

Impact of microfinance on the performance of small-scale agribusinesses in Malawi: A case study of PRIDE Malawi Limited in Lilongwe district

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Abstract

Access to finance is one of the major constraints to the growth of small scale enterprises in Malawi. This study is analysing the performance of agribusiness enterprises that are accessing microfinance facilities in Malawi. In addition, the study will identify and analyse the products/services provided by the microfinance institutions. The study will also identify and explore the challenges faced by both microfinance institutions and their clients. The aim of the study is to establish the impact of microfinance on the performance of micro agribusinesses in Malawi, based on their growth, sales volume, profits, and size of stock, among others. The study will be conducted in Lilongwe, Malawi with a case of PRIDE Malawi, which is one of the first Microfinance institutions which started its operations in the year 2000.

Key words: Agribusiness enterprises, Malawi, Microfinance

Résumé

L'accès au financement est l'un des principaux obstacles à la croissance des petites entreprises au Malawi. Cette étude analyse la performance des entreprises agro-industrielles qui accèdent aux facilités des microcrédits au Malawi. En outre, l'étude devrait permettre d'identifier et d'analyser les produits / services fournis par les institutions de microcrédit. L'étude devra également identifier et explorer les défis rencontrés par les institutions de microcrédit et leurs clients. Le but de cette étude est de déterminer l'impact de microcrédit sur la performance des entreprises micro agroalimentaires au Malawi, en fonction de leur croissance, du volume des ventes, des bénéfices et de la taille du stock entre autres. L'étude sera menée à Lilongwe, au Malawi avec un cas de PRIDE Malawi, qui est l'une des premières institutions de microcrédit qui ont commencé ses opérations en 2000.

Mots clés: entreprises agroalimentaire, au Malawi, le microcrédit

Background

Microfinance is the provision of the financial and non-financial services to those not included in the formal sector based not only on wealth but also social, cultural and gender barriers (Burrit, 2006). Micro-credit schemes in Malawi date back to 1992. The proliferation of micro-credit scheme or micro finance institutions began after the democratisation process in 1994. With improvement in the policy environment the Malawi Microfinance Network (MAMN) was established in October 2001 as a formal association of microfinance institutions with the objective of developing, promoting, coordinating and regulating microfinance activities among member institutions. Today Malawi has several government and non- governmental organisations offering financial services to resource poor households who have been sidelined by the formal sector due to lack of collateral in Malawi. Agricultural sector employs 80 percent of the labour force and contributes 39 percent of gross domestic product (GDP), contributes over 80 percent to foreign exchange earnings and contributes significantly to national and household food security. Various initiatives such as the Input subsidy programmes have significantly improved agricultural production. There is now a drive towards value addition, agro-processing and commercialisation of the agricultural sector. Such a drive will not yield much unless farmers have access to finance. This where microfinance is coming an important lynch pin in the commercialisation drive. A few studies have been carried out on the impact of microfinance in Malawi, but none has specifically explored the impact on the agribusiness sector. It is against this background that this study was conceived.

Literature Summary

The Gemini Baseline Survey of 2000, listed three key constraints faced by Small and Medium Enterprises (SME) access to resource inputs, access to finance and market problems but from the three constraints, access to finance was the major problem which could be resolved through microfinancing. Microfinance is the provision of a broad range of financial services to those excluded from the formal financial system. Millions of poor, vulnerable non-poor and “unbanked” households want financial services to invest in micro, small and medium businesses, purchase assets, improve their homes and access health and education services yet formal financial intermediaries like commercial banks do not serve them (Burrit, 2006).

Simtowe and Phiri (2006) argues that Microfinance is currently considered as an important tool in Malawi that can be used to achieve goal number one of the eight Millennium Development

Goals (MDGs), which focuses on eradicating extreme poverty and hunger by the year 2015. In Malawi, the importance of microfinance in poverty reduction is also reflected in the country's development strategies. Microfinance is one of the few remaining industries in the world that are primarily product-rather than market driven. With the rising recognition of the costs associated with high levels of drop-outs and their implications for achieving sustainability, there is a growing appreciation of the need to deliver client-responsive products. Other researchers e.g. Gondwe and Mapila (undated) also note that MFIs have a positive effect on the growth of businesses, however their support to the agricultural sector is weak hence their little positive effect on agribusinesses. This could be due to the risks such as drought and unforeseen circumstances associated with agribusinesses. Thus, the aim of this study is to analyse the performance of microfinance institutions in terms of providing support to agribusinesses.

Study Description

The study will be conducted in Lilongwe District, focusing on the activities of one of the microfinance organisations (Pride). The activities of Pride date back to the year 2000 and has a large customer base. Both Secondary and primary data will be collected during the research. Secondary data will be collected from the Malawi Microfinance Network Head office and PRIDE Malawi offices. Primary data will be collected using qualitative methods which will include Focus Group Discussions, semi structured questionnaires and Key Informant interviews involving 200 respondents randomly selected. The data collected will be analysed using the statistical package called STATA and descriptive statistics such as means, frequencies and percentages will be computed to find institutional and socio economic factors influencing the performance of the businesses. Quantitative analysis will also be used where Probit model will be used to analyse the social economic factors of the beneficiaries and non beneficiaries of the microfinance services. Some of the social-economic factors to be analysed will be age, sex, education, number of family members, and training acquired. Business analysis will help to assess the performance of the businesses which have benefited or not benefited from the microfinance services where business profits, overhead costs, additional or expanded premises, sales volume, direct costs, level of employment, size of stock, additional new products or services among others will be analysed.

Research Application

It is expected that the knowledge gained through the study will help inform policy decision to improve the delivery of microfinance services in Malawi.

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