IMPACT OF MICROFINANCE ON SMALL AND MEDIUM ENTERPRISES IN ZIMBABWE: THE CASE FOR MASVINGO TOWN

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ABSTRACT

This research study sought to assess the impact of Microfinance on Small and Medium Enterprises (SMEs) in Zimbabwe.Data was collected from 105 randomly selected SMEs using the questionnaires.Graphs and Charts were used in data presentations and analysis. The findings of the study highlighted that majority SMEs had access to MFI Loans although only a few of them were able to secure the amount they required in full. The research study further revealed that significant number of SMEs beneficiaries of MFI Loans were effectively utilising the loans for business purposes thus enhancing their growth. Most of the SMEs indicated a positive effect of MFI Loans towards promoting their product quality and range, increase in branch network, improved cash flow levels and increase in market share. The study recommend that commercial banks and privately owned MFIs must train SMEs on aspects of financial management before availing loans to them. In addition the government and local authorities (City council) should provide sufficient infrastructural facilities such as permanent work stations, electricity and additional ablution facilities for the SMEs.

Key words: Small and Medium Enterprises; Masvingo Town, Microfinance; Loans; Zimbabwe

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1.0 Introduction

Improving the access to finance of Small and Medium Enterprises (SMEs) is crucial in fostering entrepreneurship, competition, innovation and growth in both developing and developed countries (Chipangura and Kaseke 2012). SMEs in both developed and developed countries are faced by difficulties in accessing sufficient and adequate capital to enhance further growth and development of their businesses. Small businesses have difficulties in accessing finance as many financial service providers consider them as high risk businesses which are mainly associated with high transaction costs and or low returns on investment. SMEs in Zimbabwe do create employment opportunities, generate income, contribute to economic growth and reduce poverty by serving as livelihood for the poor. Access to financial services however remain a very strong constraint to their growth and development despite their increasing roles.

Microfinance gives people new opportunities by helping them to get and secure finances so as to equalise the chances and make them responsible for their own future. Microfinance of late has become very important in enhancing SMEs access to financial services by providing services which are tailor made for the SMEs which traditional Formal Financial Institutions failed to do. Small and Medium Enterprises (SMEs) are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (FFIs). This is because these SMEs cannot provide the necessary collateral security demanded by these formal institutions and also, the banks find it difficult to recover the high cost involved in dealing with small firms. In addition to this, the associated risks involved in lending to MSEs make it unattractive to the banks to deal with micro and small enterprises (World Bank,1994). Littlefield and Rosenberg (2004) argue that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999).In Zimbabwe, Microfinance began to show face in the early 1990s and started to grow exponentially in the early 2000.The rapid deterioration of the Zimbabwean economy since 1999coupled by high unemployment,by then officially pegged at levels exceeding 80%, led to the unprecedented growth of the informal sectorin Zimbabwe. Regrettably informal operators were unable to access funding from traditional capital providers (formal financial institutions), because they lacked collateral and they also found the modus operandi of traditional banks too demanding and intimidating. In response to the inability by traditional financial service providers to enable the informal sector to access capital (finance),microfinance emerged strongly as the most effective vehicle to provide access to capital for members of the informal sector.(ZAMFI report ,2011).It is against the aforementioned background that it sought to find out the Impact of MFIs on SMEs by specifically looking at the following objectives:

- To find out whether SMEs are able to access MFI loans.
- To assess the percentage of loans applied by SMEs which was granted by MFIs.
- To investigate if loans provided by MFIs to SMEs are being effectively utilised for Business Growth.
- To examine the effect of MFIs' products and services to SMEs

2.0 Literature Review

2.1 Concept of Microfinance

Robinson (2003) postulated that ''Microfinance is a development tool that provides or grants financial servicesand products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses'' Microfinance enables the poor and excluded section of people in the society who do not have an access to formal banking to build assets, diversity livelihood options and increaseincome, and reduce their vulnerability to economic stress. Microfinance arose in the 1980s as a response to doubts and research findings about state delivery of subsidised credit to poor farmers.Institutions which include mainly Non-Governmental Organisations played a major role in the development of Microfinance by developing a successful credit and training system for individual micro entrepreneurs in Fundacion Carjaval, establishing solidarity group lending to urban vendors (Latin AmericaACCION) and in Asia where Dr Mohamed Yunus of Bangladesh initiated a pilot group lending scheme for landless people.(Ledgerwood , 1999:2). Microfinance in general can be Non-Governmental Organisations (NGOs) , Savings and Loans Cooperative , Government banks , Commercial banks or Non-Bank Financial Institutions (Ledgerwood ,1999:1).Microfinance clients are typically self-employed , low income entrepreneurs in both rural and urban areas , traders small farmers ,service providers. Ledgerwood, 1999:3). In the

Zimbabwean set up Microfinance Institutions are privately owned , owned by Commercial banks , Government Owned vehicles (SEDCO), Donor funded Savings and Loans Cooperatives and organisations among others.

2.2 Microfinance and Small to Medium Enterprises

Ahiabor ,2013 examined the impact of Microfinance on Small and Medium Enterprises (SMEs) in Ghana, using a case study of the Ledzorkuku-Krowor Municipal Assembly. The findings of the study revealed that to a greater extent SMEs had the knowledge of the existence of MFIs and acknowledged positive contributions of MFIs loans towards promoting their growth. He further suggested that, other than financial support, it is recommended that microfinance institutions should at all-time give professional advices to SMEs since proper professional advice serve to inform the lending microfinance institutions whether the amount the SME requested for is too much for the project or less. In line with that Idowu 2009 assessed the impact of Microfinance on Small and Medium Enterprises (SMEs) in Nigeria and asserted that quite a significant number of the SMEs managed to access MFIs loans even though only few of them were capable enough to secure the amounts they actually required. Idowu further pointed out that majority of the SMEs acknowledged positive contributions of MFIs loans towards promoting their market share, product innovation and the SMEs overall competitive advantage.

Ngwenya and Ndlovu , 2003 carried out a research study to evaluate the performance of MFIs in relation to the promotion of Credit access to the Poor in the Matabeleland region in Zimbabwe. They highlighted that despite facing some industry wide challenges, MFIs made a significant impact in linking SMEs and the poor to sources of credit. They recommended the Zimbabwean government to formulate a strategic plan on SMEs and MFIs for prudential operations. They also recommended that the government of Zimbabwe must make information disclosure by MFIs mandatory and also encouraged MFIs to introduce insurance products to cushion both themselves (MFIs) and SMEs in the event of a problem.

Ali et al, 2013 investigated the accessibility of microfinance for small businesses in Mogadishu. The main objective of the research study was to examine the challenges which were being faced by small businesses in accessing microfinance services in Mogadishu.The main findings were that Small businesses in Mogadishu were facing challenges to access loans from MFIs and this results many small business to close shop some may not have started due to lack of ability to overcome the challenges. The researchers recommended that microfinance institution were required to set more flexible, affordable and attractive requirements in financing Small businesses, their role need to be felt by the Small enterprises in terms of growth and development.

Odebiyi and Olaoye , 2012 carried out a research study on the role of Microfinance in the development of Small and Medium Scale Aquaculture enterprises in Nigeria.The results of the study indicated a positive impact of microfinance bank loan on small and medium scale aquaculture development as it increased the revenue of the farmers, reduced rural-urban migration and increased overall yield and even generate employment opportunities.

Ojo , 2009 examined the impact of microfinance on entrepreneurial development of small scale enterprises in Nigeria. Three different hypotheses were formulated and tested using various statistical tools such as chi-square test, analysis of variance and simple regression analysis. The study revealed that (i) there was a significant difference in the number of entrepreneurs who used microfinance institutions and those who do not use them; (ii) there was a significant effect of microfinance institutions activities in predicting entrepreneurial productivity; and (iii) that there was no significant effect of microfinance institutions activities in predicting entrepreneurial development. The researcher found out that microfinance institutions world over and especially in Nigeria were identified to be one of the key players in the financial industry that had positively affected individuals, business organizations, other financial institutions, the government and the economy at large through the services they offer and the functions they perform in the economy.

Oni E et al 2012, assessed the contributions of MFIs to the sustainable growth of SMEs in Nigeria. The analysis revealed that MFIs did and contributed to the sustainable growth of SMEs in the Nigeria. Their research study however also found out that MFIs services outreach to SMEs was poor. The researchers recommended appropriate modification to be made to address gaps for MFIs to effectively contribute to SMEs activities in the country. They also highlighted that apart from creating greater SMEs out-reach to MFIs services through establishment of rural branches, both government and MFIs can increase SMEs access to MFIs services through intensified campaigns at the local government and ward levels.

Vogelgesangu, 2001 analysed the impact of microfinance loans on productivity and growth of client's enterprises. The researcher used client database of Caja Los Andes, one leading microfinance in Bolivia. The results highlighted that the clients put the MFI loans to good use and clients with a higher number and a higher average size of MFI loans were found to have higher growth rates than other clients. A crossectional analysis of sales revenue showed that clients with MFI loans generated higher sales revenue than others for a given asset level.

Coleman 1999 examined if loans accessed from MFIs were effectively utilised by borrowers and suggested that the village bank credit did not have any significant and physical asset accumulation to the borrowers. The women ended up in a vicious cycle of debt as they used the money from the village banks for consumption purposes and they were also forced to borrow from money lenders at high interest rate to repay the village bank loans so as to qualify for more loans. The study mainly highlighted that credit was not an effective tool to help the poor out of poverty or enhance their economic condition. The researcher further suggested that the poor are too poor because of some other hindering factors such as lack of access to markets, price stocks, unequal land distribution but not lack of access to credit.

Montgomery et al, 1996 suggested that though women accessed loans from MFIs as this is viewed by most microfinance service providers as enhancing women empowerment drive and eradication of poverty from the women the majority of women did not have control over loans taken by them when married. In Line with that,Goetz and Gupta, 1994 asserted that in most Microfinance programs women were the main target of the credit program but the management and utilisation of the loans was made by the men hence not making the development objective of lending to the women to be met.

3.0 Methodology

Survey research method was employed in this research study. Both Secondary and Primary sources of data were used in data collection. Secondary sources used include conference papers, published academic journals and textbooks. Primary data was collected from the field using questionnaires complimented by group discussions. The questionnaire design closed-ended type in which options were provided for the respondents to fit in their opinion on issues of interest.The questionnaire contained questions subdivided into four sections sufficient to cover the objectives of the study.The questionnaire was divided into four sub-sections:

1. The first section was designed to assess MFI loans accessibility to SMEs.
2. The second section was designed examine the percentage of loans applied by SMEs granted by MFIs.
3. The third section was designed to find out if loans provided by MFIs are effectively utilized by the SMEs.
4. The forth section covered the Impact / effect of MFIs to SMEs

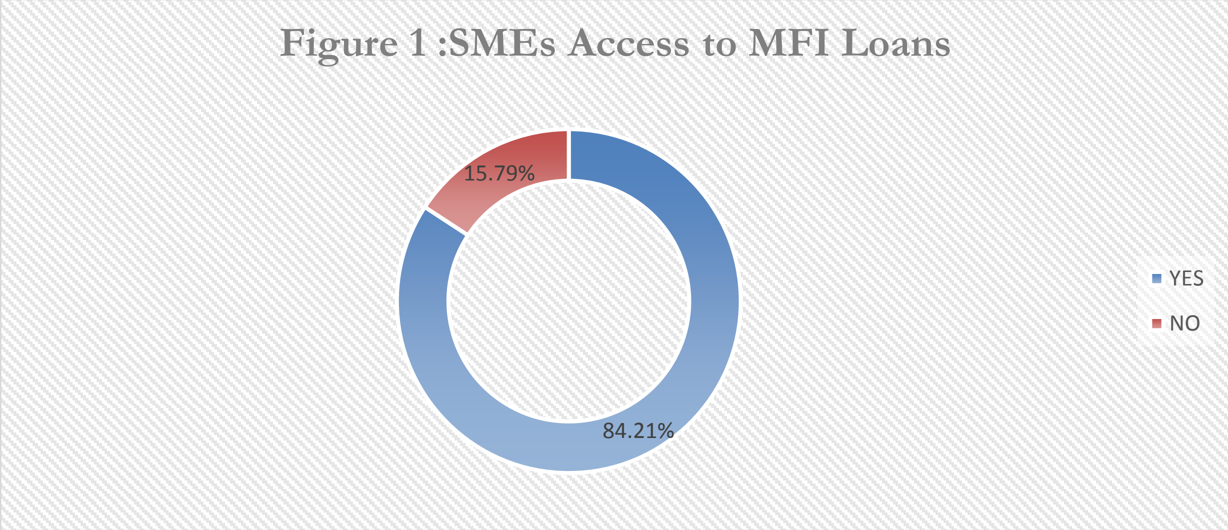
Survey was conducted from 105 SMEs business in Masvingo town which were selected using simple random technique from three distinct areas in the town namely Town Centre, Down Town and Old High Density. Questionnaires were distributed equally in the three study areas situated in Masvingo town. Out of 105 questionnaires only 76 questionnaires were returned which indicate a 72.38% response rate.Such a high response rate concurred with Saunders and Thornhill, (2009) who recommended that a response rate above 50% was regarded as the minimum for results obtained from the research to be considered accurate.The collected study data is presented with the aid of bar and pie charts using Microsoft Office Excess 2013.

4.0 Results and Discussions

This section presents and discusses the results of the research data. Presentation of results is arranged in the order of the research study objectives.

4.1 Access to MFI Services

The respondents were asked if they were able to access loans from MFIs for their business purposes and the results were as depicted in Figure 1 below:

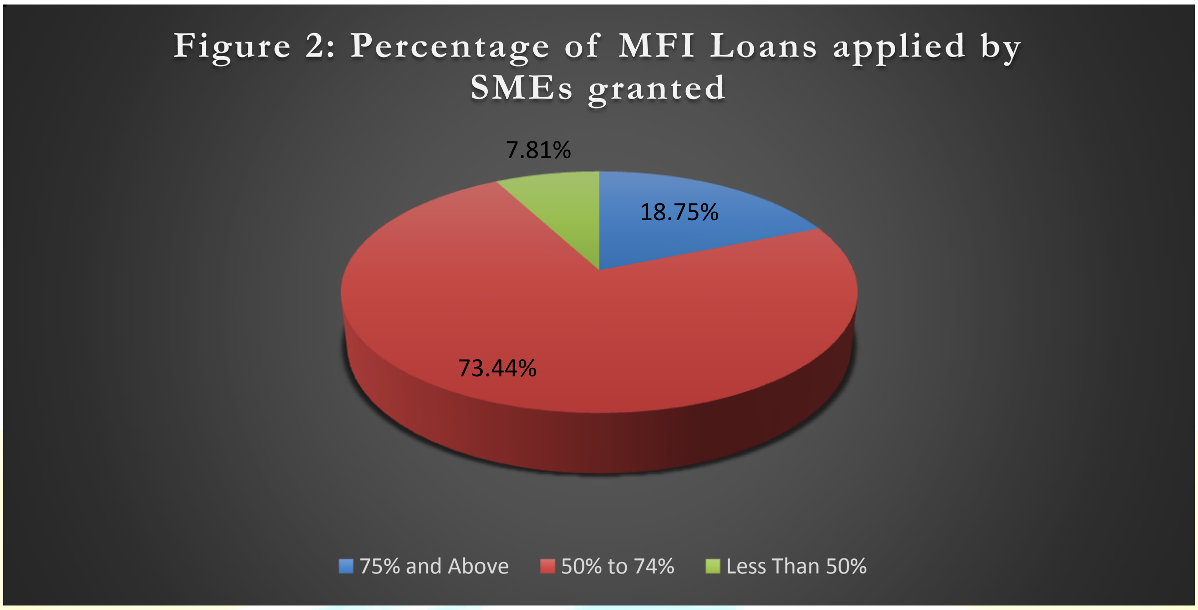


Source: Field Survey, January 2014

SMEs access to financial services must be number one priority in both developed and developing economies as it go a long way to enhance SMEs growth thus alleviating poverty and enhancing economic growth. Figure 1 above depicts weather SMEs had access to MFI Loans and the results depict that , out of 76 respondents , 64 of the respondents which represents 84.21% , claimed that they had access to MFI loans. Only 12 respondents which represents 15.79% of the respondents noted that they have no access to MFI loans. The results implied that a substantial number of SMEs had access to MFI loans. The results concurred with Friday Christopher Idowu (2009) according to his research study asserted that 92% of SMEs had access to MFI Loans.The research study however contradicted with ,Ali et al 2013, who asserted that Small businesses in Mogadishu were facing challenges to access loans from MFIs which caused many small business to close shop and some may not have started due to lack of ability to overcome the challenges.

4.2 The Percentage of Loan Applied Was Granted by MFIs.

SMEs at all times must be granted the loan amount they apply in full for them to be able to meet their immediate liquidity challenges, The respondents were asked the percentage of MFI loans which they applied were granted and the results were as shown in Figure 2 below:

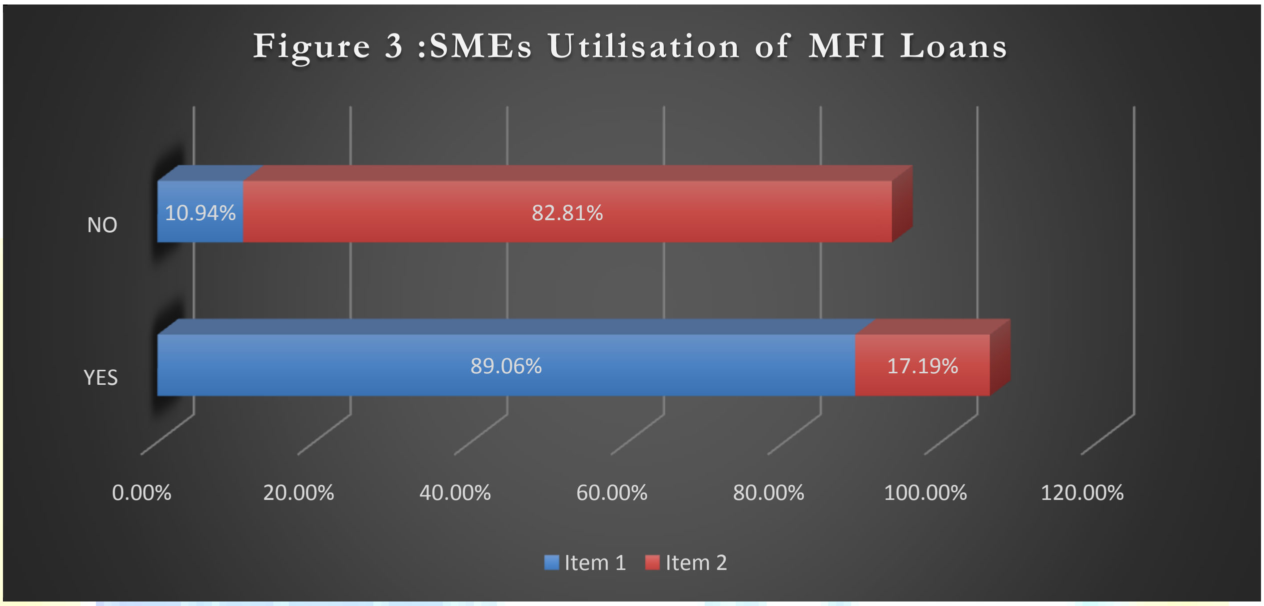


Source: Field Survey, January 2014

Figure 2 above represents the assertion of 64 respondents in which 18.75% of the respondents asserted that they have received 75% and above of the loans they applied from MFIs.73.44% of the respondents which represents almost 75% of the respondents claimed that they were granted between 50% and 74% of the loans they applied whilst a minute 7.81% believe that they received less than 50% of the loans they applied. The results implied that although SMEs had access to MFI loans only a few of them were capable enough to secure the loans amount they required in full.

4.3 Utilisation of Loans Accessed from MFIs

SMEs must ensure that the loans they receive from MFIs are used solely for business purposes in order to reap the benefits of the loans in their businesses.SMEs were asked if they ever had felt the need to acquire a loan for other purposes apart from Business. And if they always use exactly what they acquired as a loan, solely for Business Use? And the results were as shown in Figure 3 below.



Source: Field Survey, January 2014

Key: Item 1= Have you ever felt the need to acquire a loan for other purposes apart from Business?

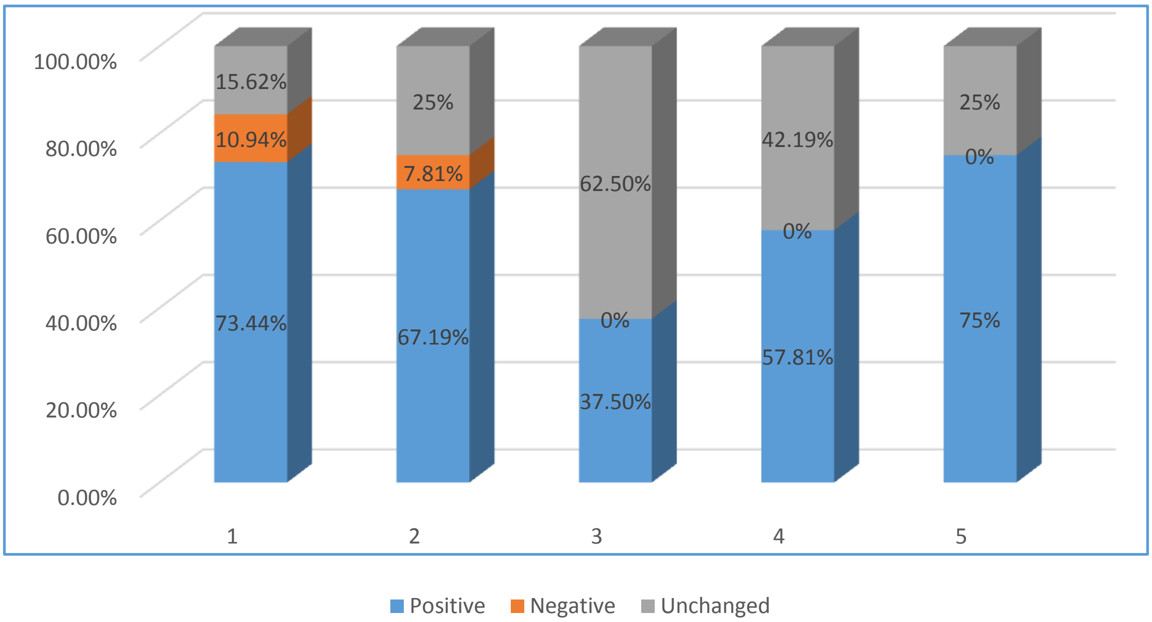
Item 2=Do you always use exactly what you are acquired as a loan, solely for BusinessUse?

As depicted in Figure 3 above 57 out of 64 respondents representing 89.06 % ascertained that they have never felt the need to acquire a loan for other purposes other than business while 10.94% claimed otherwise. On the same note 53 out of 64 respondents representing 82.81% pointed out that they have used the loans they applied for solely for business purposes whilst 17.19 argued that they have at one time used the loans for other purposes. The results implied that most SMEs utilised the loans granted by MFIs effectively for business purposes. This however was is contrary toColeman , 1999 who asserted that MFIs loans werenot effectively utilised by borrowers as women borrowers end up in a vicious cycle of debt as they used the money from the village banks for consumption purposes and they were also forced to borrow from money lenders at high interest rate to repay the village bank loans so as to qualify for more loans.

4.4 Impact of MFIs to SMEs.

The effect or Impact of MFIs on SMEs was assessed using five variables namely Increase in quantity, quality and range of products; increase in number of branches, Improved training, Increased Cash flows and Increase in Market Share, The SMEs were asked whether MFI Loans had impacted positively, negatively or if there was no change on the variables above. The respondents' opinion to the assertion are as shown on the graph below;

Figure 4 :Effect of MFI Loans to SMEs



Source: Research Data, January 2014

Key: In your view what was the effect of MFI Loans to SMEs in the following areas:

Item 1= Increase in quality,quantity and range of products sold?

Item 2= Increase in Number of Branches?

Item 3= Improved Training?

Item 4 = Improved Cash flow Levels?

Item 5= Increased Market Share?

Figure 4 above shows the views of 64 respondents. Item 1 indicate that 47 out of 64 respondents representing 73.44% of the respondents accepted that MFIs had a positive effect on the increase in product quantity, quality and range they sold .In contrary 7 respondents representing 10.94 % believed that MFIs impacted negatively on the products they sold. Only 15.62 claimed that the quantity, quality and range of products they sold remain unchanged.

In line with that, on increase in number of branches, 67.19% of the respondents posited that MFIs had a positive effect on increase in the number of branches they had, 5 respondents which represent 7.81% of the respondents claimed MFIs impacted negatively whilst 25% argued that their branch network remained unchanged.

SMEs were also asked whether MFIs had any effect in their training levels. Only 24 respondents which represent 37.5% claimed that MFIs impacted positively in their training levels while 62.5 % claimed that there were no change in their training levels and capabilities.

On whether MFIs have led to improved cash flow levels 57.81% (37) of the respondents which represent more than half of the respondents believed that MFIs have led to improved cash flow levels while 27 respondents (42.19%) claimed that MFIs did not lead to any change in their cash flow levels.

Figure 4, Item 5 highlight MFIs effect towards SMEs market share, 48 respondents representing 75% claimed that MFIs posed a positive effect in in their achievement of a substantial market share whilst 25% believed that there was no change in their market share posed by MFIs involvement.

The results on Impact or effects of MFIs on SMEs generally reflected that MFIs had enhanced a positive effect on SMEs in terms of product quality, quantity, and range as well as number of branches, improvement in cash flow and increase in market share. The results were in line with Friday Christopher Idowu (2009) , who acknowledged the positive contributions made by MFI Loans on SMEs towards promoting their market share , product innovation , and goal achievement among others.

5.0 Conclusions and Recommendations

The research study attempts to examine the impact of Microfinance on SMEs. This research study confirmed a positive effect of MFIs towards promoting SMEs'increase in product quality, quantity and range, increase in branch network , market share showed a positive effect. SMEs showed that they are accessing MFI loans and other services and although most of them are not being granted the loans they are applying for in full. MFIs must however improve in the area of training of the SMEs in the areas of financial management (bookkeeping) before or after granting loans. It must however not be a reason for late granting of loans to SMEs. It can be further concluded that SMEs are utilising loans granted by MFIs for business purposes, this mainly caused by the need for SMEs to see their businesses thriving and endure economic hardships and unemployment which currently stand at around 80%.The study recommend that commercial banks and privately owned MFIs must train SMEs on aspects of financial management before availing loans to them. In addition besides financial support the government and local authorities (City council) should provide sufficient infrastructural facilities such as permanent work stations, electricity and additional ablution facilities among others.

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