of female owned SMEs, found that women had difficulties in raising the necessary finance, as well as in competing and accessing markets when compared with their male counterparts. The study also observed that the other challenges faced by SMEs included non-payment of outstanding accounts by clients; stiff competition and lack of market for their goods or services. Temtime and Pansiri (2004), in a study of factors which contribute to the perceived success or failure of SMEs in Botswana, reported that human resource development, managerial background and organizational development had significant influence on the performance of SMEs. The study also found relationships between the Perceived Critical Success/Failure Factors (PCSFs) and some firm specific demographic variables such as ownership status, experience and operating period. Jorosi (2006), in a study that investigated the information needs and information seeking behaviour of SME managers in the manufacturing sector in Botswana, found that SME managers valued customer and competition information. Managers devoted a significant amount of time to actively seek information on customers and competition. Their information sources were largely determined by availability and ease of use, and the managers used both personal and impersonal sources of information.

The conclusions from the above literature is that SMEs play an important role in improving livelihoods, especially of the women and youth who are the dominant players in the SME sector. However the growth of SMEs is hindered by constrained access to external finance from the banking sector, lack of capacity building, and government regulations that are not sensitive to the unique needs of SMEs especially for women and youth.

4. Methodology of the Study

The study used both quantitative and qualitative approaches and the purposive sampling techniques for sample selection. Central Statistics Office (CSO) estimated that there were 40,421 microenterprises in Botswana, of which 67.2 percent were owned by women and 17.1 percent were owned by youth\(^5\) (CSO 2009). The microenterprises owned by women and youth constituted the total population from which the sample was drawn. Using the Raosoft (2004), a sample size calculator at 4 percent margin of error and 95 percent confidence interval,

\(^5\) Youth defined as one aged between 18 - 29 years
a representative sample size for this study population was 590. This sample was proportionately allocated to sampled districts (see Table 1). Three techniques were used for data collection in the study: quantitative survey (questionnaire administration), qualitative techniques (key informant interviews and focus group discussions) and documentary analysis (literature review).

Table 1: Sample size allocation

<table>
<thead>
<tr>
<th>Cities/Town</th>
<th>No. of SMEs</th>
<th>Sample size allocated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gaborone</td>
<td>4607</td>
<td>95</td>
</tr>
<tr>
<td>Francistown</td>
<td>3061</td>
<td>63</td>
</tr>
<tr>
<td>Selibe Phikwe</td>
<td>1199</td>
<td>25</td>
</tr>
<tr>
<td><strong>Urban Villages</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Southern (Kanye/Moshupa/Lobatse)</td>
<td>2412</td>
<td>50</td>
</tr>
<tr>
<td>South East (Ramotswa)</td>
<td>1030</td>
<td>21</td>
</tr>
<tr>
<td>Kweneng East</td>
<td>3769</td>
<td>78</td>
</tr>
<tr>
<td>Kgatleng</td>
<td>1158</td>
<td>24</td>
</tr>
<tr>
<td>Central Serowe/ Palapye</td>
<td>1544</td>
<td>32</td>
</tr>
<tr>
<td>Cental Mahalapye</td>
<td>1149</td>
<td>24</td>
</tr>
<tr>
<td>Central Tutume</td>
<td>1509</td>
<td>31</td>
</tr>
<tr>
<td><strong>Rural Villages</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7139</td>
<td></td>
<td>147</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>28577</td>
<td>590</td>
</tr>
</tbody>
</table>

5. Findings of the Study

The target population for the study was the women and youth micro-entrepreneurs. According the official definition of a youth provided in the guidelines for the Youth Development Fund, a youth is defined as a person aged between 18 and 29 years (Youth Development Fund, 2012), which definition was adopted by this study. The youths comprised of both male and female. The women as per the study constituted of females aged 30 and above. From the total response of 503, the youth were 248 (49.3 percent) and women 255 (50.7 percent). The key environmental factors that affect women and youth SME entrepreneurs in Botswana include access to credit markets, capacity building constraints, and government regulations.

5.1 Access to Credit Markets

Access to credit markets has been postulated as a major constraint to women and youth participation in entrepreneurial activities because of lack of collateral usually required by formal banking institutions (Manson and Mat 2010). In the case of Botswana, the government
has a policy framework that was intended to address the financing constraints to entrepreneurs through the establishment of two specific funds, the Youth Development Fund and the Citizen Entrepreneurship Development Agency (CEDA). The key question addressed was "Are the Youth Development Fund and CEDA meeting the financing needs of youth and women entrepreneurs?". The fundamental issue investigated was whether women and youth experience any constraints in access to institutional finance and what should be done to address those constraints.

The respondents had been asked a multiple response question to state the most useful assistance that they required for their enterprises. Better access to credit was the highly rated form of assistance required by youths (34 percent) and women (31 percent) (Figure 1). But given the fact that there are special schemes that provide credit to entrepreneurs, namely the Youth Development Fund and CEDA, this result suggests that there are some barriers to accessing institutional finance.

When youth and women were asked as to whether they had applied for any loan in the past 12 months, the results indicated that the loan application rates to the various credit institutions was generally low. Among the youths, only 7 percent reported that they had applied for a loan, as compared to 10 percent of the women. What was even more surprising were the low loan applications rates to government credit schemes (Youth Development Fund and CEDA). Among the youths, only 1 percent had applied to the Youth Development Fund in the past 12 months and only 3 percent applied to CEDA. Among the women, only 2 percent ever applied to CEDA in the past one year. Both the youths and women expressed that the main
purposes for which they had applied for loans was expansion of their businesses and start-up of new businesses.

The issue of constrained access to institutional finance by youth and women was further interrogated through qualitative techniques [Focus Group Discussions (FGD) and key informant interviews] so as to articulate policy recommendations. The results from the FGD revealed that the constrained access to institutional finance (CEDA and Youth Development Fund) was due to the rigid eligibility criteria which included having a registered business, trading licence, and business plan. With specific reference to CEDA, a participant reported “the CEDA loan application process is so irritating and stressful as you will be moved from one office to another until you give up. Another thing is that proposals can take long to be reviewed so you cannot get updates”. The respondents also observed that the CEDA loan application forms are so complicated that they cannot be filled by laypersons. The application forms require a lot of procedures and expertise such as financial projections where clients are forced to engage business consultants who charge a lot of money for these services. One participant remarked “to get a loan you have to part with lot of money, which can lead to creation of debts and gradually giving up”. Another participant observed “CEDA is for rich and educated people who are able to fulfill those difficult requirements”.

Another participant also remarked “one of the requirements in agriculture businesses is a proof of soil tests which needs specialists to do at a cost. All these make the cost of applying for a CEDA loan to be high which can not be managed by somebody who has a very good business plan but no money at all”. Generally the FGD respondents were of the view that women are not given preference when it comes to CEDA loans. A participant retorted “… as women we are despised and denied opportunities to do better businesses that is why we end up in the streets selling sweets and airtime to fend for our children”. As a result only few women have access to CEDA funds because it requires a lot of procedures which poor women cannot fulfill. In addition there are issues of security for the loan in form of land or other valuables which most women do not have.

With specific reference to the Youth Development Fund, the results of youth FGDs revealed that requirements imposed to access the fund act as binding constraints. One youth noted “the process of accessing the Youth Development Fund starts with orientation and most of the youth drop out upon hearing all the requirements”. The Youth Development Fund application process is also so long that most of the youths end up being discouraged. A participant noted “The process takes time because you will wait for 12 months not knowing your state and finally you notice that some have been sponsored. I had to quit the whole process after my poultry farming project was despised and 12 months down the line another youth was given funds for that”. Another participant said “I applied for up to 4 times but my proposals were never approved and no explanation was given so that I can improve it”. Another participant said “I called the youth offices in February 2012 and I even went there inquiring about the Youth Development Fund orientations because I wanted to apply and I was told to

6 FGD held in October 2012
wait. I check on them every month and I am told the same story up to now”. To apply for a loan for agricultural related projects, the participants reported that the youth are expected to show evidence of acquisition of land or a lease agreement which is quite difficult to obtain. The youth end up throwing away the Youth Development Fund booklets and going back to the streets. The participants were also of the view that Youth Development Fund tends to favour the educated who have the capacity to meet the excessive requirements. One participant retorted “those who are educated stand a better chance because they will be able to read and comply with the necessities”.

The FGDs results also revealed that the other documents that must accompany CEDA/Youth Development Fund loan applications include certificate of company/business name registration and trading licences which constitute binding constraints to women and youth. The discussion of the specific challenges that women and youth face in the registration process of their companies/business names and acquisition of trade licences are presented under government regulations.

The key informant from CEDA argued that their mandate is to give financial support to Batswana businesses, and one of the requirements to be given the loan is a registered business. CEDA does not give personal loans but gives business loans hence the requirement of registration of companies is vital. A business plan is also a requirement and a very important one because to do a business one must have a business plan. However the CEDA key informant pointed out that the license requirement has been changed, such that the assessment of the business plan is made and if the loan is approved then the client is asked to look for a suitable business premises and apply for a trading license. If the business plan does not meet the requirements, CEDA has a business development division which helps clients with developing the business plan and filling the loan application form. The CEDA key informant observed “One thing I have realised is that Batswana do not come to our offices for clarity where they don’t understand. As CEDA we give support starting with writing the proposal to monitoring and mentoring after giving credit. Our policies are outstanding and favourable but our customers become impatient and expect things to be done their way not taking into consideration that each organisation has its operational rules and regulations. The approval of our loans is determined by our board sitting”. However the Researchers informed view was that as much as CEDA claims to have made some of the policy changes regarding the loan requirements, the women and youth were not informed. A quick check on the CEDA website did not reflect any changes in the eligibility criteria.

A key informant from the Youth Development Fund said “As Youth Office the major problem we are having is receiving funds from the government. As I speak we haven’t funded some of the youth projects we approved last year and this year I don’t think we are going to fund any youth project, the reason being that we are experiencing some delays in receiving funds from the government”. The Youth Development Fund key informant also pointed out “One of the things about the youth is that they sometimes submit plans proposing businesses which failed in the past. The proposals have no new strategies to avoid failures experienced in the past and when we send them back to do more research, they go for good. Batswana youth
do not want to be innovative, they will always bring one common idea which will lead to congestion in the market which leads to failure”

The conclusion from the FGD is that while the Youth Development Fund and CEDA have the potential to improve the investment climate for youth and women entrepreneurs in Botswana, the requirements put in place as pre-conditions for access of loans are binding constraints which make only a few to have access. The key informant interviews with CEDA and the Youth Development Fund confirmed that these are organizational operational policies that the potential clients must adhere to. While CEDA key informant reported that some policy changes have been made such as demanding for a license after the loan is approved, the women and youth were not aware of such changes. The key conclusion is that CEDA is not well suited to meet the credit needs of microenterprises as it utilizes the traditional banking model which makes government credit inaccessible to most microenterprises just like commercial bank credit. The eligibility criteria to access government credit is no different from that used by formal commercial banks which focuses on assessment of business plans, historical financial statements and collateral. It is recommended that a specialized institution be created to deliver credit to microenterprises.

5. 2 Capacity Constraints

Capacity building is an integral component of entrepreneurial development. The five main types of training required by the women and youth include technical skills training, on-the-job training, book-keeping, managerial and marketing (Figure 2). This is an aspect of capacity building that the Local Enterprise Authority (LEA) is mandated to provide to entrepreneurs. The issue here is why women and youth entrepreneurs are not maximizing the utilization of LEA capacity building services to improve the management of their SMEs.
The FGD results revealed that most women and youth are not well informed on what LEA does. One participant said "most of us here have never accessed LEA facilities, reason being that they don’t advertise their services well to us. We only know the name LEA and see the cars but generally we don’t know what LEA is doing". Another participant observed "LEA customer care services are poor. They have a toll free number which I once used and I was not satisfied with the answers I got and the way the person was taking to me. It seems LEA focuses on some of the industries leaving others which have a potential to help in the growth of the economy. There are no LEA offices in rural areas where most of the agriculture businesses are located". Another participant noted "I picked the LEA flyer in Main Mall last year and tried phoning their toll free number to acquire more information but to no avail. Women do not know LEA services, it is either under utilized, not well advertised or their service is not user friendly". Another participant noted "I applied to LEA for capacity building but my application was rejected. I was told that I do not qualify". This issue of LEA rejecting some applications is consistent with its eligibility criteria of identifying only those entrepreneurs whose projects have high growth potential. By implication some microenterprises end up being rationed out of the capacity building programme.

The conclusion from FGD was that most women and youth are less informed of the capacity building services offered by LEA, which explains their low level of utilization of services. In addition, LEA’s eligibility criteria tends to screen off microenterprises owned by women and youth.

The key informant from LEA also explained that their mandate is to prepare Batswana to do business by training and mentoring. For now LEA strategic focus is on a few sectors (which
include Horticulture, leather works, Piggery and Dairy farming) that they feel have great growth potential. However plans are underway to add other sectors. This explains why microenterprises operated by women and youth which are mainly in the trade and services sectors have not qualified for LEA capacity building programme. On the issue lack of knowledge of LEA activities that was raised by women and youth entrepreneurs, the LEA key informant retorted “I think Batswana are sometimes ignorant. We advertise our services a lot in Botswana Television and in newspapers. I think the problem is that our television channel (Btv) is not watched that much. Batswana watch SABC channels most of the time and they miss important information concerning them”.

Clearly women and youth currently do not have access to LEA capacity building services because their microenterprises are not in LEA priority sectors. The policy recommendation is for LEA to improve the information flow about their services and increase their outreach especially to women and youth microenterprises which are concentrated in the trade and services sectors.

5. 3 Government Regulations

The government regulations considered here include labour, business registration, and licensing.

5. 3.1 Labour Regulations

The government labour regulations did not pose any serious obstacles to the operation of women and youth enterprises. This was evidenced by less than 10 percent reporting any major or very severe obstacle with regard to labour regulations (Figure 3). A slight majority (37 percent, youth; 34 percent women) reported that government labour regulations were not an obstacle to the performance of their enterprises.
5.3.2 Business Registration

Business registration is a key eligibility criteria for access to institutional finance (CEDA and Youth Development Fund). Surprisingly a number of sampled microenterprises were not registered. Among the women, 40 percent of the microenterprises were not registered as compared to 42 percent for the youth (Figure 4). This non-registration automatically disqualifies them from accessing institutional credit.
Figure 4: Status of Business Registration for Women \((N = 255)\) and Youth \((N = 248)\) Entrepreneurs

Among the entrepreneurs who had undertaken the registration of their enterprises (Figure 5), some reported that the registration process was quite difficult (17 percent of youth and 22 percent of women) and very difficult (7 percent of youth and 4 percent of women). The cost involved in the registration of businesses was also be a prohibiting factor. For the youth, the average cost of registering a business was P1,235 as compared to P1,280 for women. The policy implication is for simplification of the business registration process.

Figure 5: Process of Business Registration for Women and Youth Entrepreneurs

For women and youth entrepreneurs who had not registered their businesses (Figure 6), the main reasons given included the registration process being too expensive (15 percent, youth; 15 percent, women), not seeing any benefits from registration (27 percent, youth; 34 percent, women), not knowing how to register a business (19 percent, youth; 27 percent,
women), and process being too complicated (12 percent, youth; 3 percent, women).

Figure 6: Reasons for Non-registration of Businesses by Women and Youth Entrepreneurs

The FGD results indicated that business registration is a key requirement for loan application to CEDA and Youth Development Fund but the process is quite difficult. A participant observed "The loan application process requires that you have to register a business, but the registration process is a rough path as the registration of companies is only done in Gaborone. The long distances to Gaborone and the long queues at registry of companies is very frustrating. The computer system network at the registry is regularly down which creates a backlog and the long queues. I once waited for half a day for the computer system to be restored before getting help". Another participant retorted "Their computer system being down most of the time has become their anthem. You queue there until you almost faint with hunger".

Another participant noted "The location of the registry of companies’ offices is not favourable to most of us because being from rural areas we find it difficult to locate Kgale Mews. Customer service is also poor because there is always congestion in the offices so it is difficult for them to give everybody maximum attention. You will have to queue the whole day and only be told to check for approval after 2 weeks. To engage a consultant to help with registration is also very expensive". Another participant remarked "Registration of a company is not a destination but a journey, you will be moving to and from company registration offices using your last coins and getting postponement, and the next thing the system is down or finally your business name is not approved and you will have to bring other 3 names again". While company registration can be handled by consultants, the costs are not affordable to most women and youth as a participant remarked "I was referred to the consultant by someone at CEDA, only to be requested P1500 to register the company, so I threw away CEDA flyers and came to sell vegetables in Tlokweng and bus rank".
A synthesis of the FGD results on company registration confirm that the process is bureaucratic and costly both in terms of finance and opportunity cost of time. The long queues, the long waiting time, the computer systems that are mostly down have a big opportunity cost in terms of the entrepreneurs time. At the same time most women and youth cannot afford to hire the services of consultants to undertake company registration.

A key informant in the Registry of Companies observed “It takes less than a month to complete company registration nowadays unlike in the past where it took around 3 months to complete the process. What we are working on now is upgrading our system and try to open more offices in other areas to avoid congestion in Gaborone. Another thing I have realized about people is that they like last minute registration which I strongly think they should change, they should learn to do things on time to avoid congestion at the office”. The policy recommendation is the simplification of company registration process through opening up of regional offices and upgrading the computer system.

5.3.3 Trading Licences

The application rate for operating licences was generally high (56 percent, youths; 62 percent, women). However concern is on women and youth who did not apply for licenses (43 percent, youth; 37 percent, women), signalling that there is likely to be a problem with the licensing process (Figure 7). For those that had applied for trading licences in the past one year, it took a relatively long period to get the licences (average of 12 months for the youth and 9.6 months for the women). The payment of informal gifts to facilitate the acquisition of operating licences was more pronounced among the youth (8 percent) as compared to women (6 percent).

Figure 7: Application for Trading License by Women and Youth Entrepreneurs
Trading licences actually pose an obstacle to operation of enterprises by women and youth (Figure 8). Approximately 27 percent of the youth and 26 percent of the women perceived trading licences as ranging from minor to very severe obstacle.

![Figure 8: Trading License as Obstacle to Women and Youth Entrepreneurs](image)

The results of FGD also confirmed that acquisition of a trading licence is one of the key preconditions for application for a loan from CEDA and the Youth Development Fund. The process for acquiring a trading license is tedious and costly. Before council issues one with a trading licence, you must show proof of ownership or rental agreement of the premises where the business will be conducted. Since most women and youth do not own property, they are conditioned to enter into tenancy agreements with the property owners which is expensive. Alternatively the women and youth will be required to obtain letter of intent to lease business premises from the property owners but few landlords are willing to have such undertakings because of the uncertainty that the lessee will get funds. A participant remarked “As women you find that we earn little income and have no cash to meet all these demands. How do we really become a better and proud nation while we do not have access to the funds that they preach about? Most of the women who apply for CEDA loans stop at the process of trading licensing because it drains their little income”. Another participant also noted “Acquiring a trading license is a tiresome process. You need to have an office space, warehouse or a plot. It is also a challenge because you have to pay for rent while waiting for the loan to be approved. If the loan is not approved, it leads to a loss before the business is even operational”. Another participant also said “The trade licensing process is a blocking factor to access loans and not every woman can manage this requirement. It brings a division between the rich and the poor because those with money will be able to proceed with the acquisition of trade licenses while the majority of women with no money to pay for the license or even rent an office will drop out”.

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Apart from the financial costs related to trading licencing which is a binding constraint to most women and youth, the other challenge that they face relates to the amount of time that it takes to get the licence. Once the clients show evidence of ownership or rental agreement / intent to lease property, Council then undertakes a process of health inspection of the premises to ascertain that it meets the health standards for the type of business to be undertaken. The health inspection process, approval of business premises and issuance of licence takes a long time. A respondent observed “It takes too long to get the licence approved at times 12 months and it is also obtained at a cost”.

A key informant from the trade licence office argued to expedite the issuance of licences to loan applicants, CEDA/Youth Development Fund should liaise with their office so that special arrangements can be made for their applicants. However on the issue of the requirements for a business licence, the key informant pointed out that there is no way that they can be waived “The issue of office/warehouse, there is no way a business can operate without an operation place to be honest unless it’s a small home based business which the government is encouraging for self reliance, but those ones do not need a licence”.

In conclusion, the trade licensing process is quite an uphill task for most women and youth in terms of proof of business premises and the long waiting time for approval of licence, which in turn constraints their capacity to access institutional finance from CEDA and the Youth Development Fund. The policy recommendation is for the easing of the business licencing requirement such that a trade licence should be demanded only for projects whose loans have been approved. By implication, the loan application should proceed based on the business plan, and after approval of the loans the entrepreneurs would be required to rent appropriate business premises and apply for trade licences. CEDA and Youth Development Fund should liaise with the trade licensing office to expedite the process of acquisition of licences to minimize delays in disbursement of funds. This will enhance the investment climate for entrepreneurs, especially for women and youth.

5. 4 Market Access Constraints

Market constraints such as high competition, non-payment of goods and services supplied on credit also affect entrepreneurial activity. Among the youths, 19 percent expressed that competition was a very severe obstacle to the operation of their enterprises, while 19 percent observed that competition was a major obstacle. For the women, 20 percent expressed that competition was a very severe obstacle and 20 percent felt that it was a major obstacle (Figure 9). The implication of this result is that the Botswana market is quite competitive and microenterprises must improve the quality of their products/services to remain competitive. The problem of non-payment for goods and services supplied on credit was more pronounced among women (18 percent) as compared to the youth (13 percent) (Figure 10). This however raises the potential problem of default in markets which may have long-run negative effects on the growth potential of enterprises.
6. Discussion of Findings

The youth in the context of this study are persons aged between 18 and 29 years, and include both males and females. The women are those females aged 30 years and above. The women and youth microenterprises entrepreneurs in Botswana experience constraints of access to credit and capacity building to enable them to expand their enterprises. These findings are consistent with Manson and Mat (2010) who argued that key environmental factors which
affect entrepreneurship include financing constraints, capacity constraints and government regulations.

While the Botswana government had the well intentioned policy framework of improving investment climate of entrepreneurs through provision of institutional credit (CEDA and Youth Development Fund) and capacity building (through LEA), the set eligibility criteria based on traditional banking models have created binding constraints especially to women and youth entrepreneurs. This has resulted in institutional finance being inaccessible to most women and youth entrepreneurs, hence denying them the opportunity to grow their enterprises. The requirements of having a registered business, a trading licence as a precondition for applying for institutional finance is counter-productive because of the numerous challenges that the women and youth face in fulfilling them. These challenges range from the prohibitive financial costs involved (as compared to their earnings) to the long processes which are time consuming. The challenges that women and youth face in the registration process of companies include the long queues in the Registry of Companies being a centralised office located in Gaborone. The computer systems at the Registry of Companies are also reported to be mostly down which creates a lot of backlog. In addition the entrepreneurs have to incur transport costs from their respective locations to Gaborone and given that several visits are made before the finalization of the company registration process, the cumulative transport costs act as a binding constraint especially to women and youth. It is recommended that regional offices for Registration of companies be created to decongest the Gaborone office and also minimize transport costs to women and youth. In addition, it is recommended that the computer systems in the Registry of Companies be upgraded to enhance efficiency of service delivery.

The challenges that women and youth face in relation to acquisition of trade licences relate to the financial costs and the long time taken before issuance of trading licence, which deny them the opportunity to apply for loans. The main contention that the women and youth have is that it is illogical to have a trading licence as a requirement to apply for an institutional loan. The rationale is that to apply for a licence, one needs to either own a property or have a rental agreement for a premises where the business will be located. The premises will be inspected by the health inspectors and must be approved to be suitable for the business in question before issuance of a trading licence. The women and youth argued that their main reason for desiring to apply for loans is that they do not have sufficient funds to run their microenterprises. Since they do not own property, they are conditioned to incur costs on renting business premises for licencing purposes and yet they are not even sure whether the loans will be approved or not. This forces women and youth to drain the little working capital that they have and even incur debts for renting premises. The women and youth proposed that the trading licence requirement should only be imposed after the approval of the loan which should be a precondition for disbursement of funds. In this way those entrepreneurs whose loan applications will be rejected will be saved the trade licence costs. A key informant from CEDA also concurred with this proposal and reported that CEDA had actually revised that specific eligibility criteria to have trading licences imposed for approved loans only.
In addition to the burdensome loan application requirements, the women and youth reported that even for those who satisfy the eligibility criteria, the loan approval process is too long which leads to prolonged delays in project implementation. The CEDA key informant argued that loan approval process is based on institutional policies and procedures which the clients should appreciate. The Youth Development Fund key informant argued that the long delays in disbursement of loans is due to the shortage of funds from government. It is recommended that CEDA and LEA should improve the efficiency of their loan approval and disbursement process to reduce on the long waiting time.

Most of the women and youth were not aware of the activities of LEA, notwithstanding the fact that capacity building is a critical ingredient to development and management of sustainable enterprises. The LEA key informant attributed the constrained access by women and youth entrepreneurs to LEAs current strategic focus on a few sectors which they deem to have a high growth potential (horticulture, leather works, piggery and dairy farming). Women and youth participation in these sectors is limited but plans are underway to expand the number of sectors to be serviced by LEA. It is recommended that LEA increases its publicity and outreach even to microenterprise entrepreneurs. This will enhance the realization of the goals of improvement of the investment climate for entrepreneurs, specifically growth of microenterprises owned by women and youth, which have a great potential for employment creation and poverty reduction.

The other challenges that women and youth microenterprises face include competition in the market and non-payment of goods and services supplied on credit. The competition is as a result of government’s policy of a liberalized economy, which is good. What the women and youth microenterprises need to do is find ways of improving their service delivery so as to remain competitive in the market. However this is one of the areas in which they need critical capacity building to improve the management and sustainability of their microenterprises.

7. Policy Recommendations

Based on the study findings, the specific policy recommendations to enhance the growth of women and youth SMEs in Botswana include:

7.1 CEDA is not well suited to meet the credit needs of microenterprises because of its heavy reliance on the traditional banking model in the assessment of potential borrowers. A more specialized institution that uses the innovative credit delivery mechanisms be created to serve the microenterprise sector that has constrained access to both commercial bank credit and government credit.

7.2 CEDA and Youth Development Fund should enhance efficiency in the loan approval process to reduce the long waiting time before disbursement of funds.

7.3 The office of the Registrar of Companies should be decentralized to the regional level to avoid congestion in Gaborone and reduce transaction costs for prospective entrepreneurs. The
computer network system at the registry of companies should be improved to minimize the long queues and delays.

7.4 The efficiency of the licensing process should be enhanced to minimize the long delays in the issuance of trading licences.

7.5 LEA should enhance their community outreach programmes to sensitize microenterprises on the services that they offer and criteria for access. LEA should also review and simplify the eligibility criteria for microenterprises to access the capacity building services.

References


