

A STUDY ON IMPACT OF MICROLOAN FOUNDATION ON EMPOWERING RURAL COMMUNITY IN MANGOCHI DISTRICT – REPUBLIC OF MALAWI

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Abstract— *Microloan foundation is an organization that fall under microfinance institution. Microfinance refers to an economic development approach that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. The economic development approach is done through microfinance institutions such as Microloan foundation.*

Basically this research aimed at investigating the impact which the loans from microloan foundation had brought in on empowering the economic status and living standards of low-income earning (women) in the rural communities of Mangochi district.

This study used the cross-sectional survey research design. The target population of the study was 45 which consist of loan officers and clients of MLF. Simple random and purposive sampling techniques were used to arrive at 42 clients and 3 MLF officers. A questionnaire was used to collect data. The research revealed that faced some problems such as communication breakdown due to differentiation in languages, need of clarification of some words used in the questionnaire, unwillingness of clients to answer some questions etc. Data entry, storage and analysis were done with the aid of Scientific Package for Social Sciences (SPSS).

The study established and concluded that Microloan Foundation have a positive effect to areas where it is carrying out its activities. The MLF have positively impacted to the household level as it has changed the living standards of the clients. The study also conclude that MLF has emerged as a job creator to rural communities as it provides small amount of loans so that women can employ themselves. This study further concluded that MLF is making contributions towards the economy of Malawi through payment of provision tax paid by MLF's clients who runs their businesses at a recognized markets of Mangochi district.

The study recommended that MLF should make their loans more accessible. The study recommended further that MLF should lower interest rates. Lastly, the research recommended that MLF should reduce the distance to access and deposit the loans.

Index Terms— *Micro – Finance institutions, Microloan foundations, rural economy empowerment, Creating job*

Introduction

General Introduction to the Study the word microfinance is being used very often in development vocabulary today. Although the word is literally comprised of two words: micro and finance which literally mean small credit; the concept of microfinance goes beyond the provision of small credit to the poor. Christen defines microfinance as 'the means of providing a variety of financial services to the poor based on market-driven and commercial approaches' (Christen, 1997.p.1). This definition encompasses provision of other financial services like savings, money transfers, payments, remittances, and insurance, among others. However many microfinance practices today still focus on micro-credit: providing the poor with small credit with the hope of improving their labour productivity and thereby lead to increment in household incomes. This study is mainly focused on impact of microfinance programs to the poor. The main interests of the study was to understand how micro finance credit impact on the livelihoods of poor people at grassroots community. It was also in the interest of the study to understand how households used the credit, and to measure the impact of that credit on household income.

The current global perception of microfinance in the global arena there is already the impression that microfinance is successful in reducing poverty. Many policy makers are therefore engaged on how to make microfinance sustainable and available to many poor households in the future. Many stake holders in the microfinance industry especially donors and investors argue that, "Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor households". The overall message in this argument is that unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from governments and donors. The main underlying assumption in this argument is that microfinance is already good for the clients, and therefore what is really urgent is to make the financial service available to as many poor people as possible. The "win-win" situation both for the investor and the poor can be explained as follows: The investor in microfinance programs follows good banking practices with the possibility of some profit, while the poor continue to benefit by accessing reliable credit that is assumed to be beneficial to their welfare. The supporters of the "win- win" proposition stress (mainly by assumption) that the ability to repay loans by the poor is a good indicator that whatever investments the poor make with their micro credit loans must be giving back profits. Given the assumption that microfinance is already beneficial to the poor, the "win-win" proposition further assumes that the amount of household poverty reduced is directly proportional to the number of households reached with microfinance. The "win-win" vision has been translated in to a series of "best practices" circulated widely by a number of key donors including the Consultative Group to Assist the Poorest (CGAP). CGAP is a consortium of NGOs hosted at the World Bank.

I. SCOPE OF THE STUDY

Microloan Foundation is concerned with provision of loans in small amounts to the low income earning women living in the rural areas of Mangochi district. The study's aim is, therefore, to see how frequently the loans are provided to the low income earning women living in

rural areas and also to see how the loans has standardized borrower's lives and how the borrower's economic status has boosted. However, the study took the following things into consideration namely:

- The kinds of loans provided to borrowers i.e. short-term or long term loans.
- The conditions set by MLF for the clients to access the loans
- The kind of business operated by the borrower i.e. small or medium enterprises.
- The strategies followed by the borrowers to maximize profits from their respective businesses.
- Types of trainings provided by Microloan Foundation to ensure that borrowers are able to manage their funds.

II. LITERATURE REVIEW

To begin with, microfinance is a broad spectrum field of small scale business and its finance source and management. Different proponents have postulated different definitions of microfinance. According to Dollinger (2003).p.31 "Microfinance is broad range of services that indicates deposits small loans, money transfer, payment services and various types of insurance products through the poor and low income household for their generation and improvement their living standards by investing micro enterprises and small business".

Mayoux (2007), also defines Microfinance as a stipulation of greater assortment of financial services such as, small and medium loans, deposits, payment services, money transfer, and insurance for the low income household as well as poor and their micro business. Especially Microfinance service is provided from three different types of sources like rural banks and cooperatives as formal institutions, semiformal institutions like non-governmental organizations and formal sources like shopkeepers as well as money lenders.

For the purpose of this research, Microfinance refers to an economic development approach that involves providing financial services through institutions, to low income clients, where the market fails to provide appropriate services.

III. RESEARCH METHODOLOGY

Research Design

A research design is the conceptual structure within which research is conducted (Creswell & Clark 2006; Kothari, 2012). It is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance with the research purpose. It constitutes the blueprint for the collection, measurement and analysis of data. This study used the cross-sectional survey research design. This is a design that uses a representative sample of a larger population, with the hope of generalizing the findings to the larger population (Mutai, 2000; Orodho & Kombo, 2002; Orodho, 2004; Kothari, 2012). Data is collected once on the variables of interest and the researcher looks at the correlation between the variables. The cross-section is always the independent variables. The use of the cross-section sample survey design facilitated the description and explanation of the variables in this study and their relationship in determining the impact of Microloan Foundation on empowering the rural community of Mangochi district. Specifically, the study used a descriptive cross-sectional sample survey design as it is useful in giving insight into the general picture of the situation being investigated. This study therefore used the qualitative approach so as to benefit from the advantages inherent in qualitative designs.

Target Population

A population is the whole group that the research focuses on (Kothari, 2012). It is the total number of subjects, or the total environment of interest of the researcher (Oso & Onen, 2009). The total study population or the respondents was 45. The target population of this study was the clients of Microloan Foundation. Specifically, a group of clients who has been accessing loans for at least two or more years in order for the research to be able to find out the impact of the loans to the borrowers.

Sampling Frame

A sampling frame is the list of elements from which the sample may be drawn (Zikmund, 2010). It is also referred to as a working population because it provides the list that a researcher can work with operationally (Kang'ethe, Karani, Elias, Mangera, & Pemba, 2008). The basic idea of sampling was that the unit selected should represent the population. However, the conclusion for the entire population was drawn from the selected population. In this study consisted of Mangochi district residents.

Sample and Sampling Technique

This study used both purposive and simple random sampling to select the sample. Sampling refers to the selected group that represents the entire population. The research opted for sampling as aimed at reducing costs and saving time as well. Apart from cost reduction and time saving, sampling also helps the research to be easy to be managed due to reduction of the size of the area to be covered. Purposive sampling is a sampling technique that allows a researcher to use cases that have the required information in relation to the study objectives (Mugenda & Mugenda, 1999; Kothari, 2004; Chandran, 2004; Oso & Onen, 2009). A simple random sampling is a technique that allows the researcher to select a sample without bias from the target or accessible population (Mutai, 2000; Kothari, 2004; Chandran, 2004; Oso & Onen, 2009). In this way, a total of 45 respondents were selected to participate in the study.

IV. CONCLUSION AND RECOMMENDATION

The concluding section aims to sum up the research findings in relationship to literature review. To do this, the chapter concentrates on exploring the business opportunities for both Microloan Foundation as well as the clients. This is done by analyzing the shortfalls noted in the discussion and capitalize on them so as to maximize the business environment.

Throughout the research, it has been observed that Microloan Foundation has made a tremendous positive contribution towards uplifting livelihood of rural people in Malawi and Mangochi in particular. In addition to uplifting the livelihood of rural people, Microloan Foundation has also been making contribution towards the economy country. The following are some of the strengths of Microloan Foundation.

Firstly, this research noted that Microloan Foundation has created job opportunities to most vulnerable people such as illiterate and women. These people would not in a way get an employment somewhere, but with Microloan Foundation these people have been employed implicitly. In this case Microloan Foundation has reduced the number of people who are normally stay idle in the village.

Secondly, the paper has also discovered that Microloan Foundation services have greatly empowered women thereby reducing the gap between men and women. Mostly, the women are considered as underdogs on family matters. However, with the coming of Microloan

Foundation, most women have been empowered through the loans. The morale of women in the community has boosted hence they no longer feel inferior to men.

The third strength of Microloan Foundation is that it has increased the tax base of the country. This is so because it has led to the increase of people doing business through its loans. It is clear where people are idle, the country generate very little in terms of domestic tax. With the business opportunities Microloan Foundation has created, it means more people paying tax which eventually leads to country's economy growth.

Another strength of Microloan Foundation based on the research findings is that it has created as culture of saving amongst the rural community as well as increased the knowledge of monetary issues. It has been observed that previously before Microloan Foundation most of the clients lived by a hand to mouth budget. The concept of saving was mostly in existence but with Microloan Foundation people have nurtured the spirit of saving which has helped to lift up their own lives rather than waiting for government's support. People have enough money to build good houses, paying school fees, afford decent dressing and food. This has been so because of Microloan Foundation which has equipped them with financial management and savings knowledge.

After outlining the strengths and weaknesses of Microloan Foundations in this chapter, the chapter then aims at introducing the research's suggestions and recommendations for effective operation on the part of MLF as well as the clients in the future.

The advent of MLF promises a lot of positive impacts to the individuals and the community. However, for it to be more effective it needs to address few issues which making the loans more accessible to the clients, increasing loans amounts, lowering interest rates and reducing distance to access and deposit the loan. As revealed in this research such issues as mentioned above makes the loan service complicated to the clients so addressing them implies a health loan system to the clients as well.

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