

Microfinance and the growth of small-scale agribusinesses in Malawi

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Abstract

This research is investigating the impact of microfinance institutions on the ability to enhance the local credit systems and performance of the small and medium enterprises in Malawi. The focus of the assessment will be on agricultural group based businesses. The study was inspired by the success of the Grameen Bank in Bangladesh in reaching the poor through access to microfinance facilities. Using group-based lending strategy microfinance institutions are becoming important institutions in breaking the vicious circle of poverty in many developing countries today. Nevertheless, there are several aspects of microfinancing that remain unclear especially the ability of the local credit systems under smallholder settings in most African countries, which forms the premise of this project. Two students, pursuing their MSc in Agribusiness Management have been recruited to undertake different components of the study under the supervision of the Principal Investigator and other supervisors.

Key words: Agribusiness enterprises, group-based lending strategy, poverty

Résumé

Cette recherche étudie l'impact des institutions de microfinance sur la capacité d'améliorer les systèmes de crédits locaux et la performance des petites et moyennes entreprises au Malawi. L'objectif de l'évaluation sera porté sur les entreprises basées sur le collectif agricole. L'étude a été inspirée par le succès de la Banque Grameen au Bangladesh pour atteindre les pauvres par l'accès aux services de microfinancement. En utilisant la stratégie de crédits basés sur le groupe, les établissements de microfinance deviennent aujourd'hui des institutions importantes pour rompre le cercle vicieux de la pauvreté dans de nombreux pays en voie de développement. Néanmoins, il y a plusieurs aspects de microfinancement qui demeurent obscurs en particulier la capacité des systèmes locaux de crédit pour les petits établissements agricoles dans la plupart des pays africains, qui constitue la prémisse de ce projet. Deux étudiants, poursuivant leur maîtrise en gestion agroalimentaire ont été

recrutés pour effectuer les différentes composantes de l'étude sous la supervision du promoteur principal et des autres superviseurs.

Mots clés: Entreprises agro-alimentaires, stratégie de crédits basés sur le groupe, pauvreté

Background

Studies indicate that agricultural productivity in Malawi has tremendously increased in the past 10 years. However, lack of value addition activities and access to markets hinders growth of the agribusiness sector. Having access to credit is one proven way through which the agribusiness sector could be enhanced since this would facilitate value addition processes. However, the majority of smallholder farmers have no access to the formal financial sector due to a number of barriers; hence microfinance is the next best solution to accessing development geared financial services. Financial institutions in most African countries, (in particular commercial banks) and also microfinance institutions, in general lack the skills to assess and manage risk related to lending to agricultural production, processing, and related enterprises (AREs). These constraints not only limit absolute access, but also add to the cost of credit. AREs, conversely, lack the knowledge or skills to produce accurate information presented openly and transparently. Despite notable improvements and increased importance of microfinance in Malawi and the world at large, little information is available about success stories in Malawi, whose economy is predominantly agricultural based. A number of service providers offer a variety of products with no knowledge of their impact on both farmer's welfare and the economy at large. It is against this background that this study is being undertaken. The project is therefore, assessing the extent to which the microfinance sector in Malawi has improved access to credit for the entrepreneurial poor and to determine whether there are any successful microfinance models that could be shared in the region.

Literature Summary

Microfinance is a phenomenon that reflects the provision of both credit and savings services to low income people. This provision of funds in form of credit and microloans empowers the poor to engage in productive economic activities which can help boost their income level and thus, alleviate poverty in the economy (Awojobi and Bein, 2011). Microfinance captures elements of widespread perception, broadening, deepening and speeding up the interconnection to poverty reduction and

economic development. Schreiner and Colombet (2001) clearly describe microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” According to Olaitan (2001) and Akanji (2001), the tools of microfinance include increased provision of credit, increased provision of savings, repositories and other financial services to low income earners or poor households. Thus, simply defined, microfinance is a development process through the provision of microcredit and savings service to small-scale entrepreneur. The Olaitan and Akanji perspective on microfinance go in line with Schreiner’s description of the concept. Schreiner (2001) also proposed a definition of microfinance as “uncollateralized loans to the poor and small-scale entrepreneurs”. This implies that microfinance provides financial strength to the low income earners so as to enable them carry on economic activities that can earn them improved living standard.

UNDP (2001) identified microfinance as a major tool effective in alleviating poverty. It empowers the financially disadvantaged ones. According to Morduch *et al.* (2003), microfinance is the financial empowerment of economically active poor through the provision of microcredit as well as other productive assets; it enhances the latent capacity of the poor for entrepreneurship, enabling them engage in economic activities, be self-reliant and also enhancing the household income as well as creating wealth.

A wide range of microfinance service providers are currently operating in Malawi and according to data compiled in 2009 by the Financial Inclusion in Malawi Project, the providers are in different development stages as follows: start up phase (91%), survival stage (3%), growth and expansion stage (2%) and mature stage (4%). This indicates high potential for increased support to the sector at various levels. 65% of adult Malawians reported to be aware of the availability of microfinance lending in their communities (GALLUP survey, 2008), while access to banking is around 13 %, suggesting that these institutions remain locally inaccessible to many who would benefit most from using them. Nevertheless, recent introduction of microfinance institutions or rapid industry growth may also be driving awareness. In Malawi, in 2008 microfinance portfolios doubled because of rapid growth among newer microfinance institutions.

Zeller (2001) however, notes that despite significant effort by the governments of less developed countries and foreign donor

agencies in establishing micro-credit schemes, it is estimated that only two percent of the populations in the developing countries have accessed credit from these schemes.

Study Description

Two separate but related studies are being conducted by the research team. Data will be collected after the students have completed course work. The approach employed in this study will focus on evaluating whether the microfinance industry improved local credits, whether microfinance alleviated financing constraints and thus played a role in development, promotion and the resultant performance of small and medium scale agribusinesses in Malawi. The study is being conducted in collaboration with the Microfinance Network of Malawi and the individual microfinance institutions that are providing microfinance services in the country. In addition, The Government of Malawi, especially the Ministry of Trade and Private Sector Development is also one of the research partners so that policy issues will be adequately investigated.

Research Application

It is expected that the results from the research will inform policy decisions in Malawi aimed at improving access of microfinance facilities to the poor people. In addition, the two students involved will graduate with their MSc Degree in Agribusiness Management.

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