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Abstract

The back bone of every economy is the private informal sector (SMEs) and most employment opportunities in Zambia largely focus on small and medium scale enterprises. Hence the contributions the sector makes to economic growth and development through job creation and can't be overemphasized. However, SMEs were almost dismissed form the formal financial sector in Zambia.

Index terms— poverty alleviation, microfinance institutions (MFIs), loan portfolio, financial accessibility, small and medium entrepreneurs (SMEs).

Abstract-The back bone of every economy is the private informal sector (SMEs) and most employment opportunities in Zambia largely focus on small and medium scale enterprises.

Hence the contributions the sector makes to economic growth and development through job creation and can't be overemphasized. However, SMEs were almost dismissed form the formal financial sector in Zambia. The small and medium scale enterprises face difficulties in accessing the financial opportunities, enterprise development skills, face unfavourable regulatory bottlenecks and inappropriate market structures and these therefore, poses serious restriction to their growth and development in the economy. When microfinance was properly harnessed, could make significant contributions to the economic growth and development because it promotes higher investments leading to economic empowerment which in turn promotes confidence, self-esteem, and build capabilities, particularly for the vulnerable majority. In other words, it creates access to productive capital for the poor and subsequently reduces poverty. This research was carried out to examine financial accessibility and the roles it plays to the SMEs sector in Chazanga compound of Lusaka district. The study objective was was to examine the benefits which SMEs derive from microfinancing and the roles it has played in the SMEs sector and the impact on poverty reduction in Lusaka district particularly Chazanga compound. The whole research covered fifty (50) small and medium entrepreneurs. The needed data for the study was generated from both primary and secondary sources. The research tools used to generate the primary data included informal, formal conversations and questionnaires. The secondary data was extracted from the books, articles, journals, presentation papers and news publication.

Keywords: poverty alleviation, microfinance institutions (MFIs), loan portfolio, financial accessibility, small and medium entrepreneurs (SMEs).

1 I. Introduction

icrofinancing has becomes a credible and effective instrument for poverty alleviation and as such, its contributions to economic growth cannot be overemphasized. (Akinyemi, cited in Onuba 2008)The financing of small and medium scale enterprises are vital instruments for poverty alleviation in society. Therefore, SMEs play a crucial role in national building, and providing them with needed facilities would assist in bridging the gap between the rich and the poor. (Onuba 2008). The available information from the Registrar of patent and Companies department indicates that about 40% of the companies registered are micro, small and medium enterprises (SMEs). This target group has been identified as the catalyst for economic growth of the country as they are the major sources income and employment. The Ministry of Small and Medium Enterprises had in 2022 estimated that the Zambian private sector consists of approximately 70,000 registered Limited companies and 10,000 registered partnerships. Therefore, the need to provide secure source of financing for the sector can't be overstressed. Since Zambia attained a meddle income status with per capita of at least US\$1,000 by the year 2019, led by the vibrant private sector, within a decentralized democratic environment in which the country's growing the economy or increasing the market value of all the final goods and services produced in the country

6 F) THE POSSIBILITY OF FUTURE INVESTMENTS INCREASE

48 in (GDP) by 6-8% every year. The main goal of Zambia's Growth and Poverty Reduction Strategy (ZGPRS)
49 was to "sustainable economic growth, accelerated poverty reduction and the protection of the vulnerable and
50 excluded within a decentralized, democratic environment. The intention was to eliminate the widespread poverty
51 and growing income inequality, especially among the productive poor who constitute the majority of the working
52 population".

53 The microfinance is that part of the financial sector which comprises of formal and informal financial
54 institutions, small and large, that provide small sized financial services to all segments of the population, in rural
55 and urban areas. These institutions cover a array ranging from indigenous rotating savings and credit associations,
56 self-help groups, financial cooperatives, rural banks and commercial banks. The Zambian government supported
57 these institutions in order to create the much needed jobs for the youths and improve their integration in the
58 developing financial sector. The 2006 Nobel peace prize for Muhammed Yunus and the Grameen bank, stood as
59 the proof that M microfinance had become the hottest idea for solving the problem of poverty.

60 According to King and Levine (1993), there seemed to be a positive relationship between the size of the financial
61 sector and economic growth. Access to credit by both individuals and business houses, have been positively
62 associated with asset growth, investment and overall economic growth. Microfinance offered the following services
63 basic financial services such as loans, savings, money transfer services, micro insurance etc. The products help
64 the people to run their businesses, build assets, smooth consumption and manage risks. The poor people in the
65 communities address their financial needs through variety of informal relationships. The credit is always available
66 from informal money lenders at a higher cost to borrowers (CGAP, 2006) The savings services available through
67 a variety of informal relationships like savings clubs, rotating savings and credit associations and other mutual
68 savings societies in local language called village banking. Although these clubs tend to be erratic and somewhat
69 insecure. Traditionally, banks have not considered poor people to be viable market, rendering the SME sector
70 to continue experiencing difficulties in accessing financial services. The SMEs don't have adequate know how
71 information and research and development to innovate and remain competitive. Their limited international
72 market exposure, low product quality, default in compliance with standards, and little access to international
73 partnerships impede SMEs participation into global markets (BDSF, 2008). In addition, insufficient distribution
74 channels often dominated by large firms also make difficult for SMEs to access financial markets. For now, there is
75 an established, yet growing recognition of the importance of micro, small and medium scale enterprise (MSMEs)
76 in sustained national economic growth, therefore little attention has been given to that sector of the economy.

77 2 II. Benefits Microfinance Products and

78 Services to Chazanga Compound a) Employment When the entrepreneurs borrow, they create employment or
79 opportunities for others. An increase in the employment benefits the local economy as the money circulates
80 through local businesses and services in Chazanga compound.

81 3 b) Improvement of Businesses

82 The provision of microfinance products and services in the compound has greatly helped the businesses to upscale
83 their business operations by offering immediate financial resources and capital accumulation.

84 and reduce the chances of early marriages and teen pregnancies in the compound, thereby increase their chances
85 of completing school would increase and hence more likely to obtain a fair paying job or higher education.

86 4 d) An Opportunity to Receive Education

87 The children of the economically weaker families' miss education days due to agricultural activities and selling
88 at the market so that they can earn help the family financially. Therefore, microfinance product and services aid
89 such children by providing the funds to meet the financial needs of the families. That would give the opportunity
90 to the children to complete their education.

91 5 e) Help in Reducing High Rate of Alcohol Consumption and 92 Abuse

93 Most compounds in Lusaka are densely populated, lack social amenities, clean drinking water and don't have
94 enough entertainment ventures, so the source of entertainment for the youths is engaging in illicit activities like
95 beer drinking, prostitution, criminal activities and smoking dagga. The microfinance companies provide the small
96 loans to businesses in such localities, most of the youths will have something to do or will be employed by most
97 of the entrepreneurs enabling them to stay away from illicit activities and alcohol consumption.

98 6 f) The Possibility of Future Investments Increase

99 Poverty is a perpetual cycle. The scarcity of money results in lack of food and water, leading to lack of sanitary
100 living conditions and malnutrition and illness. The microfinance products and services break this cycle by making
101 more money available. Once the basic needs are met in the compounds, the people would think of the possibility
102 of future investments because the people meet their basic needs.

103 7 III. Findings

104 This part of the article presents the actual findings from the field work, analysis and discussion of data presented in
105 both qualitative and quantitative status. The results were based on the study which was conducted in Chazanga
106 compound of Lusaka urban district.

107 During the research expedition, the main aim was to establish the benefits the SMEs derive from microfinancing
108 on small businesses, growth, expansion and survival in Chazanga compound of Lusaka urban District. In the
109 findings, it was learnt that the survival of the SMEs depended largely on whether the enterprises were able to
110 generate the profits from the use of micro

111 8 c) Reduction of Early Marriages in the Compound

112 When the economically weaker families have access to credit at an affordable rate, the girl children in the
113 community will be able to receive formal education funds and easy access to micro credit. That was evidenced
114 by all the SMEs who obtained microloans doing well and expanding their businesses.

115 9 Source: Field Study 2022, Business Performance After Ac- 116 quiring the Loan

117 The bar graph above, showed 30 entrepreneurs expressed satisfaction with the performance of the loans and
118 that their businesses grew, expanded and were sustainable translating to 60%. The entrepreneurs extolled and
119 commended the microfinance institutions as the tool which helped government to reduce poverty levels in the
120 compound. 20 entrepreneurs stated that their businesses experienced average growth and were able to reach
121 the break even point after getting the loans from the microfinance companies, this number translated to 20%.
122 15 entrepreneurs experience low growth rate translating to 15% but were still optimistic that their businesses
123 would be pick one day while 5 entrepreneurs who never obtained any loans were still struggling with the business
124 representing 5%. The majority of the people who had the opportunity to access the financial support implemented
125 it in the businesses which pushed them out of the dependence syndrome and were then living far above the poverty
126 datum line in the compound. They further listed the other benefits as development of skills, improvements in
127 the customer services, high sales growth and expansion of customer base which in turn improved the income
128 flow of the businesses. According to the above pie chart 1.0, showed that 60% of the total number of the small
129 and medium scale entrepreneurs interviewed their businesses picked up, grew and expanded when they received
130 the capital injection in form of loans which were obtained from the existing microfinance institutions in Lusaka.
131 The loans enabled their businesses to grow, expand and remained stable to date. The businessmen and women
132 gave testimonies on drastic reduction of poverty in their families when they obtained the funding from the
133 microfinance companies and that their business productivity was real. 20% of the group which obtained the
134 loans recorded average growth which represented a breakeven point where the business neither made loss nor
135 profit but maintained the working capital. 15% of the entrepreneurs' businesses recorded low growth although
136 the businesses were still running smoothly. According to researcher's observations the businesses had low sales
137 because of the high competition in the market and that their locations were still being developed. The final 5% of
138 the entrepreneurs recorded very low growth because these people feared to get the loans due to loans conditions
139 and requirements of providing the assets as collateral and also feared that they might be arrested if they had
140 failed to pay back the loans.

141 10 IV. Conclusion

142 This study was focused on the benefits the small and medium scale entrepreneurs get from microfinance companies
143 in Chazanga compound. Fifty (50) entrepreneurs were picked randomly in the compound to take part in the
144 research so as to enable the researcher establish the real benefits accrued to their businesses after obtaining the
145 loans in relation to business profitability, poverty alleviation in their families, growth and expansion.

146 This study showed that 95% of the small and medium scale entrepreneurs who obtained the loans from
147 microfinance companies their businesses grew and expanded when they received additional capital which was
148 injected in the business in form of loans. The loans enabled their businesses to grow, expand and remained
149 stable. The businessmen and women gave testimonies on drastic reduction of poverty in their families as well
150 when they obtained the funding from the microfinance companies and that their business productivity was real.

151 The research results also showed a clear picture of the 5% who never obtained the loans from MFIs for fear of
152 losing their assets if they had failed to pay back the loans that their businesses remained stunted because they
153 lacked additional capital to boost their operations.

154 In summary therefore, access to financial services from microfinance companies in Chazanga compound of
155 Lusaka urban district, helped business growth, expansion, employment creation and reduced poverty for those
156 entrepreneurs who obtained loan products and other services from MFIs. That further enhanced the income of
157 the people and mandated the affordability of some basic necessities of life namely This work has some limitations
158 as follows:

11 Level of Satisfaction

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1. The research should have been extended to other compounds in Lusaka urban district but was restricted to one (1) compound only due to financial constraints. 2. Some of the SMEs were not so open to share business information for fear of being attacked by the thieves and robbers. 3. The researcher took into consideration the tribal, religious, ethical, traditional and cultural beliefs of the respondents. 4. Some of the entrepreneurs never wanted to share both business and family information until after being paid. 5. The other entrepreneurs were not able to read and write; therefore they had difficulties to answer questions in the questionnaires.

12 V. Recommendations for Further Research

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Recommended further researches should be done on the following areas: 1. The Post Office Microfinance Company which was introduced by the Zambian government in 2012 must be reintroduced to cater for both civil servants and business organizations. 2. Government credit unions should be introduced to enable entrepreneurs embark on the other financial products and services to ease the difficulties in the system and help serve the needs of the poor. 3. Reduction of interest rates; this proved as a deterrent to micro loans acquisition because most of the interest rates were quite high for business organizations. 4. The policies, rules, permits and other regulations on taxes and business registration should be relaxed to make it conducive to foster development of more businesses in Lusaka urban district. ¹

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Figure 1:

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