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AN ASSESSMENT OF THE CONTRIBUTION OF MICROFINANCE LOANS TO THE GROWTH OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN BULAWAYO (2009-2013)

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Abstract

Deindustrialization in Bulawayo has led to the burgeoning of the informal sector evidenced by the emergence of many MSMEs.The research sought to assess the contribution of Microfinance loans to growth of MSMEs in Bulawayo (2009-2013). The research adopted a descriptive survey design. Primary data was collected through questionnaires and interviews from MSMEs. The research finds strong evidence that the contribution of microfinance loans to growth of MSMEs is not significant. Microfinance Institutions activities in the establishment of new MSMEs is nonexistent with most MSMEs source of funding coming from savings, friends and relatives. The study recommends that Microfinance Institutions engage in extensive marketing research and outreach programmes to MSMEs .This will help them to identify specific needs and design products that are suitable and tailored made for MSMEs.

***Keywords*:** Microfinance, Micro-Small to Medium Enterprises (MSMEs), Growth.

Introduction

The unprecedented economic decline in Zimbabwe witnessed the emergence and growth of the informal sector in leaps and bounds to the extent that it controls a sizable chunk in the national economy The contraction of economic activity and deindustrialization has resulted in a thriving MSMEs sector now widely seen as one of the viable sources of employment. According to a survey by the National Task Force (December 2005-2006) the formal financial system provides services to about 30% of the economically active population while the remaining 70 % are excluded from access to financial services. Thus the 70% is often served by the informal financial sector through microfinance institutions, moneylenders, friends, relatives and credit unions. A report by the ministry of Small and Medium Enterprises (December 2012) showed that MSMEs contribute 67% of Bulawayo's revenue. According to Babajide (2012) access to microfinance loans (in terms of better terms and conditions as well as reliable sources of finance) is an essential predictor of improved growth and productivity for micro, small and medium enterprises. Therefore this study sought to assess the contribution of microfinance loans to the growth of MSMEs in Bulawayo.

Research objectives

The main objective of the study was to assess the contribution of microfinance loans to the growth of Micro, Small and Medium Enterprises in Bulawayo during the period 2009-2013.

Literature Review

Microfinance can be defined narrowly or broadly. A broader definition goes beyond it just being used as a tool to alleviate poverty through assisting subsistence .It encompasses microfinance being used as a tool for encouraging business growth amongst entrepreneurs through the provision of small loans. Eluhaiwe (2005) takes on the narrower definition as he views microfinance as the provision of thrift, credit and other financial services and products in very small amounts to the poor to enable them to raise their income levels and improve their standard of living. Micro finance has also been defined as the provision of very small loans that are repaid within short period of time and is essentially used by low income individuals and households who have few assets that can be used as collateral (Ukeje, 2005).Micro finance is basically a tool designed to improve the capacities of the economically active poor to participate in the larger economy. The economically active poor are either micro entrepreneurs who operate in the informal sector (trading, farming, food catering, craftsmanship and artisanship) or people earning wages. Such poor people earn their living in either rural or urban areas; and the financial services for which access is sought are mainly absence of asset-based collateral, and simplicity of operations (Kimotha, 2005). Ledgerwood (1998) defines micro finance as the provision of appropriate financial services to significant numbers of low income, economically active people with the objective to alleviate poverty. Microfinance provides financial services to those who do not have access to or are neglected by the commercial banks and financial institutions.

The broader definition was encompassed by Conroy (2002) who affirms that microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro-enterprises. To seal it ,The World Bank defines microfinance as Small-scale financial services –primarily credit and savings – provided to people who farm or fish and who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools;

and to other individuals and groups at the local levels of developing countries, both rural and urban (Robinson, 2001). For the purpose of this study the broader definition was considered.

Microfinance around the world shows that a small credit to MSMEs may help them grow (Khandker, 2005; Woller& Parsons, 2002; Hossain, 1988). Hartarska & Nadolnyak (2008) indicated that the existence of Microfinance Institutions alleviates micro businesses financing constraints.It is evident that development and sustainable microfinance is important to achieve greater financial inclusion and ensure that all economic sectors, regions and communities have access to a full range of financial products and services (Khandker, Khalily, & Khan, 1995; Yaron, 1992). According to these scholars Micro financing provides an easy, faster and convenient financing facility to micro entrepreneurs. Microfinance requires no collateral, minimal documentation and simple procedures. The time taken to approve and disburse funds is also short.

In as much as microfinance seems to be the tool that is needed to spur growth scholars have noted that credit is always the missing link for MSMEs that try to operate their businesses. Limited access to credit for both new and growing firms becomes a major barrier for micro entrepreneurs to start and expand their business (Kessy and Temu, 2010). Microfinance loans are seen as an efficient instrument in helping MSMEs that face financial constraints. Microfinance loans allow MSMEs to acquire assets, start businesses, finance emergency needs and insure themselves against negative shocks thus ensuring sustainable growth (Green, Kimuyu, Manos, and Murinde, 2002).

Woolcock (1999) found out that there is a direct impact on microenterprises that accessed credit. Most of them were able to enhance their production capacity, hire more workers and process more orders. They observed a replacement of old machines with new, more efficient ones evidenced by increase in sales and profits. They maintain that this is due to increase in capacity through addition in machines, as well as retention of skilled employees. Additionally, the availability of timely loans helps micro enterprises in reducing their interest costs as the cost of informally arranged credit is very high (Kole,1999). However Woolcock (1999) stresses that growth and success of microenterprises is not guaranteed. He highlights that MSMEs may be profitable, but progress is usually slow, resulting in small marginal changes. He points out that certain challenges to microenterprise creation and growth, for example, structural or socioeconomic conditions cannot be tackled solely by capital injections.

Dichter (2007) asserts that the major aim of the microfinance movement is to provide funds for investment in micro businesses, thus lifting people out of poverty and promoting economic growth. However he points out that recent experience and the economic history, suggest that those expectations are unrealistic. Most people, poor or otherwise, are not entrepreneurs, so there is little reason to think that mass credit would in general lead to viable business start-ups. Rhyne and Christen (1999)argue that today as in the past, these loans never play a role in small business development as they are actually used for consumption rather than investment. Thus the implication is that microfinance loans should not be expected to noticeably affect growth or successful business development .A study done by Kaboski and Townsend (2011) finds increases in business income but not actual business starts. They also find increases in investment, but it is stressed that microfinance availability induces investment only for those firms close to the investment margin.

Kaboski (2005) noted that microfinance loans reduce the credit constraints that often face potential entrepreneurs in poor communities, which often precludes enterprise development and growth. In contrast Chang (2010) contends that credit constraints affecting tiny enterprises are not the major problem .Chang identifies the lack of institutions that can quickly scale up small business projects into those capable of productivity growth via innovation, technology transfer, subcontracting skills ,upgrading and servicing local demand as the major problem; rather than lack of access to microfinance loans. In essence developing nations lack the institutional vehicles and mechanisms of collective entrepreneurship that can facilitate organizational upgrading and learning to ensure growth.

Yunus (2003) believes the success of micro financed enterprises is a direct result of inborn entrepreneurial skills. However Labrune (2010) contends that group attention and support plays a major role to success and growth.. They point out that another factor that promotes success is the field workers who disburse loans but also provide business development services that foster growth of small enterprises. It is still subject to debate since other proponents question this success, suggesting that the success is attributable to selection bias whereby only microenterprises with the best business models are selected. While credit may initially be the ruling constraint for micro-enterprises, for them to grow beyond a certain size, other constraints come into play, for example of markets and managerial capacity. Microenterprises are therefore unlikely to grow significantly without inputs that can address these additional constraints (Fisher and Sriram, 2002). In addition, Kallon (1990) upholds that the amount of capital needed to start a business is significantly negative when related to the rate of growth for the business. He believes access to loans does not contribute to entrepreneurial success and growth in any significant way, and if it did, the relationship would be negative.

Methodology

The study adopted a descriptive survey design. The target population for the study was made up of MSMEs drawn from Bulawayo Metropolitan Province. These were separated according to socio demographic status and the variables used in this process included gender, age, education, income, education ,experience as well as the number of years in operation and location of the business .. From these clusters, respondents were randomly selected and primary data was collected from these respondents through questionnaires and interviews. The questionnaire design was guided by the research objectives. Questions were standardized to promote uniformity in the manner of responses. Leading questions were used to help respondents to answer questions quickly and open ended questions were also used to solicit respondents' opinions. Secondary data was obtained from journals, the internet, books and other authoritative texts and was used to fill gaps that primary data could not fill. Statistical analysis was used to analyse data using SPSS16.

Research Findings

Microfinance loans and growth of MSMEs

The following regression analysis model was used to measure growth.

$$\text{Growth of MSMEs} = \beta_0 + \beta_1 \text{Profitability}(P) + \beta_2 \text{ Loan amount}(L) + \beta_3 \text{Size of business}(S) + \beta_4 \text{ location of the business}(LB) + \beta_5 \text{ Gender}(G) + \beta_6 \text{ Education}(ED) + \beta_7 \text{Experience}(EP)$$

The dependent variable is average growth in sales over the four year period under study expressed as a percentage.Applying the multiple regression formula the result was:

$$SG=0.033+0.786P+0.0004312L+0.006S+0.08G+0.001ED-0.018EP$$

The regression result is summarised in the following table:

Table 1: Results of the multiple linear regression of growth of sales on profitability, loan amount, size of business, location of business, gender, education and experience

Variable	β	*T*	*p*
Constant	0.003	0.335	0.739
Profitability	0.786	9.911	0.000
Loan amount	0.004312	0.836	0.407
Size of business	0.006	0.212	0.833
Location of business	0.003	0.172	0.864
Gender	0.008	0.136	0.893
Education	0.001	0.069	0.945
Experience	-0.018	-1.365	0.178
Model Summary	*F*= 16.002,	*df* = 7,	R^2 = 0.683

Source: Primary data

According to the results of the regression much of the growth experienced by MSMEs is explained by profitability. Profitability is the only independent variable that contributes significantly to the growth of the MSMEs with a beta value of 0.786. According to the model the contribution of other remaining variables (MFI loans, location of the business, gender, education and experience) is there but it is not significant to the growth of sales. Profitability of these MSMEs is explained by high profit margins, low cost of sales and reinvestment of profits. The cost of sales was low because most of the MSMEs get cheap material from informal traders and scrap yards. The contribution of MFI loans and experience of the entrepreneur is of particular interest. The contribution of MFI loans to the growth of sales is positive but insignificant whilst the experience of the entrepreneur, although insignificant, contributes negatively to the growth in the sales of the MSMEs. It seems the longer the experience the harder it is for entrepreneurs to change their methods and accept newer, more efficient innovations.

Analysis of Microfinance loans and growth of loan recipients and non recipients

The following section of the study gives an analysis of the MFI loan. Control group was MSMEs that had never received a loan.

H0: There is no difference in the growth experienced by recipients and non-recipients of the MFI loans.

The independent samples t test was used to test the null hypothesis. A The characteristic of interest in this regard was growth in sales and the grouping variable was access to an MFI loan. The purpose of doing so was to determine if there was any differences in the behavior of the two groups in respect of the variable of interest. The results of the independent samples t-test are as shown in the table below:

Table 2: t-test for growth of sales and access to MFI loans

Independent Samples Test										
		Levene's Test for Equality of Variances		**t-test for Equality of Means**						
									95% Confidence Interval of the Difference	
		F	**Sig.**	**t**	**df**	**Sig. (2-tailed)**	**Mean Difference**	**Std. Error Difference**	**Lower**	**Upper**
% Average growth in sales (2009-2012)	Equal variances assumed	1.707	0.196	1.43	58	0.16	0.06244	0.043557	-0.02475	0.149628
	Equal variances not assumed			1.61	57.4	0.11	0.06244	0.038807	-0.01526	0.140139

Source: Primary data

Calculating of the size effect in the independent t-test:

$$r = \sqrt{\frac{t^2}{t^2 + df}} = 0.185$$

The size effect of r= 0.185 shows that there is a small difference between the means of those who received loans and those who did not received loans. The mean shows the average performance of the firms .It is reasonable to conclude that on average, growth experienced by recipients of the MFI loans (Mean = 0.335 and standard deviation = 0.117) was not significantly higher than growth experienced by the non-recipients of the MFI loans (Mean =0.272 and standard deviation = 0.184), $t(58) = 1.43$, $p=0.16$ and $r=0.185$.The p value for the t test is greater than 0.05 (0.16 >0.05) .Therefore we accept the null hypothesis and conclude that there is no sufficient evidence to suggest that MFI loans contribute significantly to the growth of the MSMEs. The results support the findings of Babajide (2012) that micro finance does not enhance the expansion capacity of small business.

Conclusions and Recommendations

One of the major objectives of this research was to assess the contribution of MFI loans to the growth of MSMEs in Bulawayo. The research findings indicate that MFI loans do not contribute significantly to the growth of MSMEs. Contribution of MFI loans to growth was positive but not significant. A comparison test between firms that had accessed loans and firms that had never received loans revealed that there was no significant difference in growth between the firms. This was explained by the uses to which the loans were put. Most MSMEs who got loans had just used the loans for working capital and consumption because the loan sizes were small. These findings support the findings of a study done by Babajide (2012) who found that microfinance does not enhance the growth of small business. These findings are also consistent with the findings by Olutunla and Obamuyi (2008) who found that growth of MSMEs is not just dependent on accessing a loan but accessing the right size of loan at the right time.

Empirical evidence from studies done Shariff and Nawai (2011) in Malaysia found that MFI loans help MSMEs to meet working capital requirements in most cases. This has been the same for the MSMEs in Bulawayo who predominantly used the loan for working capital requirements due to the size of the loan. In as much as the establishment and development of MSMES is concerned MFIs have not played a significant role since they focus on already existing businesses due to the high risk inherent in start-up enterprises. MFIs seem to prefer existing microenterprises that have a history of success since it is hard to guarantee success of start-ups. The majority of MSMEs used funds from their own savings, friends, and relatives to start their businesses. Microfinance firms in Zimbabwe seem to prefer cross border traders rather than the majority of MSMEs in other sectors. It was also evident that the vast number of MSMEs were not so knowledgeable and cognizant about the full scope of MFIs and their operations. Thus the study recommends that MFIs intensify their marketing research as well as outreach campaigns to those areas of the city where the majority of these MSMEs are located. This will also help them to devise products that are not only wholesale brand for all MSMEs but to come up with tailor made products for different categories and types of MSMEs so as to encourage growth. One thing is certain, MSMEs need Microfinance to grow and vice versa.

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