

MFI Contributions to Poverty Reduction in Petauke District, Zambia

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Abstract: Microfinance institutions are a viable way of poverty alleviation in Zambia. However, from inception of microfinance Institutions in the country, the main concern was the social performance of the institutions neglecting business or financial wellbeing of the organizations. For sustainable ways of alleviation poverty, the Microfinance institutions needed to have strong and sound financial performance by lending more and more without much segregation which is reflected by an increase in the loan portfolio. It further refers to the financial profitability and viability or the ability of MFIs to cover operating expenses by its operating revenue, which are measured by the return on assets (ROA) and operating self-sufficient ratio (OSS) Concerns were raised in the Microfinance transparency report in 2011 that “the MFI industry in Zambia had poor financial performance indicating that it was below African standards.” The main aim of this study therefore assessed the financial inclusion and performance of MFIs in rural districts of Zambia from 2021 to 2022. This research was focused mainly on the outreach of microfinance institutions to rural areas and help in alleviating the stinking poverty levels for the rural dwellers as well as to ascertain whether the microfinance institutions in Zambia have high outreach to the poor from the inception in the early 2000.

The research methodology used was pure descriptive research design. The population under consideration was all prudentially regulated 24 MFIs in Zambia 4 of them being the rural area. Data was collected using mostly secondary sources such as financial statements from Finca, AMIZ, Finca, FFC and the MIX market; however primary sources were also used by the use of questionnaires. Data was analysed using locality analysis, trend analysis and loan accessibility by the target clientele e.g. government workers, business men and farmers.

Keywords: Poverty alleviation, Microfinance Institutions (MFIs), Loan portfolio

1. Introduction

Microfinance companies have been defined as those companies which provide the financial services such as savings, micro-credit, insurance, asset finance and leasing provided to the poor and vulnerable in societies to empower them by enabling self-employment in communities (Nelson, 2011). Microfinance has emerged as a feasible financial alternative for poor people with no access to credit from formal financial institutions. Its objectives include poverty alleviation by fostering small scale entrepreneurship through simple access to credit. It distinguishes itself from formal credit by disbursing small loans to the poor, using various innovative non-traditional loan configurations such as loans without collateral, group lending, progressive loan structure, immediate repayment arrangements, regular repayment schedules and collateral substitutes (Quayes, 2012). Group lending is another common type of microfinance loan where the group represents a borrower (Zuru,

Hashim, & Arshad, 2016). The loan is disbursed to a group and members of the group, usually four to ten individuals, are responsible for the repayment of the loan (Chetty, 2017). Members of such groups mostly include farmers, labourers, tenants and other rural workers. For a loan provider, this often minimizes risk of lending, as the basic idea is that individual risks are overcome by the collective responsibility and security granted by a group (Grameen Bank, 2018). Group lending focuses on social capital, which promotes social interaction, information sharing and trust. These factors are all foundations of group lending methodology (Kamukama & Natamba, 2013). Mostly, these formation types do not require financial administration. A challenge faced by group lending is personal preferences in lending credit. Group lending can also be referred to as joint liability groups.

Microfinance institutions use many creative lending methods and charge market-based interest rates to compensate for the higher costs associated with conducting this type of business (Hartarska & Nadolnyak, 2007). The interest rates cover the cost of screening, monitoring and enforcing loans. According to Bogan (2012), as protection from default, MFIs have charged nominal interest rates of 30% to 50%. Ayayi and Sene (2010) show that MFIs with the highest interest rates are the best performers, the most efficient and the most financially sustainable organizations. However, while these interest rates may cover operating expenses, they are not ideal for expanding outreach, since the financial services being offered become relatively unaffordable to the poor.

The rural area is an open swath of land that has few homes, buildings and with very few people living there. This is the land predominantly outside the densely populated urban areas in towns or cities. Surely the financial extension by microfinance companies would be greatly welcomed and appreciated by the people in such localities of our country. Most people in these areas rely upon the development of provincial regions and furthermore the way of life in its country mass. For the monetary advancement of a nation and of locales inside the nation or country business visionary is a standout amongst the most essential sources of information. Presently business visionaries are additionally headed to achieve accomplishment in their business alongside the qualities acquired by them of a visionary, pioneer, supervisor, trend-setter, constant student, and leader and most vital is to actualize every one of these qualities into the work. The above are all urban centre based and careless about the welfare of the rural settlers because they feel urban centres have more to do with money creating opportunities compared to the rural set up. Surely Entrepreneurs set the case of transforming their fantasy into reality, Gómez-Araujo, E. J. (2012). All the more vitally the story at the back to accomplish the fantasies into the truth is to set gigantic objectives for growth of microfinance Institutions in which ever area the company will plan to operate in be semi urban or rural area and furthermore remain focused on accomplishing them paying little attention to the impediments they act as a burden with the unmatched energy and the aspiration towards accomplishing the objectives. Without a doubt it looks alluring, intriguing and spurring subsequent to listening the stories of the business people, however for beyond any doubt achievement isn't as simple as it looks dependably.

Setting a business in the rural areas is the other type of entrepreneurship which ensures value addition to rural assets by engaging huge rural human resources.

Rural Microfinance business in Petauke District

The rural Zambia set community members had temporal daily work (piece work) which attracts the payment rate per day, per week or per type of work provided to the workers. This clearly serves as a source of income generator for most of the people talked to. However, in slow and slight view of the sectorial and geographical mobility in attempts to understand rural business dynamics in microfinance showed the old trend has turned out to be positive arena for business because of high employment opportunities being offered by the Zambian government in education, health, home affairs, agriculture, community and social welfare, defense, Zambia national service etc. Despite the way that MFIs tireless work ought to be perceived, yet significantly more ought to be done to pivot the heading of the investment in the rural areas as well.

The overcrowding of microfinance companies in urban centres should as well tilt towards exploring the business potential which lies untapped in the rural Zambia. With huge figures which have been scored by the UPND government of recruiting 30,000 teachers and 11,200 health workers who have mostly been posted to

rural areas, creates an arable avenue or opportunity for microfinance business to grab and explore. Once, this business is well explored in the rural areas of Zambia, it will improve the people's lives and pull in people to natural localities from towns and urban towns where they had moved, Scott, K., (2011), This would impact possibility of the youths to consider Zambia's rural districts as spots of employment and business possibilities.

Types of MFIs in Zambia

Microfinance institutions have a range of different legal standings. There is a variety in the types of formal and semiformal institutions within the market including cooperatives, credit unions, non-governmental organizations (NGOs), non-banking financial institutions (NBFIs), village banks, postal banks, and commercial banks (Daher & Le Saout, 2013). The legal statuses identified by the MIX Market, the data source for this paper, include NGO, NBFI, Banks, village Banks and Credit Unions and the Cooperatives as well. Most microfinance is provided by governments, such as Citizen Economic Empowerment Commission which is financed by the Zambian government and the banks. About a sixth of borrowers are served by private microfinance companies. The different forms of institutions operate in diverse ways. These institutions build a unique atmosphere of financial inclusion intertwined with a sustainable livelihood aimed at empowering poor communities. Many MFIs are also involved in several social development initiatives such as capacity-building, education, financial literacy, water and sanitation, livelihood promotion, preventative healthcare and training (Jha, 2016). This is in line with the MFI goal of reducing poverty by giving poor the resources needed for them to become self-sufficient whilst remaining financially self-sufficient themselves.

Benefits Microfinance products to the rural areas

I. Employment

When the microfinance institutions set up businesses in rural areas, most of the qualified youths will be employed thereby reducing the high unemployment rate in the country. Most of the youths move to urban areas in search of better employment opportunities which seem to be far-fetched in rural areas.

II. Improvement of nutrition

Numerous people in the rural areas have poor quality diets and more people especially children suffer from micronutrients deficiencies. Nearly 25% of the children under the age of 5 years are chronically under malnourished. Therefore, if these people are accorded the chance of microcredit, their living standards will improve.

III. Building a more inclusive economy

The people in the rural areas have less access to resources and services which includes finances, training, inputs, equipment and other social amenities in comparison to urban areas. If microfinance institutions can invest in rural areas, they will build a more inclusive economy since the rural dwellers will have equal access to credit facilities just like the urban colleagues.

IV. Enhancing water security

Water stress is the risk with the greatest potential impact on the livelihood of the poor rural communities. More five million people in Zambian rural areas live in water scarce regions which have negatively been exacerbated by the poor rainfall pattern which has been experienced for the past five (5) years now. The little resource is being shared between the wild, domesticated animals and the people at large. If the rural people are accorded access to credit facilities they will improve and enhance water security by drilling boreholes and building better and modern dams.

V. Promoting indigenous knowledge

The people in the rural areas have a special role to play in the conservation and sustainable management of the natural resources. Their in depth varied and locally rooted knowledge can help the country adapt to and mitigate the consequences of climate change. They can also stop the merciless cutting down of trees for charcoal business because they would feel included in the financial streams flowing through the country just like the town folks.

VI. Access to the Markets

With increased access to financial credits with attractive interests, the rural dwellers' increased productivity, could also increase income and strengthens food security. This would contribute to reduction of poverty levels

and hunger for producing families and their communities. Many producers or people in the rural areas have challenges in accessing markets to sell their goods in the marketplace. They constrained by the remote locations and high transportation costs if any organization could give them the bargaining power, they could interact on equal terms with other market intermediaries.

VII. Rural Urban Migration

The rural urban migration in Zambia has adversely affected the life style in the towns because it has contributed to increase in over population, street vending, high crime rate, prostitution, theft, drug abuse, poor garbage disposal and unsanitary conditions in towns. So if the people in the rural areas are provided with microfinance facilities like the town counterparts, the urban drift migration would be contained

VIII. Help in reducing high of alcohol consumption

Most rural areas, the peoples' source of entertainment is beer drinking. The proportion of drinkers engaging in harmful drinking behaviours is increased in the past decade particularly among the young men and women. These young Zambians have seriously taken into kachasu (a local beer with high alcohol content in Petauke district) drinking tended with other unhealthy lifestyles and related risk factors. When many microfinance companies open their lensing business in these such places, many qualified youths will be employed and those with various skills will be provided with credit so that they can boost and expand and expand their businesses.

2. FINDINGS

The section of the report presents the findings from the field study, analysis and discussion. The data presented is both qualitative and quantitative and is discussed based on the three research questions. The results are based on the study which was conducted in Petauke district trading area and some villages.

Types of Microfinance Institutions operating in Petauke compared to Lusaka

In terms of the type of business, the result shows that the majority of the people who participated in the study owned the business of hardware and agro- business. The figure below shows the main types of microfinance institutions operating in Petauke.

TABLE 1: SHOWING NUMBER OF MFIS BETWEEN PETAUKE AND LUSAKA

NO	NAME OF MFI IN PETAUKE		NAME OF MFI IN LUSAKA
1	Vision Fund	1	Vision Fund
2	Jipo Finance	2	Bayport Financial Services
3	Gs advance	3	Finca
4	Bayport Financial Services	4	Gs Advance
5	Microfin Africa	5	Public Service Microfinance
6	Meanwood Finance	6	Nedfin Limited
7	Ceec	7	Microfin Africa Ltd
		8	Meanwood Finance
		9	Cofund Investment Ltd
		10	Butala Finance Ltd
		11	Mtawila Finance Services

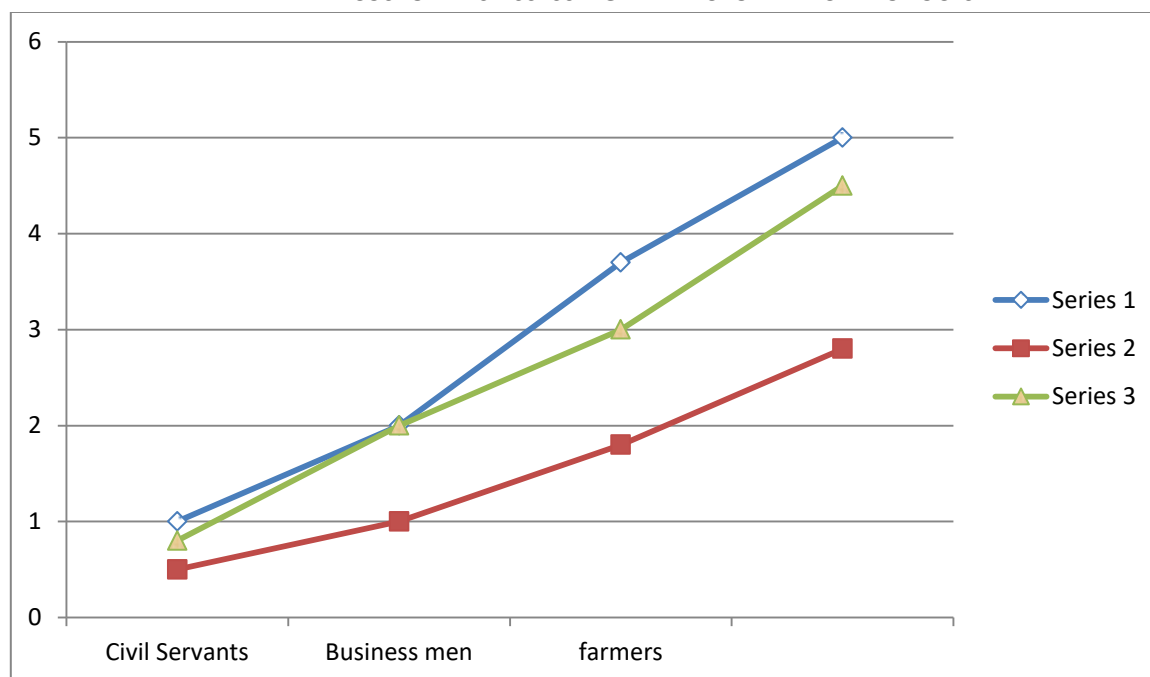
		12	Butala Finance
		13	Capital Solutions Ltd
		14	Unify Finance
		15	Izwe Loans Zambia Ltd
		16	Express Credit
		17	AB Bank Zambia Ltd
		18	Elpe Finance
		19	Ceec
		20	Entrepreneurs Financial Centre

Source: Field data 2022

The findings are vivid that most of the MFIs prefer trading in urban centres unlike in the rural areas because urban areas have majority of the people in formal employment compared to rural areas.

The table 1 above clearly describes the location of the MFIs distribution which shows that most microfinance institutions prefer operating in urban centres because majority of the people in towns are employees who have the sure capacity of getting the loans and pay back unlike rural areas where the people depend entirely on farming. This entails that the people in the rural areas have money once a year when they sale their farm produce to Food Reserve Agency (FRA)

TABLE 2: THE CUSTOMERS ASSESSING THE MICROFINANCE PRODUCTS



Source: Author 2022

Series 1 Represents the Civil Servants

Series 2 Represents Farmers

Series 3 represents Business men

During this research expedition, three microfinance institutions were contacted to get more information on the type of customers accessing the loan facilities from them, namely Bayport Financial Services, Meanwood Finance and citizen Economic Empowerment Commission. Therefore, table 2 above describes the type of the

customers who are able to access the loan products in Petauke district and the respective portfolio growth per class of the customers.

It found that in all the three Microfinance companies the trusted clientele were the civil servants. The following were the reasons for doing business with the civil servants:

i) Diversity, Equality and inclusion

The Zambian civil service values and supports all the employees. The government has diversity talent programmes to help everyone irrespective of the background to achieve individual's potential. Therefore, the microfinance institutions were quite certain that when the civil servants were provided with the loan facility, the money will be recovered without any problem.

ii) Pension

The Zambian civil services, has a competitive contributory pension scheme which acts as collateral to whoever gets a loan from any microfinance company because in case of death, the government will be able to pay the loan from deceased pension.

iii) Workers wellbeing

Most of the civil servants in rural areas have fixed aboard because the government provided accommodation to all civil servants and are properly taken care of.

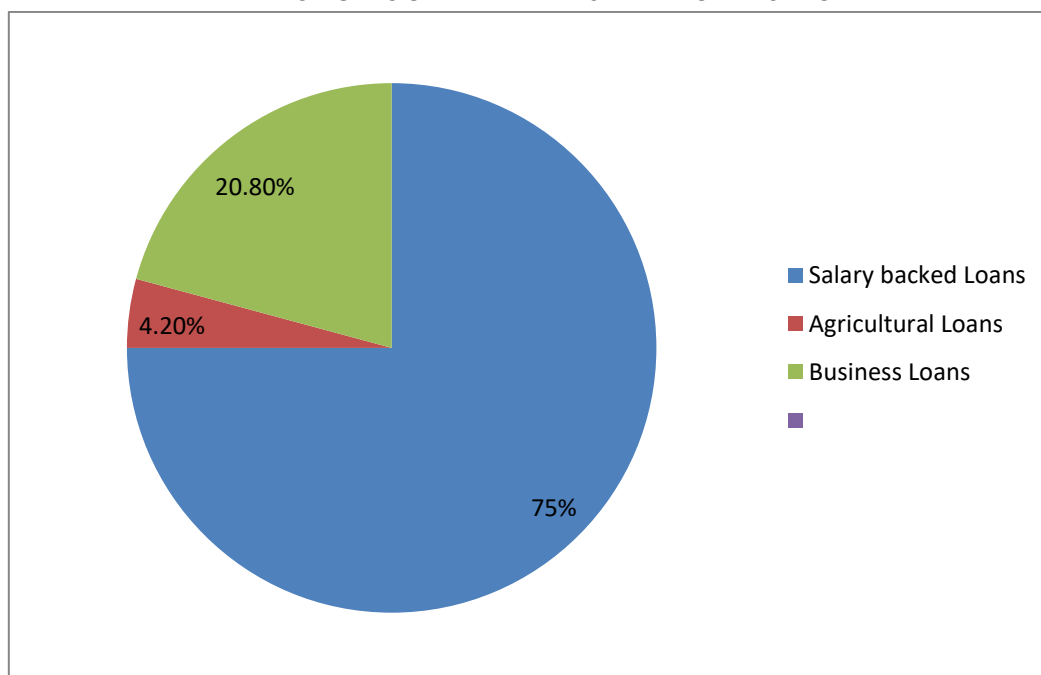
iv) Stability and Security

Chandni. N Wadhvani (2016) said that the major advantage of civil service is that there is no risk of losing your job like the private sector. Once you have got it, it's yours until you retire from it or you die. On the other hand, private companies neither offer such security nor the stability. After a certain period of time, they may not offer you the package you deserve. So, in that case, you will definitely have to switch from one company to another, which is not the case with government jobs. Thus, civil services are the priority because of the security it offers. Due to such security enjoyed by civil servants, the MFIs target the civil servants because they will sure that all the loans given to the civil servants will be paid back.

v) Salary backed loan packages

MFIs have tailored the loan packages to suit the government workers from the lowest paid employee to the highest paid officer. These loan products are deductible by the government before the money is credited to the employee's account. Therefore, the MFI will not waste it operating hours following the customer for loan repayment because the money would be submitted to the company by government.

TABLE 3: LOANS OFFERED BY MFIs IN PETAUKE DISTRICT



Source: Author 2022

According to table 3 which denotes the loans which were obtained by the three classes of customers, 75 percent were the salary backed loans which were obtained by the civil servants in the area. 4.2 percent were the agricultural loans which were obtained by very few farmers and 20.8 percent were the business loans which were obtained by business men and women including very few companies.

3. CONCLUSION

This study was focused on a three month feasibility study of the microfinance institutions in Petauke district in Eastern Province of Zambia. The other factor was deeply to have an understanding on how microfinance institutions can help in poverty alleviations in the rural areas in comparison with the urban centres.

Practical implications

This study shows that of the 7 registered microfinance Institutions were in operational in Petauke district in comparison to many MFIs in Lusaka. This implied that for country to have equal development and alleviate poverty properly among its citizens, the rural areas must also have equal access to financing just like in urban areas.

The research results also showed a clear focused financial business model which must be adopted by all the microfinance institutions working from rural areas, these institutions must develop loan products and conditions which would favour business expansion in rural areas and tailor products specifically for the small business owners, farmers and civil servants in order to lure development in these areas failure to do so, rural areas would lag behind in development and the people would continue living in poverty.

In summary therefore, efficient operation of MFIs in rural areas could leads to better financial inclusion and management thereby leading into a more sustainable, effective and long-term functioning of the MFIs which can then translate into higher degree of poverty alleviation in the rural parts of Zambia. The registered microfinance institutions which are willing to work from rural areas should be offered grants by the government in the first year of their operation in a chosen rural area.

Limitations of the research

This work has some limitations as follows:

- i) The research could have been conducted in all the one hundred sixteen (116) districts but only in one (1) district was the study the done.
- ii) The MFIs which were contacted were limited due to budget constraints on the part of researcher.
- iii) Inertia from the branch managers who never wanted to disclose more information about the operations of their MFIs.
- iv) Some of the individual MFIs that did not publish their statements and never wanted to be singled out unless it was inevitable that they be mentioned.
- v) Most civil servants were uncooperative and never wanted to be interviewed or display their monthly payslips.

RECOMMENDATIONS FOR FURTHER RESEARCH

Recommended further researches should be done on the profitability and sustainability of MFIs in rural districts of Zambia. The other researchers can also look at the dimension of financial performance and portfolio growth which have not been covered in this study.

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