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## **Impact of Microfinance on Poverty Reduction and Economic Development in Malawi - The case study of Lilongwe west**

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### **ABSTRACT**

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In these recent years microfinance has become an effective tool for poverty reduction and economic development. Although it is being regarded as a tool for poverty reduction the impact of microfinance is still questioned and it depends on the country. Different countries and areas have had different impacts on poverty reduction and economic development. The main aim of this paper was to evaluate the impact that the microfinance has made on reducing the poverty and how different households and the economy developed in Lilongwe Malawi.

This study employs some microfinance variables to estimate their impact on poverty reduction. These include the cumulative value of length of participation in microfinance programs, the logistic regression results show that longer involvement in microfinance programs increases the odds of perceiving improvements in income, customer's income after and before the loan also will help in determining the impact it has brought if the income has increased or decreased.

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Keywords: Economic development, Loans and Microfinance Services

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### **Introduction**

Microfinance, is a way that is being used as a strategy to reduce poverty. Microfinance first started in Bangladesh in 1970s in Grameen Bank. German bank practice has developed in different parts all over the world various such as Asia, Latin America and Africa (Aghion 2004). How microfinance started have been mentioned differently by different authors from all over the world but the most widely accepted historical foundation is the story of the renowned economist Professor Muhammad Yunus and the Grameen Bank. Muhammad Yunus, the founder of Grameen Bank in Bangladesh did different experiments by lending a money to a few poor households in a small village called Jobra in the year 1976. After this experiment, Yunus showed that the poor not only make profit from the loan they get but also that they can repay the loan on time. Different researchers have found out that there is a positive impact of microfinance on poverty reduction and also on economic growth, microfinance has demonstrated to have a potential to bringing a positivity in terms of poverty reduction in aspects such as the social aspects as well as the wellbeing of individuals in different areas. (Goetz, 2001). According to the Malawi's national statistics the national poverty rate in Malawi has decreased from 51.5% in 2015/2016 to 50.7% in 2019/2020. Poverty in Malawi is being caused by a lot of factors such as a high employment rate, low productivity in agriculture and also there is very low opportunities in different activities and a rise in population. Microfinance has just started in Malawi and it has just been brought up in the last few years and is still developing and operating with limited outreach. In Malawi they are different microfinance institutions which include NGOs, parastatals, Savings and Credit Cooperatives (SACCOs), private companies, and projects of international development agencies and donors. Since legal regulations prevent most of these actors (with the exception of SACCOs) from mobilizing savings for on-lending, their focus is on providing credit (AMAP 2004). The microfinance sector is currently regulated by an array of legislative instruments. The NGOs are registered under the Trustees Incorporation Act, the parastatals under specific Acts, and SACCOs under the Cooperative Societies Act. Most of these instruments are difficult to administer since they are outside the jurisdiction of the Reserve Bank Malawi (RBM), which is the formal regulatory authority for the financial services sector in Malawi.

Although most of these researchers have found out that microfinance has brought a positive impact on poverty reduction and economic growth in different areas and countries Lilongwe west does not show any positive impact on poverty reduction despite having almost 11 registered microfinance

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institutions such as Umunthu Finance, FINCA, MUDI SACCO, Sunbird Sacco, civil servant Sacco, NEEF, Moyowathu, Easy loans, Old Mutual, microfinance solutions, registered microfinance institutions which have opened in the area and most of the people in the area have joined these microfinance institutions and are accessing the different services that are being offered such as savings, getting loans and financial advice and solutions. Although the microfinance institutions have been opened in this area poverty remains to be a huge problem. People's lives do not seem to have improved financially despite the fact that the microfinances are aiming at reducing poverty in the area thereby coming up with this research so that we find out the impact that the microfinance has brought on this area and on poverty reduction and economic growth. The specific objectives include to describe the relationship between demographic attributes and microfinance services, to determine microfinance loan levels of clients or customers to analyse microfinance services awareness strategies to clients or customers, to assess the impact of microfinance loans on clients or customers income

The study will help to find out the impact of microfinance on poverty reduction and economic development seeing that in most areas it shows that microfinance services have had a positive impact on poverty reduction and economic growth but Lilongwe west does not show any reduction despite having microfinance institution therefore we will find out if Lilongwe west also has a positive impact this which help suggest ways in which microfinance can help in poverty reduction.

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## Literature Review

Literature review is a way of explaining and analyzing some studies that have been published and investigations that has been conducted on the research topic. Therefore, this chapter reviews various studies that have been conducted by other researchers relating to this topic.

Historical prospects suggests that, poverty has existed for decades (Fukuda-Parr, 2006), Townsend (2006) analysed the impact of poverty and found out that the nature and forms of poverty that have existed for several decades. Accordingly, he concluded that the phenomenon has the potential to become worse the standard of living of people thus, it is important to analyse and understand the historical trajectories of poverty with a view to find out how to mitigate its negative impact (Townsend, 2006).

The specified minimum household for private consumption are shelter and clothing, sufficient food, in addition to some domestic equipment and furniture (Yeboah, 2010). According to Murali and Oyeboode (2004) and; Townsend (2006) the concept of "basic needs" was later extended to encapsulate agricultural tools and land. Perhaps, it is in this regard that some studies that analysed forms of poverty suggested that the idea of basic needs as a measure of poverty helped produce strategies consistent with poverty alleviation objectives

The poor people mostly people in rural areas benefit principally from microfinance and it has become highly influential for example, it was repeated in the World Development Report on poverty (World Bank 2000:75). Apart from the World Bank 2000 other researchers have had arguments that have been noted. The different researchers have brought in different number of other explanations for microfinance. There are different ways in which one can become a member of microfinance institutions, it can be either individually or it may be by a group of different people where group lending is involved, the poor may be excluded by other members of the group, because they are seen as a bad credit risk, jeopardizing the position of the group as a whole making most people prefer being an individual member.

Previous researchers have researched poverty reduction in microfinance in different countries, cities and areas and from different points of view such as:

S.Mago (2014) carried out a research where he was finding out and trying to understand more on the microfinance and poverty alleviation. The paper showed an empirical reflection of microfinance and poverty alleviation. Theoretical and empirical literature suggested that microfinance can be done to help in different areas such as food security savings and investments, consumption smoothing, agricultural activities, non-farm activities, enterprise development and social cohesion. However, microfinance has its own challenges that include inadequate physical and financial infrastructure, unsupportive policy environment, limited institutional capacity, inadequate investment in the rural areas, inadequate support in social capital development, microfinance misconceptions and so on. However, the overarching question is about the viability of microfinance as a strategy for alleviating rural poverty and its efficacy as a strategy in the different contexts. Therefore, there is need to contextualize macroeconomic policy, microfinance and poverty for policy development. Our findings show that microfinance enhances poverty alleviation. This therefore suggests that the government, especially in developing countries, should put in place policies that support the development and expansion of the microfinance sector. A conducive microfinance operational environment will promote the growth of the sector thus strengthening its poverty alleviation potential.

Jose & Buchanan (2013) study the determinants of future purchase intentions of microfinance customers by considering the factors of dissatisfaction with product, staff, and information available to the customer. They also consider how the customers perceive the loan providers' Corporate Social Responsibility (CSR) inclination.

Olakojo and Olanipekun (2011) empirically examined the impact of microfinance bank on the Nigerian economy. They employed pooled regression and ordinary least square econometric technique on annual time series data for the period 1992-2008. The empirical findings show that the current level of sectoral output is positively influenced by loans and advances from the banking sector.

However, a sectorial analysis using OLS reveals that while loans and advances from microfinance banks positively affect output of manufacturing, building and construction, mining and quarrying sector, the same could not be established for the agricultural sector. They concluded that microfinance banking is very critical to the well-being of the economy as it does not only provide financial assistant to small and medium scale enterprises but also to the real sector of the economy, thereby fast tracking economic growth in Nigeria. Mawksudova (2010)

Critics argue that microfinance has not improved incomes, but has led to increased indebtedness of the poor, even leading to suicide in some cases (Reed, 2013).

It is safe to say that the discourse in the literature has moved beyond the criticism that the reality is at odds with the purist approach to microfinance', as it is now widely accepted that microfinance is not the 'miracle' it was claimed to be.

However, the international development community remains optimistic about propagating microfinance as an effective tool for poverty reduction, and it appears that it is here to stay as a proclaimed sustainable instrument for poverty alleviation

Meyer (2002) also concluded same results. He conducted his research in Asian countries and concluded that as a whole microfinance positive effect on the education of the poor families and their income too but other results differ due the population and country size. Most of the studies show that microfinance scheme has a positive impact on poor people's life.

Alhassan & Akudugu (2012) represented that microcredit programs can eliminate poverty but it was unable to show considerable effect on women's financial status due to specific limitations which do not allow the conversion of the structural basis of poverty.

Rahman (2010) reported that in Bangladesh all operating microfinance institutions do not care about the ethical and moral norms of the poor's. B

Poverty is a socio-economic problem due to the negative effect it has on the health of an economy (Agbaeze and Onwuka, 2014). Poverty, is considered to be: the inability of the poor to access basic necessities (Townsend, 2006). Microfinance is deemed to be an effective development-oriented programmed for reducing poverty (Okibo, 2014).

There are studies that seem to support this study to some extent the relevance of microfinance in poverty reduction. Aghions&Morduch (2005) argues that microfinance has had positive effect on poverty reduction. Other similar studies have shown that microfinance may be relevant for poverty reduction.

Microfinance that has received significant attention is the ethics and crises associated with MFIs. For ex. (Sama&Casselmann, 2013) (Schmidt, 2010) particularly, the case of SKS Microfinance has received significant academic attention with academics and practitioners questioning the sole focus of profitability displayed by some MFIs. (Mohan &&Potnis, 2010) (Grunewald & Baron, 2011).

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## Research Methodology

The population from which research data will be solicited will be the people in Lilongwe west area. Lilongwe west has about 11 registered microfinance institutions. The researcher chose from each of the microfinance institutions and the researchers sample size was 111 people.

The research used descriptive study using survey method as questionnaire was distributed to gather data from members of microfinance institutions. The data was analysed by SPSS to research about the impact of microfinance on poverty reduction and economic development.

### Analysis

#### 1. THE RELATIONSHIP BETWEEN DEMOGRAPHIC ATTRIBUTES AND MICROFINANCE SERVICES

Demographic attributes that we considered in this study were age, marital status, number children and highest qualification of the respondents. The microfinance services are described on the assumption that the respondents are members of one the microfinance institution

## (a) Relationship between Age and Microfinance Services

## Membership\_to\_Microfinance \* Age\_Range2

Table 1. cross tabulation on age range towards membership to microfinance

Cross tabulation		Age_Range						Total
		1	18-29	30-39	40-49	50-59	60 above	
Membership_to_Microfinance	No	0	7	3	0	0	1	11
	Yes	1	33	23	21	13	9	100
Total		1	40	26	21	13	10	111

Table 1 shows majority of respondents (33) who were members of the microfinance were of between 18 to 29 years old. The results also show out of 100 that only 9 of the respondent were of age above 60 years

## (b) Relationship between marital status and microfinance

## Membership\_to\_Microfinance \* Marital\_status1 Cross tabulation

Table 2. marital status towards membership to microfinance

		Marital_status1				Total
		divorced/separated	married	Single	widowed	
Membership_to_Microfinance	No	0	2	8	1	11
	Yes	10	29	54	7	100
Total		10	31	62	8	111

Table 2. Shows that it is most of the single people who are members of microfinance institutions compared to the married, widowed and divorced/separated. Married (29), single (54), (10) divorced and (7) widowed.

## 2.ASSESSING THE IMPACT OF MICROFINANCE,LOANS ON CLIENTS OR CUSTOMERS INCOME.

## Positive impact on microfinance loans on poverty reduction

Table 3 frequency of positive impact on microfinance on poverty reduction

## POSTIVE IMPACT

	Frequency	Percent	Valid Percent	Cumulative Percent
Agree	43	38.7	38.7	38.7
Disagree	18	16.2	16.2	55.0
Valid Strongly Agree	49	44.1	44.1	99.1
Strongly disagree	1	.9	.9	100.0
Total	111	100.0	100.0	

Table 3 shows that out of 111 respondents (43) agreed that microfinance have a positive impact on microfinance loans on poverty reduction, (18) disagreed to the positive impact on microfinance loans on poverty reduction, (49) strongly agreed to the positive impact and only (1) strongly disagreed. This shows that microfinance loans have had a positive impact on poverty reductions since most respondents strongly agreed.

**Table 4. Frequency of economic decisions on microfinance****ECONOMIC\_DECISION**

	Frequency	Percent	Valid Percent	Cumulative Percent
No	26	23.4	23.4	23.4
Valid Yes	85	76.6	76.6	100.0
Total	111	100.0	100.0	

Table 4 shows that out of 111 respondents (26) respondents responded that microfinance has not affected economic decisions while (85) respondents responded that microfinance has affected economic decisions.

**Table 5 case processing summary and reliability of positive impact on microfinance towards meeting customer's needs****Case Processing Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
POSTIVE IMPACT * MEET_CU STOMERS _NEEDS	111	100.0%	0	0.0%	111	100.0%

**Table 6 cross tabulation of positive impact on microfinance towards meeting customer's needs****POSTIVE IMPACT \* MEET\_CUSTOMERS\_NEEDS Crosstabulation**

Count

		MEET_CUSTOMERS_NEEDS			Total
		Agree	Disagree	Strongly Agree	
POSTIVE IMPACT	Agree	21	4	18	43
	Disagree	8	7	3	18
	Strongly Agree	23	1	25	49
	Strongly disagree	0	0	1	1
Total		52	12	47	111

From table 6 above the majority strongly agreed that microfinance has a positive impact on poverty reduction.

**Table 7 Chi-square tests between positive impact on microfinance and microfinance meeting customer’s needs.**

**Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	21.800 <sup>a</sup>	6	.001
Likelihood Ratio	19.415	6	.004
N of Valid Cases	111		

a. 5 cells (41.7%) have expected count less than 5. The minimum expected count is .11.

It is seen that the Chi-Square value is 21.8 and Asymp sig value is 0.001 which is lesser than the critical value (P=0.05).Hence hypothesis is rejected at a 0.05 significance level.

Hypothesis framed

There is an association between the positive impact of microfinance and microfinance meeting customer’s needs.

**3. TO ANALYSE MICROFINANCE SERVICES AWARENESS STRATEGIES TO CLIENTS OR CUSTOMERS**

Frequency of people who were able to receive training from microfinance institutions getting services.

Table 8 .frequency table of members who received training when becoming a member of microfinance.

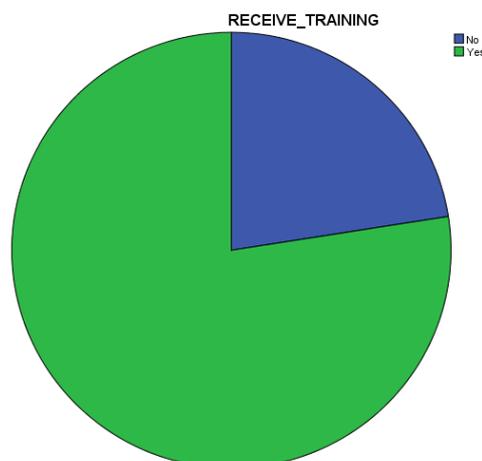
**RECEIVE\_TRAINING**

	Frequency	Percent	Valid Percent	Cumulative Percent
No	25	22.5	22.5	22.5
Valid Yes	86	77.5	77.5	100.0
Total	111	100.0	100.0	

Table 8 shows that the majority of people received training before becoming a memnber of microfinance.

Table 8 shows that out of the 111 people that accessed microfinance services in their microfinance institutions 86 people were trained and taught about the different services in the microfinance institutions..therefore 86 people were given awareness of the different services in the microfinance services.

Pie-chart showing the people who received training



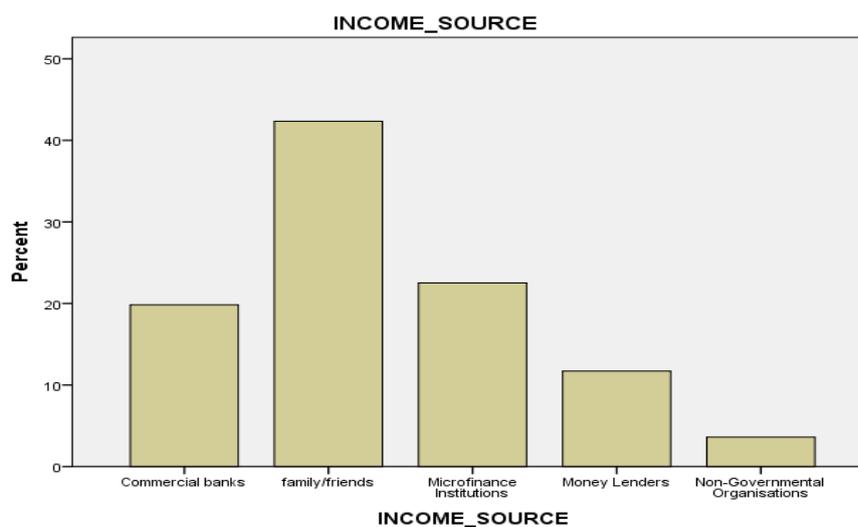
In the graph it shows that the majority received training while a few people did not receive any training when becoming members of microfinance institutions

**Frequency table 9. Shows the income source. This is the source where people find it comfortable to lend money.**

<b>INCOME_SOURCE</b>				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
Commercial banks	22	19.8	19.8	19.8
family/friends	47	42.3	42.3	62.2
Microfinance Institutions	25	22.5	22.5	84.7
Money Lenders	13	11.7	11.7	96.4
Non-Governmental Organizations	4	3.6	3.6	100.0
Total	111	100.0	100.0	

In table 9 it shows that the majority of people prefer borrowing money from family/friends compared to the microfinance institutions. Family and friends represented a 42.3% while microfinance represented 22.5% then money lenders at 11.7% and lastly a few show that they borrow money from non-governmental organization with a 3.6%.

Below also shows a bargraph representing and shows the same.



The table and bar graph show how people get income when they want to take loans, this shows that most people in Lilongwe west get their income from family and friends with a percentage of about 42.3%. Some of the people get the income from microfinance with a percentage of 22.5%, some get from commercial banks with a percentage of 19.8%, money lenders with about 12% and a few from non-governmental organization with 3.6%. This has showed that people mostly get their loans from family and friends than rushing to the microfinance institutions meaning microfinance has not fully made it aware about its services to the area.

## 2. DETERMINING LOAN LEVELS OF CLIENTS.

**Table 10. frequency table showing ways of taking loans**

### WAY\_OF\_TAKINGLOAN

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid by forming a group	46	41.4	41.4	41.4
Individually	61	55.0	55.0	96.4
Other	4	3.6	3.6	100.0
Total	111	100.0	100.0	

In table it shows the different number of people with different type of ways on how the accessed loans from the microfinance institutions. In the table 46 people formed a group to collect loans, 61 people took the loan individually while 4 used other means to take the loan. Therefore this table shows that most of the people take loans individually meaning that they are responsible for paying back the loan alone.

**Table 11 shows frequency table of interest rates**

### INTEREST\_RATE

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Fair	49	44.1	44.1	44.1
High	58	52.3	52.3	96.4
Low	4	3.6	3.6	100.0
Total	111	100.0	100.0	

The table 11 shows that most of the people representing a percentage of 52.3% feel that the interest rates are high. There is very few people with a percentage of 3.6 who feel they are low interests being charged.

**Table 12 shows frequency of repayment period of loans by microfinance members**

### REPAYMENT\_PERIOD

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Long	3	2.7	2.7	2.7
No response	9	8.1	8.1	10.8
Satisfactory	5	4.5	4.5	15.3
Short	31	27.9	27.9	43.2
Total	63	56.8	56.8	100.0
Total	111	100.0	100.0	

The table shows that the majority said the repayment period of loan payment is short.

**Table 13.the frequency table of loan repayment****LOAN\_REPAYMENT**

	Frequency	Percent	Valid Percent	Cumulative Percent
No	49	44.1	44.1	44.1
Valid Yes	62	55.9	55.9	100.0
Total	111	100.0	100.0	

In table shows if the members are able to pay their loans on time every time and in the table it shows that a majority number of people do not pay their loans on time. This maybe because of the high interests as seen in the table above and the short period given to them to pay the loans as showed in the table above.

**Conclusion**

The researcher had 111 respondents and all 111 responded. This research was conducted on the main objective to evaluate the impact on microfinance on poverty reduction and economic development. This research was based on four specific objectives which were to describe the relationship between demographic attributes and microfinance services, to determine microfinance loan levels of clients or customers, to analyse microfinance services awareness strategies to clients and customers and to assess the impact of microfinance loans on clients or customers income. In this research the researcher found out that there is a relationship between demographic attributes and microfinance services, most of the people in the youth group showed that they are the majority that are members of microfinance compared to the older group of people above 40 years. The researcher also found out the majority of people received training people joining microfinance and they were aware about the microfinance services before accessing the services. The researcher also found out that most of the people prefer to get loans from family and friends compared to other sources like microfinance and also found out that the interest rates are high and repayment period of loans is short therefore this might be the reason why people who prefer to get loans from family and friends were they know they will not be charged interests and lastly the researcher found out that there is a positive impact on microfinance loans on poverty reduction because most people have been able to have more income that they had before the loans were taken and it has affected their economic decisions as most people have learnt how to use the money economically. Therefore according to this research it can be concluded that microfinance has a positive impact on poverty reduction and economic development in Lilongwe west.

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