



# The Impact of National Economic Empowerment Fund Loans on Small and Medium Enterprises in Malawi: A Case of Area 49 in Lilongwe City

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## ABSTRACT

*Small and Medium Enterprises (SMEs) are recognized to play an important role that has resulted in increased attention by various governments to support and sustain the sector. Government support programmes are viewed as important tools for enhancing the performance of SMEs. This study explored the impact of government support through NEEF loans on the SMEs across Lilongwe City in Malawi. Qualitative approach was adopted using the survey and semi-structured interview methods. The study used purposive sampling to select participants that were interviewed. Thirteen semi-structured interviews were conducted on the owners/managers of SMEs and their business records were analyzed. Thematic analysis was used to analyze the qualitative data collected from interviews. The study found out that NEEF loans helps SMEs improve performance in terms of growth, business skills and development, boosting public revenue collections through various forms of taxation, provision of goods and services to the general public and poverty alleviation through creation of employment and economic empowerment of citizens. The study findings also revealed that SMEs face various challenges to access NEEF loans driven by several factors including inadequate collateral, higher risk loan repayment perceptions, and a lack of intermediary skills, experience and capacity of SMEs.*

## 1. INTRODUCTION TO THE STUDY

### 1.1 Introduction

Being one of the least developed countries, Malawi, is characterised by widespread poverty. According to the 1998 nationwide Integrated Household Survey (IHS), 65.3% of Malawi's population lives below the poverty line. However, despite the various initiatives by government, donors, and NGOs, most Malawians are still involved in low-return, small-scale enterprises. The large-scale, high-value businesses are owned by either foreigners or a minority of Malawians. It is for this reason that the Malawi Government deliberately established microfinance institution with a mission to economically empower ordinary and underserved Malawian (particularly women, youth and persons with disability) in providing quality, affordable and sustainable microfinance services in order to improve people's livelihood and economically empowering small and medium enterprises (SMEs).

### 1.2 Background of the study

Small and Medium Enterprises (SMEs) represent a significant part of the world economy, and are one of the strongest drivers of economic development, innovation and employment (World Bank, 2021). However, access to finance capital is frequently identified as a critical barrier to growth for SMEs. Therefore, it is in this regard that Malawi Government through The National Economic Empowerment Fund Limited (NEEF) is venturing into a mission to economically empower ordinary and underserved Malawian (particularly women, youth and persons with disability) in providing quality, affordable and sustainable microfinance services in order to improve people's livelihood. The National Economic Empowerment Fund Limited (NEEF) replaced the Malawi Enterprise Development Fund Limited (MEDF) that was registered under the Company's Act as a Company that is limited by guarantee in 2014. MEDF Ltd was the successor of the Malawi Rural Development Enterprise Fund (MARDEF) which was established by the Government of the Republic of Malawi with the approval of Parliament. MARDEF was launched by Presidential decree on 29th January, 2005.

## 2.0 REVIEW LITERATURE

As posited by **Weise (2006)** this theory was postulated by a Swedish economist called Knut Wicksell in 1901 with strong influence from the quantity theory of money. Wicksell based his theory on a comparison of the marginal product of capital with the cost of borrowing money. The theory by Wicksell therefore took a monetary approach to economic growth.

**Wicksell (1901)** argued that if the interest rate of borrowing money of was below the natural rate of return on capital, entrepreneurs would borrow at the money rate to purchase capital goods. This would lead to increased demand for all types of resources and, in turn, their prices. Conversely, if the interest

rate of borrowing money of was above the natural rate of return on capital entrepreneurs would sell the capital goods and hold money. This would lead to a higher demand for money and in turn the cost of borrowing. Wicksell connected the rate of interest with the production gap.

### 2.1.2 Cobb-Douglas Theory of Economic Growth

This theory was put forth by Charles W. Cobb and Paul H. Douglas in 1928 to explain the relationship between production (and therefore economic growth), labour and capital. Based on data on population, capital and production for the period 1899 to 1922, Cobb and Douglass (1928) established that output was a function of labour supply and capital connected within a given level

## 3.0 RESEARCH METHODOLOGY

Denzin and Lincoln (2011) described research designs as types of inquiry or strategies of inquiry within qualitative, quantitative, and mixed methods approaches that provide specific direction for procedures in research. According to Walliman (2016), research design provides a framework for the collection and analysis of data and subsequently indicates which research methods are appropriate. Therefore, the researcher employed qualitative survey approach in order to explore the impact of NEEF loans on SMEs in Malawi, participants were involved as individuals, and were expected to contribute their experiences and views from their particular life situations after getting the loans, since the situation was designed more as a dialogue, in which probing new aspects and estimations find their place.

**Primary data** was collected and used from owners of various SMEs located in Area 49 Township in Lilongwe. **Secondary data** was used to support primary data and was collected through reviewing records of accounts that was available at the time of interview. According to Walliman (2016), primary data are first-hand data, observed, experienced, recorded or collected directly from the field and the nearest one can get to the truth, while secondary data are data from written sources that interpret or record primary data

## 4. PRESENTATION OF RESULTS AND DISCUSSION

This chapter contains detailed presentation and data analysis of the results findings of this study. The findings that were analysed and presented followed the order of the objectives of the study focusing on the impact of NEEF loans on SMEs in Malawi as the case of Area 49 in Lilongwe City. However, to ensure anonymity and confidentiality of the respondents, the researcher assigned codes for the participants such as SME1, etc.

**Table 1: characteristics of Participants by education level (N = 13)**

Education Level of Business Operators	Frequency	Percentage (%)
Primary	3	23
Secondary	7	54
University Degree	1	8
Vocational Education	2	15
<b>Total</b>	<b>13</b>	<b>100</b>

**Table 2: Characteristics of Respondents by Gender (N=13)**

Gender Characteristics of Respondents		Frequency	Percentage (%)
Gender	Male	8	62
	Female	5	38
	<b>Total</b>	<b>13</b>	<b>100</b>

The results from respondents revealed that NEEF loans enabled some SMEs to increase their labour force by employing some people to help them in their businesses. The study's analysis shows that SMEs that obtain NEEF loans contribute a significant share of employment within the Malawi total labour force. This can be alluded that medium businesses if given support can produce fruits to increase employment. For instance, responses from SME1, SME2, SME6 and SME11 who were doing their stationary shop, restaurant and maize mill businesses respectively.

SME1 had this to say: *"I got K500,000.00 and opened this stationery shop, where I offer printing, photocopying services and design cards for events such as engagements, weddings and school graduation invitation cards. As things stand, I have taken on board four workers, one of whom is a student, to help me with the work"*.

Similarly, another respondent SME6 stated that: *"From the loan I procured Electricity Supply Corporation of Malawi units worth K100,000 and spent the remaining K200,000 on spares for our maize mill to boost its operation capacity. I employed one person to help me run the maize mill. Now am planning to apply for an individual loan and get K5 million to open a wholesale shop at Bolero Trading Centre and compete with one of the wholesalers there and I believe I will be able to employ more people there"*.

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## 5. CONCLUSION AND RECOMMENDATIONS

### 5.1 Conclusion

#### Impact of the NEEF Loans on SMEs in Malawi

Given that the gender split of the adult population in Malawi is 51% females and 49% males according to Malawi Population Census 2018, females have a lower propensity to own a small business as revealed in this study. The study revealed that the majority of the participants were male (62%). Similar results were reported in a survey by Finscope Malawi 2019 to provide insight on Malawi's micro, small and medium enterprises sector where it was revealed that SMEs are largely owned by males which indicates that the sector is still largely male dominated in the developed enterprises (FinMark Trust, 2019).

### 5.2 Recommendations and further studies

NEEF is a firm that received government funding with a mission to economically empower ordinary and underserved Malawian (particularly women, youth and persons with disability) in providing quality, affordable and sustainable microfinance services in order to improve people's livelihood. This study revealed that facilitation of access to finance has direct significant impact on firm performance. However, there is still a challenge with underfunding arising from bureaucratic bottle neck and information asymmetry associated with accessing the fund. Therefore, this study recommends that government should exercise renewed commitment towards driving the overall development of the SMEs sub-sector in Malawi, specifically eliminating all unnecessary bureaucratic bottle necks and favoritism, establish strategic and robust NEEF capital, crowd funding and other forms of financial institution to make funds available at affordable rate to critical sectors such as those SMEs in agriculture and manufacturing.

The study revealed that government should ensure stabilizing the economy to achieve lower inflation and interest rates in other financial institutions that would see some SMEs obtaining loans from other institutions such as commercial banks and ease the backlog that NEEF has. This result finding may be emanated from the fact that the delay for NEEF to issue out loan on time is mostly due to the high demand of borrowers compared to inadequate funding they get from government and makes the beneficiaries to end up reducing their budgets of their business capital because of ever changing prices of goods which Malawi is currently experiencing. Hayes (2021) concurred that a stabilization policy seeks to limit erratic swings in the economy's total output, as measured by the nation's gross domestic product (GDP), as well as controlling surges in inflation or deflation which will also tame fluctuations of prices and interest rates.

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## FURTHER STUDIES

The further research is needed to be conducted to understand the impact of SMEs on other economic development drivers such as government income from taxation.

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