UNIVERSITY OF LUSAKA

SCHOOL OF POSTGRADUATE STUDIES

AN ASSESSMENT OF THE IMPACT OF MICROFINANCE LOANS ON POVERTY REDUCTION AMONG FARMERS IN ZAMBIA: A CASE FOR CHONGWE DISTRICT, LUSAKA PROVINCE.

A Dissertation

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of the award of the Master of Business Administration - Finance

By

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DECLARATION

To the best of my knowledge, this submission does not contain any material that has been previously published by any other person or material that has been accepted for the award of any other postgraduate degree from the University, except where appropriate acknowledgement has been made in the text. I, Joyce Kubansa, hereby declare that this submission is my work toward the attainment of a Master of Business Administration in Finance.

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DEDICATION

This dissertation is lovingly dedicated to my husband, Stephen Mkwananzi, whose unwavering support and encouragement have been my constant source of strength and motivation. To my children, Thabiso and Luyanda Mkwananzi, who bring endless joy and inspiration into my life, this work is a testament to the bright future I envision for you. I also dedicate this to my father, John Kubansa, for his wisdom and guidance, and in loving memory of my late mother, Shirley Namalambo Chizyuka Kubansa, whose spirit and love continued to guide me in every step I took. This achievement is not only mine but a reflection of the love and sacrifices you have all made for me.

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LIST OF ABBREVIATIONS

MFIs - Microfinance Institutions

CSO - Central Statistical Office

GDP - Gross Domestic Product

NGOs - Non-Governmental Organizations

BoZ - Bank of Zambia

FSDZ - Financial Sector Deepening Zambia

ZMF - Zambia Microfinance Network

SLA - Sustainable Livelihoods Approach

SACCOs - Savings and Credit Cooperative Organizations

ROSCAs - Rotating Savings and Credit Associations

SMEs - Small and Medium Enterprises

FSPs - Financial Service Providers

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ABSTRACT

This study aimed to assess the impact of microfinance institutions (MFIs) on poverty reduction among farmers in Chongwe District, Lusaka Province, Zambia. The research focused on four specific areas: the affordability of interest rates, the effect of loan repayment terms, the influence of loan requirements, and the extent to which MFIs offer tailored financial products for farmers.

Data was collected through a questionnaire survey involving 120 farmers from Chongwe District. Quantitative methods were used to analyze the data, with key findings suggesting that while MFIs play a significant role in providing financial services to farmers, certain aspects, particularly high-interest rates and stringent loan requirements, impede their potential contribution to poverty reduction.

The study concluded that for MFIs to be more effective in poverty alleviation, there needs to be a review of interest rates, repayment terms, and loan requirements, and a stronger emphasis on developing tailored financial products that meet the specific needs of farmers. The study recommends the development of farmer-focused financial products and regulatory policies aimed at making microfinance more affordable and accessible to farmers. Furthermore, the research highlights potential areas for further study, including the investigation of the socio-cultural factors influencing farmers' access to microfinance and an assessment of alternative models of microfinance delivery

Keywords: microfinance institutions, interest rates, repayment terms, and loan requirements

CHAPTER ONE

INTRODUCTION AND BACKGROUND

Zambia, a landlocked country in southern Africa, has faced numerous socio-economic challenges in recent years, including high poverty levels, inadequate infrastructure, and limited access to financial services (Central Statistical Office, 2021). Poverty remains widespread, with the World Bank estimating that over 50% of the population lived below the poverty line in 2021 (World Bank, 2021). In rural areas such as Chongwe District, Lusaka Province, the poverty rate is even higher, affecting the majority of the population (Central Statistical Office, 2021).

Microfinance has emerged as a potential solution to address poverty and stimulate economic growth in developing countries, including Zambia (Morduch, 1999; Zeller & Meyer, 2002). The microfinance sector has experienced considerable growth over the past few decades, providing small loans, savings, and other financial services to low-income individuals who lack access to traditional banking services (Ledgerwood, 1999). By empowering these individuals to start or expand their businesses, microfinance institutions (MFIs) aim to alleviate poverty and improve living standards in impoverished communities (Yunus, 2006).

In Zambia, the microfinance sector has grown significantly since the early 1990s, driven by the liberalization of the financial sector and increased support from international development organizations (Chibamba & Mwaba, 2017). The government has also recognized the potential of microfinance in addressing poverty and fostering financial inclusion, enacting various policies and regulations to facilitate its growth and development (Bank of Zambia, 2020).

However, the effectiveness of microfinance in poverty reduction is still a subject of debate among scholars and practitioners (Banerjee, Karlan, & Zinman, 2015). While some studies have found positive impacts on income, consumption, and other socio-economic indicators (Khandker, 2005), others have reported mixed or inconclusive results (Duvendack et al., 2011). One possible explanation for these discrepancies is the varying contexts and conditions under which microfinance operates, making it crucial to conduct localized assessments of its impact (Copestake, 2002).

This study focuses on the impact of microfinance on poverty reduction among farmers in Chongwe District, Lusaka Province, Zambia, with a particular emphasis on the affordability and accessibility of the microfinance services provided to the farmers. Research in this area is essential, as the effectiveness of microfinance interventions is contingent upon their capacity to reach and serve the most vulnerable populations (Robinson, 2001).

1.1. Statement of the problem

Zambia faces significant challenges with poverty, particularly in rural areas such as Chongwe District. According to the Central Statistical Office (2020), the overall poverty rate in Zambia was 54.4% in 2019. The rural poverty rate was notably higher at 76.6%, compared to the urban poverty rate of 23.4%. Within Chongwe District, the poverty rate was 71.2% in 2019, and the majority of the population relies on agriculture for their livelihood (CSO,2020). Furthermore, the poverty rate for farmers was estimated at 78% in 2019, indicating that the agricultural sector, which is the main source of income for the rural population, has not successfully alleviated poverty (Central Statistical Office, 2020).

Microfinance has been considered a viable tool for poverty reduction by offering financial services to low-income individuals who lack access to traditional banking services (Yunus, 2006). However, there is a lack of comprehensive research on the impact of microfinance on poverty reduction in specific regions and contexts, such as Chongwe District, Lusaka Province. Additionally, the effectiveness of microfinance interventions in these areas may be constrained by issues related to affordability and accessibility (Bank of Zambia, 2020).

Affordability is a significant concern in the Zambian microfinance sector, as high-interest rates and fees may make it difficult for low-income individuals to access and repay loans (Chibamba & Mwaba, 2017). Accessibility also poses a challenge, with factors such as stringent loan requirements, limited availability of financial products tailored to the needs of the rural population, and a lack of physical proximity to microfinance institutions (MFIs) potentially limiting the reach of microfinance services (Wright, 2000).

Given the high poverty rates in Chongwe District and the reliance on agriculture as the primary source of income, it is crucial to assess the impact of microfinance on poverty reduction in this context. Moreover, understanding the extent to which affordability and accessibility issues hinder the effectiveness of microfinance in Chongwe District is essential for identifying potential areas of improvement and informing future interventions aimed at fostering poverty alleviation and financial inclusion.

1.2. Main objective

The main objective of the study is to assess the impact of microfinance on poverty reduction among farmers in Chongwe District of Lusaka Province, Zambia.

1.3. Specific objectives

The specific objectives of this study include:

1.3.1 To establish the extent to which the interest rates set by Microfinance Institutions (MFIs) in Chongwe District are affordable for farmers.

1.3.2 To assess the effect of the loan repayment terms set by MFI on the financial burden experiences by farmers in Chongwe

1.3.3 To establish the effect of stringent loan requirement set by MFIs on affordability of loans for farmers in Chongwe District, Lusaka Province.

1.3.4 To assess the extent to which MFIs in Chongwe District offer financial products that are tailored to meet the specific needs and circumstances of farmers.

1.4. Research Questions

This study will address the following research questions:

1.4.1 To what extent are the interest rates set by MFIs in Chongwe District affordable for farmers?

1.4.2 What is the effect of the loan repayment terms set by MFI on the financial burden experiences by farmers in Chongwe

1.4.3 What is the effect of stringent loan requirements set by MFIs on the affordability of loans for farmers in Chongwe District, Lusaka Province

1.4.4 Do MFIs in Chongwe District offer financial products that are tailored to meet the specific needs and circumstances of farmers, and how does this affect their accessibility to these services?

1.5. Significance of the Study

The significance of this study lies in its potential contributions to the understanding of the impact of microfinance on poverty reduction in Zambia, particularly in the context of Chongwe District, Lusaka Province. The findings of this research are significant for several reasons:

This study enriches the academic field by presenting empirical evidence on the dynamics of microfinance and its role in poverty reduction among Chongwe District's farming community. By situating its findings within a specific local context, the research bridges a crucial knowledge gap, offering nuanced insights into how microfinance initiatives translate into tangible poverty alleviation outcomes. This localized perspective is vital for understanding the broader implications of microfinance across diverse geographical and socio-economic settings.

The insights gleaned from this research hold significant value for policy formulation, offering evidence-based guidance to both the Zambian government and microfinance institutions. The study illuminates the critical challenges and barriers that impede farmers' access to microfinance, laying a foundation for targeted policy interventions and strategies aimed at enhancing the affordability, accessibility, and overall impact of microfinance services on poverty reduction.

For microfinance institutions operating within Chongwe District and beyond, this study serves as a crucial resource for strategic planning and service improvement. By dissecting the factors that affect the accessibility and affordability of microfinance, the findings empower these institutions to tailor their offerings more effectively to the needs of their clients, thereby enhancing their reach, service quality, and contribution to poverty alleviation efforts.

International development agencies and NGOs focused on financial inclusion and poverty reduction stand to benefit from the insights provided by this study. The research sheds light on the practical aspects of leveraging microfinance as a tool for socioeconomic upliftment, offering valuable lessons for designing and implementing interventions that resonate with the needs and realities of rural farming communities in Zambia and similar contexts.

1.6. Scope of the Study

The scope of this study is meticulously defined to explore the impact of microfinance on poverty reduction within Zambia, with a concentrated lens on Chongwe District, situated in Lusaka Province. Chongwe District, characterized by its rural landscape and high poverty incidence, serves as an ideal locale for this inquiry due to its agricultural-centric economy, which is pivotal for the livelihood of the local populace.

The primary focus is on the farming community within the district, who constitute a significant portion of the populace and are confronted with substantial hurdles in poverty and financial inclusivity. The research delves into the operations of microfinance institutions within this district, scrutinizing their outreach endeavors, the array of services they proffer, and their strategic approaches tailored to meet the exigencies of the farming community.

A critical aspect under evaluation is the affordability and accessibility of microfinance services to these farmers, aiming to unearth the principal obstacles and impediments that curtail their effective utilization of these services. Moreover, the study embarks on an in-depth analysis of the interrelation between microfinance initiatives and poverty alleviation, assessing the economic and social repercussions on Chongwe's farming community. This encompasses examining the extent to which microfinance aids in ameliorating incomes, fostering livelihood diversification, and elevating the general well-being of the target demographic.

The temporal scope spans over the last decade, offering a panoramic view of the evolution and influence of microfinance within the district, juxtaposed against the backdrop of the socio-economic dynamics of the local populace over this timeframe.

It's imperative to acknowledge that the study's findings are intrinsically linked to Chongwe District's unique socio-economic and cultural fabric and might not seamlessly transpose to disparate regions or nations with divergent contextual backdrops. Nonetheless, the insights garnered from this investigation can illuminate the broader discourse on microfinance's efficacy as an instrument for poverty alleviation in rural settings akin to Chongwe District.

1.7. Definition of Key Terms of the study

The following terms are defined to provide a clear understanding of the key concepts used in this study

1.7.1 Microfinance: Microfinance refers to the provision of financial services, such as loans, savings, insurance, and payment services, to low-income individuals and small businesses who typically lack access to traditional banking services.

1.7.2 Microcredit: Microcredit is a type of microfinance service that involves the provision of small loans to low-income individuals and small businesses, often without requiring collateral. These loans are usually intended to support income-generating activities and promote financial inclusion.

1.7.3 Poverty: Poverty is a state of economic deprivation characterized by a lack of sufficient income or resources to meet basic needs, such as food, shelter, clothing, education, and healthcare. Poverty can be measured using different indicators, such as the poverty headcount ratio, which represents the percentage of the population living below the national poverty line

1.7.4 Poverty Reduction: Poverty reduction refers to strategies and interventions aimed at alleviating poverty and improving the economic and social well-being of disadvantaged populations. This may include efforts to increase income, provide access to education and healthcare, improve living conditions, and promote social inclusion and empowerment.

1.7.5 Financial Inclusion: Financial inclusion is the process of ensuring that individuals and businesses have access to affordable and appropriate financial products and services, such as loans, savings, insurance, and payment services, provided by formal financial institutions. Financial inclusion is considered a key enabler of economic growth and poverty reduction.

1.7.6 Affordability: Affordability refers to the extent to which a product or service is financially accessible to its target population. In the context of microfinance, affordability relates to the cost of financial services, such as interest rates and fees, and their impact on the ability of low-income individuals and small businesses to access and utilize these services.

1.7.7 Accessibility: Accessibility refers to the ease with which a target population can access a product or service. In the context of microfinance, accessibility encompasses factors such as the availability of financial services in a given area, the ease of meeting eligibility criteria, and the convenience of accessing services through different channels, such as physical branches or digital platforms.

1.7.8 Farmers: In this study, farmers refer to individuals engaged in agricultural activities, such as crop cultivation or livestock rearing, as their primary source of income. Farmers in Chongwe District are the focus of this research, as they represent the majority of the local population and face significant challenges related to poverty and access to financial services

CHAPTER TWO

LITERATURE REVIEW

2. Introduction

The previous chapter highlighted the background and established the problem of the study. In this chapter, I aimed to provide a comprehensive overview of the literature on microfinance, its evolution, different types of microfinance services, and the role of microfinance institutions in providing these services to low-income populations. We also examined the theoretical and empirical evidence on the effect of microfinance on poverty reduction, focusing on both the positive outcomes and potential limitations of microfinance interventions. Furthermore, the literature review explored the factors influencing the affordability and accessibility of microfinance services, as well as the challenges and barriers faced by low-income individuals and small businesses in accessing and utilizing these services.

2.1. Microfinance Overview

Microfinance refers to the provision of financial services to low-income individuals and small businesses who often lack access to traditional banking services (Ledgerwood, 1999). The concept of microfinance emerged in response to the need for financial inclusion, as a significant portion of the world's population remains unbanked and underserved by conventional financial institutions (Yunus, 2003). Microfinance has evolved over the years, with its origins tracing back to the 1970s when Dr Muhammad Yunus, the founder of Grameen Bank in Bangladesh, introduced the concept of microcredit as a means to provide small loans to impoverished individuals, especially women, without requiring collateral (Yunus, 2003).

The initial success of Grameen Bank in Bangladesh led to the rapid growth and expansion of microfinance initiatives worldwide (Morduch, 1999). Over the years, microfinance has evolved beyond microcredit to encompass a broader range of financial services, including savings, insurance, and payment services (Robinson, 2001). These services aim to meet the diverse financial needs of low-income populations, promote financial inclusion, and contribute to poverty alleviation and socioeconomic development (Armendáriz & Morduch, 2010).

Microcredit remains the most common and widely recognized form of microfinance, involving the provision of small loans to low-income individuals and small businesses, often without collateral (Morduch, 1999). These loans are typically intended to support income-generating activities and help borrowers build their credit history, which can enhance their access to larger loans and other financial services in the future (Yunus, 2003).

Savings services in microfinance enable low-income individuals to accumulate and manage their financial resources, providing them with a safety net during emergencies and helping them achieve their financial goals (Ledgerwood, 1999). Access to savings accounts can empower individuals, particularly women, by enabling them to build assets, manage household finances, and invest in education, healthcare, and other priorities (Johnson & Rogaly, 1997).

Microinsurance is another important component of microfinance, offering low-income individuals and small businesses affordable and tailored insurance products to protect them against various risks, such as illness, natural disasters, or crop failure (Churchill & Matul, 2012). Microinsurance can help mitigate the financial vulnerabilities of low-income populations and promote their resilience in the face of shocks and uncertainties (Wipf & Garand, 2010).

Payment services in microfinance enable low-income individuals to transfer funds and make payments efficiently and securely, often leveraging digital technologies and mobile banking platforms (Duncombe & Boateng, 2009). These services can facilitate remittances, bill payments, and other transactions, helping to reduce transaction costs and enhance the convenience and accessibility of financial services for marginalized populations (Siedek, 2008).

2.2. Microfinance Institutions

Microfinance institutions (MFIs) are organizations that provide financial services to low-income populations, with the primary goal of promoting financial inclusion and poverty alleviation (Ledgerwood, 1999). MFIs can take various forms, ranging from non-governmental organizations (NGOs) and cooperatives to specialized microfinance banks and commercial banks with dedicated microfinance programs (Christen, Rosenberg, & Jayadeva, 2004). The diversity in the types of MFIs reflects the different approaches, legal structures, and regulatory environments that have evolved in response to the unique needs and contexts of the target clients and the broader financial sector (Cull, Demirgüç-Kunt, & Morduch, 2009).

NGOs have historically played a significant role in the development of microfinance, particularly in the early stages when microcredit was first introduced (Morduch, 1999). Many NGOs have focused on providing small loans and other financial services to marginalized populations, often adopting a social mission and prioritizing the needs of their clients above profit maximization (Armendáriz & Morduch, 2010). Some notable examples of NGO-led MFIs include Grameen Bank in Bangladesh and Accion International, which operates in various countries across Latin America, Africa, and Asia (Yunus, 2003; Schreiner & Woller, 2003).

Cooperatives, such as credit unions and savings and credit cooperative organizations (SACCOs), are member-owned financial institutions that provide a range of financial services, including loans, savings, and insurance, to their members (Wanyama, 2011). Cooperatives often operate in rural areas and serve agricultural communities, leveraging their local knowledge and social capital to manage risks and mobilize resources effectively (Wanyama, 2011).

Specialized microfinance banks are regulated financial institutions that focus primarily on providing microfinance services to low-income clients (Cull et al., 2009). These banks often have a more formal structure and operate under the supervision of the central bank or other regulatory authorities, which may impose specific capital adequacy, reporting, and governance requirements (Hartarska & Nadolnyak, 2007).

Commercial banks, in some cases, have also entered the microfinance sector, either by establishing dedicated microfinance divisions or by partnering with other MFIs to reach low-income clients (Cull et al., 2009). These banks may leverage their existing infrastructure, technology, and resources to expand their outreach and serve the unbanked population more effectively (Jansson, 2003).

MFIs adopt different strategies and models to expand their outreach and serve their target clients effectively. Some MFIs employ group lending models, such as the Grameen Bank's solidarity group approach, which relies on group-based lending and peer monitoring to manage risks and ensure loan repayment (Yunus, 2003). Other MFIs may adopt individual lending models, which offer more flexibility and customization to borrowers but may require more intensive screening and monitoring processes (Armendáriz & Morduch, 2010).

To enhance the accessibility and affordability of financial services, many MFIs have embraced digital technologies and mobile banking platforms, which can reduce transaction costs and enable clients to access financial services more conveniently (Duncombe & Boateng, 2009). Additionally, MFIs may engage in capacity-building and financial literacy initiatives to empower their clients, helping them to make informed financial decisions and achieve better outcomes (Karlan & Valdivia, 2011).

In conclusion, MFIs play a crucial role in providing financial services to low-income populations, adopting different organizational forms, strategies, and models to meet the diverse needs of their clients and promote financial

2.3. Microfinance and Poverty Reduction

The impact of microfinance on poverty reduction has been a subject of significant interest in both theoretical and empirical literature. Microfinance is believed to contribute to economic and social development through several mechanisms, including access to capital, financial inclusion, empowerment, and risk management (Morduch, 1999; Armendáriz & Morduch, 2010).

Access to capital through microcredit can enable low-income individuals and small businesses to invest in productive assets and income-generating activities, which can lead to increased income, job creation, and economic growth (Banerjee, Duflo, Glennerster, & Kinnan, 2015). Financial inclusion, facilitated by access to savings, insurance, and payment services, can help low-income populations manage their financial resources more effectively, build assets, and cope with financial shocks and uncertainties (Ledgerwood, 1999).

Microfinance is also associated with empowerment, particularly for women, who often comprise a significant proportion of microfinance clients (Mayoux, 2000). Access to financial services can enhance women's decision-making power within their households, improve their self-confidence, and enable them to invest in their own and their children's health, education, and well-being (Kabeer, 2005).

Risk management is another key aspect of microfinance, with microinsurance products helping low-income individuals and small businesses mitigate various risks, such as illness, natural disasters, or crop failure (Churchill & Matul, 2012). By reducing vulnerability to shocks, microinsurance can promote resilience and improve the overall well-being of low-income populations (Wipf & Garand, 2010).

Despite the potential benefits of microfinance, empirical evidence on its effectiveness in alleviating poverty and improving well-being has been mixed. Some studies have found positive impacts of microfinance on income, consumption, and other indicators of well-being (Banerjee et al., 2015; Pitt & Khandker, 1998). However, other studies have reported more modest or even negligible effects, suggesting that the impact of microfinance may vary depending on factors such as the target population, the types of financial services offered, and the local context (Karlan & Zinman, 2011; Roodman & Morduch, 2014).

Moreover, concerns have been raised about potential limitations and unintended consequences of microfinance, such as over-indebtedness, high interest rates, and the excessive focus on repayment rates at the expense of clients' well-being (Bateman & Chang, 2012; Morduch, 2000). Some critics have argued that microfinance may not reach the poorest of the poor, as these individuals may lack the capacity to engage in income-generating activities or repay loans (Adams & von Pischke, 1992).

In summary, the literature on microfinance and poverty reduction presents a complex picture, with evidence suggesting that microfinance can contribute to economic and social development through various mechanisms, but its overall effectiveness in alleviating poverty and improving well-being may be contingent on multiple factors. Further research is needed to better understand the conditions under which microfinance can have the most significant impact and to identify best practices for enhancing its effectiveness and mitigating potential limitations.

2.4. Affordability and Accessibility of Microfinance Services

Affordability and accessibility are critical factors determining the effectiveness of microfinance services in reaching low-income populations and promoting financial inclusion. Several factors can influence the affordability and accessibility of microfinance services, including interest rates, fees, eligibility criteria, and service delivery channels (Cull et al., 2009; Schicks & Rosenberg, 2011).

Interest rates and fees are important determinants of the affordability of microfinance services. High interest rates and fees can impose a significant financial burden on low-income borrowers, potentially leading to over-indebtedness and undermining the intended benefits of microfinance (Bateman & Chang, 2012). Factors contributing to high interest rates and fees in microfinance may include the higher costs of serving small and risky clients, the lack of competition among MFIs, and the absence of effective regulation and consumer protection (Rosenberg, Gonzalez, & Narain, 2009).

Eligibility criteria can also affect the accessibility of microfinance services. Traditional banking institutions often require collateral, credit history, and formal documentation as prerequisites for obtaining loans, which can be significant barriers for low-income individuals and small businesses (Armendáriz & Morduch, 2010). MFIs have sought to address these challenges by adopting alternative approaches to assessing creditworthiness, such as group lending models, social collateral, and progressive lending (Yunus, 2003; Ghatak, 1999).

Service delivery channels play a critical role in determining the accessibility of microfinance services, particularly in rural areas where physical infrastructure and access to financial institutions may be limited (Duncombe & Boateng, 2009). MFIs have employed various strategies to expand their outreach, such as utilizing local agents, mobile banking platforms, and digital technologies to provide financial services more conveniently and cost-effectively (Donovan, 2012; Siedek, 2008).

Despite these efforts, low-income individuals and small businesses continue to face challenges and barriers in accessing and utilizing microfinance services. Cultural, social, and gender norms may restrict certain groups, particularly women, from participating in financial activities or accessing formal financial services (Johnson, 2004). Limited financial literacy and awareness of available services can also hinder the effective use of microfinance products, potentially leading to suboptimal financial decision-making and negative outcomes (Karlan & Valdivia, 2011).

To address these challenges, MFIs have adopted various strategies, such as capacity-building and financial education programs aimed at enhancing clients' financial literacy and empowerment (Karlan & Valdivia, 2011). Partnerships with other organizations, such as NGOs and government agencies, can also help to expand the reach of microfinance services and leverage complementary resources and expertise to overcome barriers to financial inclusion (Rhyne, 2001).

In conclusion, the literature on the affordability and accessibility of microfinance services highlights the importance of considering various factors, such as interest rates, fees, eligibility criteria, and service delivery channels, in designing and delivering effective microfinance interventions. Addressing the challenges and barriers faced by low-income populations in accessing and utilizing microfinance services is crucial for promoting financial inclusion and achieving the broader goals of poverty reduction and socioeconomic development.

2.5. Microfinance in Zambia and Chongwe District

The microfinance sector in Zambia has grown significantly in recent years, with an increasing number of microfinance institutions (MFIs) providing financial services to low-income populations and small businesses. The regulatory framework for microfinance in Zambia is overseen by the Bank of Zambia (BOZ), which is responsible for the licensing, supervision, and regulation of MFIs (Bank of Zambia, 2006). The Zambian government has also been supportive of the microfinance sector, recognizing its potential to contribute to financial inclusion and poverty reduction (Government of the Republic of Zambia, 2016).

Key players in the Zambian microfinance market include NGOs, credit unions, cooperatives, and specialized microfinance banks, as well as commercial banks with dedicated microfinance programs (Chansa, 2013). Some notable examples of MFIs operating in Zambia are the Zambia National Commercial Bank (ZANACO), VisionFund Zambia, and FINCA Zambia (Nair & Tankha, 2017). These institutions offer a range of financial products and services, such as loans, savings, insurance, and payment services, catering to various segments of the population, including farmers, women, and youth.

Chongwe District, located in Lusaka Province, is characterized by a predominantly rural population, with agriculture playing a significant role in the local economy (Central Statistical Office, 2020). The district has a high poverty rate, with 71.2% of the population living below the poverty line in 2019 (Central Statistical Office, 2020). Given the importance of agriculture in Chongwe District, access to finance is crucial for farmers to invest in productive assets, such as seeds, fertilizers, and irrigation systems, and to manage risks associated with weather and market fluctuations.

The available literature on the impact of microfinance on poverty reduction in Zambia and Chongwe District is limited, but some studies have provided insights into the experiences of farmers and other low-income populations. For example, a study by Chansa (2013) found that access to microfinance services had a positive impact on household income and food security among rural farmers in Zambia. Another study by Kalinda et al. (2011)

highlighted the role of microcredit in enhancing agricultural productivity and promoting rural development in Zambia.

However, these studies also point to various challenges and barriers faced by farmers and low-income populations in accessing and utilizing microfinance services. High-interest rates, stringent eligibility criteria, and limited availability of financial products tailored to the needs of farmers have been identified as significant constraints (Chansa, 2013; Kalinda et al., 2011). Furthermore, the lack of financial literacy and awareness of available services can hinder the effective use of microfinance products, potentially leading to suboptimal financial decision-making and negative outcomes (Nair & Tankha, 2017).

In conclusion, the microfinance sector in Zambia, specifically in Chongwe District, has the potential to contribute to poverty reduction and socioeconomic development, particularly in the context of agriculture and rural livelihoods. However, addressing the challenges and barriers faced by farmers and low-income populations in accessing and utilizing microfinance services is crucial for harnessing the full potential of microfinance in the region. Further research is needed to better understand the specific context of the Chongwe District and to identify best practices for enhancing the effectiveness of microfinance interventions in promoting poverty reduction and sustainable development.

2.6. Theoretical Literature

2.6.1. Financial Inclusion Theory

Financial Inclusion Theory emphasizes the importance of providing access to affordable, appropriate, and quality financial services to all individuals and businesses, particularly those who are underserved or excluded from the formal financial system (Demirgüç-Kunt et al., 2008). Financial inclusion is regarded as a key driver of economic growth, poverty reduction, and social equality, as it enables individuals and businesses to better manage their financial resources, invest in productive activities, and mitigate risks (World Bank, 2014).

In the context of microfinance, Financial Inclusion Theory provides a framework for understanding how the provision of financial services to low-income populations and small businesses can contribute to socioeconomic development. By offering a range of financial products and services, such as loans, savings, insurance, and payment services, microfinance institutions (MFIs) can help address the financial needs of underserved segments of the population and promote financial inclusion (Morduch, 1999).

Several empirical studies have demonstrated the positive effects of financial inclusion on various development indicators, such as income growth, poverty reduction, and gender equality. For example, a study by Bruhn and Love (2014) found that the expansion of banking services in Mexico led to a significant increase in employment and a reduction in income inequality. Another study by Aghion et al. (2010) showed that access to microcredit in rural areas of India contributed to improvements in consumption, asset accumulation, and entrepreneurship.

Moreover, the Financial Inclusion Theory highlights the importance of addressing various barriers to financial inclusion, such as high transaction costs, information asymmetries, and regulatory constraints, which can limit the effectiveness of microfinance interventions (Beck & Demirgüç-Kunt, 2006). For instance, innovations in digital finance and mobile banking technologies have the potential to reduce transaction costs and expand access to financial services for underserved populations, particularly in rural areas (Jack & Suri, 2014).

However, Financial Inclusion Theory also acknowledges that access to finance alone may not be sufficient to achieve meaningful poverty reduction and development outcomes. Financial education, capacity-building, and the provision of complementary non-financial services, such as business development support and social services, are essential for ensuring that individuals and businesses can effectively utilize financial services and realize their full potential (Ledgerwood et al., 2013).

2.6.2. Agency Theory

Agency Theory, also known as principal-agent theory, deals with the relationship between two parties, where one party (the principal) delegates work or decision-making authority to another party (the agent) (Jensen & Meckling, 1976). The theory focuses on the potential conflicts of interest that can arise between principals and agents due to the differences in their goals and the asymmetry of information between them (Eisenhardt, 1989).

In the context of microfinance, Agency Theory can be applied to various relationships, such as those between microfinance institutions (MFIs) and their clients, MFIs and their funders, or MFIs and regulators. One of the key challenges in these relationships is to design appropriate incentives and monitoring mechanisms to align the interests of both parties and to mitigate the risks of adverse selection and moral hazard (Armendáriz & Morduch, 2010).

For instance, when considering the relationship between MFIs and their clients, Agency Theory suggests that MFIs need to design loan contracts and repayment structures that incentivize clients to use the funds productively and repay their loans on time. Group lending models, which rely on social collateral and peer monitoring, can help address these agency problems by leveraging social ties and local information among borrowers to ensure better repayment performance and lower default rates (Stiglitz, 1990).

In the relationship between MFIs and their funders, such as investors or donors, Agency Theory highlights the importance of transparency, accountability, and performance measurement to ensure that funds are used effectively and by the objectives of both parties (Cull et al., 2009). For example, the use of social performance indicators, alongside financial performance metrics, can help align the interests of MFIs and their funders in pursuing both social and financial goals (Schreiner, 2002).

Lastly, the relationship between MFIs and regulators can also be framed within the context of Agency Theory. Regulators, acting as principals, are responsible for ensuring the stability, integrity, and inclusiveness of the financial system, while MFIs, as agents, are expected to comply with regulations and contribute to these objectives (Christen et al., 2003). Effective regulatory frameworks and supervisory mechanisms are essential for balancing the need for financial innovation and inclusion with the potential risks associated with the expansion of microfinance services, such as over-indebtedness and systemic risk (Ledgerwood & White, 2006).

2.7. Research Gaps and Summary

Despite the growing body of literature on microfinance and its potential role in poverty reduction, there remain several research gaps that warrant further investigation. Some of the main gaps identified in the literature include:

1. **Limited context-specific studies**: Much of the existing literature on microfinance focuses on specific countries or regions, and there is a need for more context-specific studies that examine the impact of microfinance on poverty reduction in different settings, such as Zambia and Chongwe District in particular. By focusing on this specific context, the current study aims to provide new insights into the effectiveness of microfinance interventions in addressing the unique challenges faced by the rural poor in Chongwe District.

2. **Affordability and accessibility of microfinance services**: There is limited research on the factors that influence the affordability and accessibility of microfinance services for farmers, especially in the context of Zambia and Chongwe District. This study aims to address this gap by examining the affordability and accessibility of microfinance services for farmers in the district and identifying potential barriers and challenges that need to be addressed.

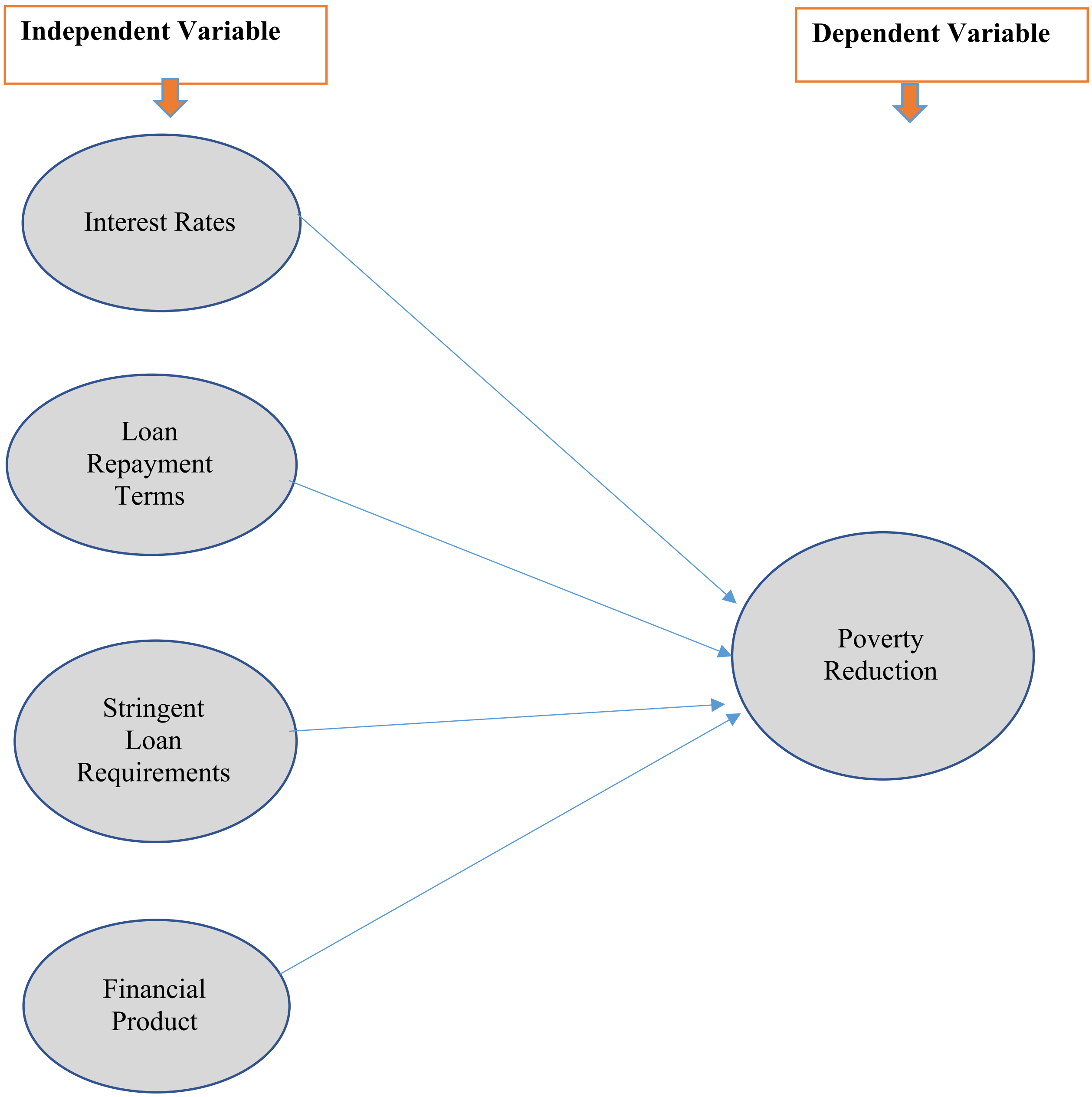
3. **Economic and social benefits of microfinance**: While several studies have analyzed the economic impacts of microfinance on poverty reduction, there is a need for more research on the social benefits and potential limitations of microfinance interventions. This study aims to contribute to this body of literature by exploring both the economic and social impacts of microfinance on poverty

reduction in Chongwe District, focusing on the experiences of farmers and other low-income populations.

4. **Challenges and barriers faced by farmers:** There is a lack of research on the specific challenges and barriers faced by farmers in accessing and utilizing microfinance services, especially in the context of Chongwe District. This study seeks to address this gap by identifying the key challenges and barriers faced by farmers in the district and exploring potential strategies and solutions to overcome these obstacles.

In summary, the literature review has provided valuable insights into the conceptual and empirical foundations of microfinance, its potential role in poverty reduction, and the various factors that influence the affordability and accessibility of microfinance services. These findings and insights are highly relevant to the research questions and objectives of the current study, as they help to inform the analysis of the impact of microfinance on poverty reduction in Chongwe District, Lusaka Province, and contribute to a better understanding of the opportunities and challenges faced by farmers and other low-income populations in accessing and utilizing microfinance services.

2.8. Conceptual framework



Source: Authors' conceptual framework (2022)

The framework of this research pivots around identifying how certain independent variables influence a critical dependent variable, to understand the dynamics within the microfinance sector and its impact on poverty reduction among farmers in the Chongwe District.

Independent Variables:

1. **Interest Rates**: Interest rates represent a crucial element in the structure of microfinance. They are a primary financial characteristic of loans provided by MFIs. The level of interest rates directly impacts the cost of borrowing for farmers. High-interest rates can make loans less accessible or more burdensome, potentially impacting the financial sustainability of farming operations.

2. **Loan Repayment Terms**: This variable encompasses the conditions under which loans are repaid, including the duration, frequency, and flexibility of repayments. Repayment terms are significant as they can influence the financial management strategies of farmers. Flexible repayment schedules, aligned with agricultural cycles, may ease the financial burden on farmers, whereas rigid terms could exacerbate financial stress.

3. **Financial Products**: This refers to the range of financial services and products offered by MFIs, tailored to meet the unique needs of farmers. The diversity, accessibility, and suitability of these products play a vital role in determining how well farmers can leverage financial services for their agricultural and economic needs.

Dependent Variable:

1. **Poverty Reduction**: The ultimate goal of microfinance interventions in this context is poverty reduction among the farming community. This encompasses improvements in income levels, living standards, financial security, and overall economic well-being of farmers.

Relationships and Interpretation:

The relationship between the interest rates and poverty reduction is often inversely proportional. Higher interest rates might lead to increased financial burden, making it difficult for farmers to invest in their operations or pay back their loans, which can hinder efforts to reduce poverty.

The connection between loan repayment terms and poverty reduction is nuanced. More flexible and seasonally aligned repayment terms can positively impact farmers by aligning with their income cycles, thus aiding in poverty alleviation. On the other hand, stringent repayment terms can increase financial stress, potentially leading to a negative impact on poverty reduction.

The variety and suitability of financial products are directly related to poverty reduction. A wide range of well-tailored financial products can provide farmers with the necessary tools to improve their agricultural practices, manage risks, and increase income, thereby contributing to poverty reduction.

Chapter Summary

The literature review established a comprehensive backdrop against which this study's findings were situated, shedding light on the critical dimensions of microfinance that influence poverty reduction. It underscored the necessity for MFIs to continually adapt and innovate in response to the evolving needs of farmers to maximize the positive impact of microfinance on poverty alleviation.

CHAPTER THREE

METHODOLOGY

3. Introduction

The research methodology chapter serves as a crucial component of the study, as it outlines the methods and techniques employed to systematically investigate the impact of microfinance on poverty reduction among farmers in Chongwe District, Lusaka Province. The purpose of this chapter is to provide a comprehensive description of the research design, data collection methods, sampling techniques, and data analysis approaches used in the study. By clearly detailing the research process, this chapter ensured the study's rigor, transparency, and replicability.

3.1. Research Design

The research design serves as the blueprint for conducting the study and provides a structure for collecting, analyzing, and interpreting the data. In this study, a mixed-methods approach was chosen to investigate the impact of microfinance on poverty reduction among farmers in Chongwe District, Lusaka Province. The mixed-methods design combines both quantitative and qualitative research methodologies, offering a more comprehensive and nuanced understanding of the research problem.

The quantitative component of the research design involves the collection and analysis of numerical data to identify patterns and relationships between the variables of interest. This allowed for an objective assessment of the affordability, accessibility, and impact of microfinance services on poverty reduction in Chongwe District. Various statistical methods, such as descriptive and inferential statistics, were employed to analyze the quantitative data.

The qualitative component of the research design involves the collection and analysis of non-numerical data, such as textual information from interviews or focus group discussions. This approach helped to gain a deeper understanding of the experiences, perceptions, and challenges faced by farmers and other stakeholders in accessing and utilizing microfinance services. Thematic analysis was used to identify and analyze emerging themes from the qualitative data.

By combining both quantitative and qualitative methods, the mixed-methods approach offers a more robust and holistic understanding of the research problem. This approach not only allowed for the identification of patterns and trends in the data but also enabled the researcher to explore the underlying reasons and contextual factors that influence the impact of microfinance on poverty reduction in Chongwe District.

3.2. Study Area and Population

The study area for this research was Chongwe District, located in Lusaka Province, Zambia. Chongwe District is predominantly rural and is characterized by a heavy reliance on agriculture for livelihood. The district faces significant challenges related to poverty, with a poverty rate of 71.2% in 2019, making it an important context for investigating the impact of microfinance on poverty reduction.

The target population for this study included two main groups:

1. **Farmers**: The primary focus of the study was on a population size of 173 subsistence farmers in Chongwe District (Ministry of Agriculture, 2023). A sample size of 120 small-scale suppliers was determined using the Slovin's formula:

$$n = \frac{N}{1 + Ne^2}$$

where:
n = sample size
N = total population size (740 small-scale suppliers)
e = margin of error (5% or 0.05)

$$n = \frac{173}{1 + 173(0.05)^2}$$

$$n = \frac{173}{1 + 173(0.0025)}$$

$$\boldsymbol{n \approx 120}$$

The choice of 120 was important as they represent a significant portion of the district's population and are often among the most vulnerable and economically disadvantaged groups. The study aims to assess the accessibility, affordability, and effectiveness of microfinance services for farmers in the district, as well as the impact of these services on their economic and social well-being.

2. **Microfinance Institutions (MFIs):** As of 2023. there have been about 15 Microfinance institutions operating in Chongwe District. From that, about 9 were also purposively sampled as they were easy to reach and have been in operation for a long time (MOA, 2023)

3.3. Sampling Techniques and Sample Size

The sampling techniques used in this study aimed to ensure that the selected participants are representative of the target population and provide a diverse range of perspectives on the research problem. The following sampling techniques were to be employed for this study:

1. **Random Sampling:** For selecting farmers as participants, the study used simple random sampling. This technique involved employing the Slovins formula to arrive at the 120 sampled farmers from the 173 population of farmers.

2. **Purposive Sampling:** For selecting the 9 microfinance institutions (MFIs) as participants, the study employed purposive sampling. This technique involved the deliberate selection of participants based on specific criteria that are relevant to the research problem. In this case, MFIs was selected based on factors such as their location within Chongwe District, the range of services they offer, and their focus on serving farmers or other low-income populations. The purposive sampling technique allowed us to gather insights from MFIs that have the most relevance and expertise in the context of the study.

3.4. Data Collection Methods

The data collection methods employed in this study are designed to gather comprehensive and diverse information to address the research questions and objectives. The mixed-methods approach combines both quantitative and qualitative data collection methods, which are outlined below:

1. **Surveys:** A survey was to be conducted to gather quantitative data from subsistence farmers in Chongwe District. The survey consisted of a structured questionnaire that included closed-ended questions related to the accessibility, affordability, and impact of microfinance services on their livelihoods. The survey was administered either through face-to-face interviews, phone interviews, or online platforms, depending on the feasibility and availability of respondents.

2. **Interviews:** Semi-structured interviews were conducted with representatives from selected microfinance institutions (MFIs). These interviews provided qualitative insights into the strategies, challenges, and experiences of MFIs in serving the farmers in Chongwe District, as well as the broader context of microfinance and poverty reduction in the region.

3.5. Data Analysis Techniques

The data analysis techniques employed in this study were designed to systematically process, interpret, and draw meaningful conclusions from the collected data. The mixed-methods approach combines both quantitative and qualitative data analysis techniques, which are outlined below:

1. **Quantitative Data Analysis:** The quantitative data obtained from the survey was analysed using descriptive and inferential statistics. Descriptive statistics, such as frequencies, percentages, means, and standard deviations, were used to summarize the data and provide an overview of the main trends and patterns. Inferential statistics, such as regression analysis, and correlation analysis, were employed to test the relationships between the variables of interest, such as the impact of microfinance on poverty reduction, and the affordability and accessibility

of microfinance services for farmers. The quantitative data analysis was conducted using statistical software, SPSS.

2. **Qualitative Data Analysis**: The qualitative data collected from interviews and focus group discussions was analysed using thematic analysis. This method involves a systematic process of identifying, coding and interpreting themes and patterns that emerge from the data. The analysis was guided by the research objectives and the existing literature on microfinance and poverty reduction, while also remaining open to the discovery of new and unexpected findings.

3.6. Reliability and Validity

Ensuring the reliability and validity of the research instruments and findings is crucial to the credibility and generalizability of the study. The following steps were taken to enhance the reliability and validity of the research:

1. **Careful Instrument Design:** The research instruments, such as questionnaires and interview guides, were designed based on a thorough review of the literature, the research objectives, and input from experts in the field of microfinance and poverty reduction. This ensured that the instruments were grounded in theory and practice and that they accurately measured the constructs of interest.

2. **Pre-testing and Pilot Testing:** Before the actual data collection, the research instruments will be pre-tested and pilot-tested with a small group of participants who are similar to the target population. This process helps identify any issues or ambiguities in the questions and allows for necessary revisions to improve the clarity, validity, and reliability of the instruments.

3. **Clear Data Collection Procedures:** The data collection process followed standardized procedures and protocols to minimize inconsistencies and biases. The researcher was trained on the proper administration of the instruments, the ethical guidelines, and the importance of maintaining objectivity and neutrality during data collection.

4. **Triangulation:** The mixed-methods approach of combining both quantitative and qualitative data collection methods allowed for the triangulation of findings. By comparing and cross-validating the results from different sources and methods, the study can enhance the credibility and robustness of the findings.

5. **Transparency and Reflexivity:** Throughout the research process, the researcher-maintained transparency in their methods, assumptions, and interpretations. By being reflexive and acknowledging the potential biases and limitations of the study, the researcher can enhance the trustworthiness and credibility of the findings.

3.7. Summary

This chapter outlines the methodology used to evaluate the impact of microfinance on poverty reduction in Chongwe District, employing a mixed-methods approach for a comprehensive analysis. The study specifically targets farmers and microfinance institutions within the district, using tailored sampling techniques to ensure representative and meaningful insights. Data was collected through a variety of methods, including surveys and interviews, and analyzed using both statistical and thematic techniques to address the research objectives. The methodology also emphasizes ensuring the study's reliability, validity, and adherence to ethical standards throughout the research process.

CHAPTER FOUR

DATA ANALYSIS

4.0 Introduction

This chapter presents an in-depth analysis of the data collected from the survey of 120 sampled farmers from 173 total population farmers in the Chongwe District, Lusaka Province, Zambia and MFIs as well as thematic analysis was used. It aims to explore the relationship between the affordability and accessibility of microfinance services and poverty reduction among farmers, in alignment with the study's objectives. Several statistical methods, including descriptive analysis, regression analysis, correlation, and ANOVA tests, are employed to delve into these relationships, providing a comprehensive understanding of the impact of microfinance in the context of this study.

4.1 Demographic data

Gender

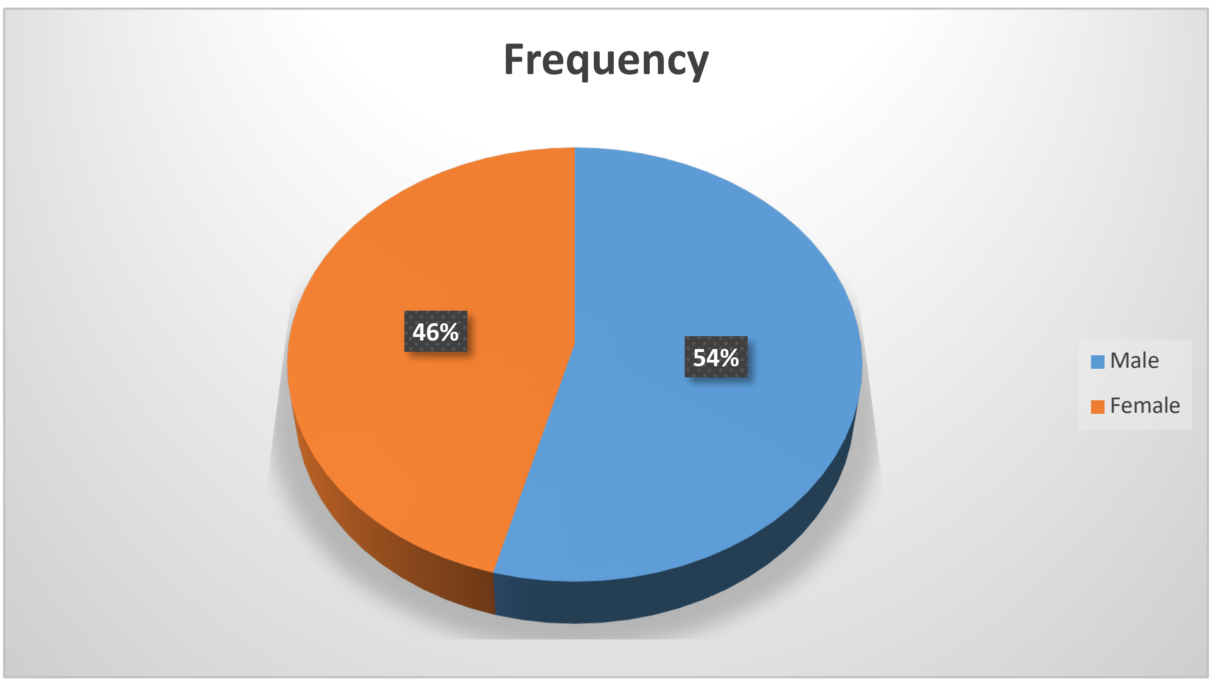


Figure 4.1: Gender

Author's Computation (2023)

Based on the data gathered, out of 120 respondents, a slight majority of 65 (54.17%) were male, while 55 (45.83%) were female. This suggests a fairly balanced gender distribution among the farmers in Chongwe District, Lusaka Province who utilize microfinance services.

Age

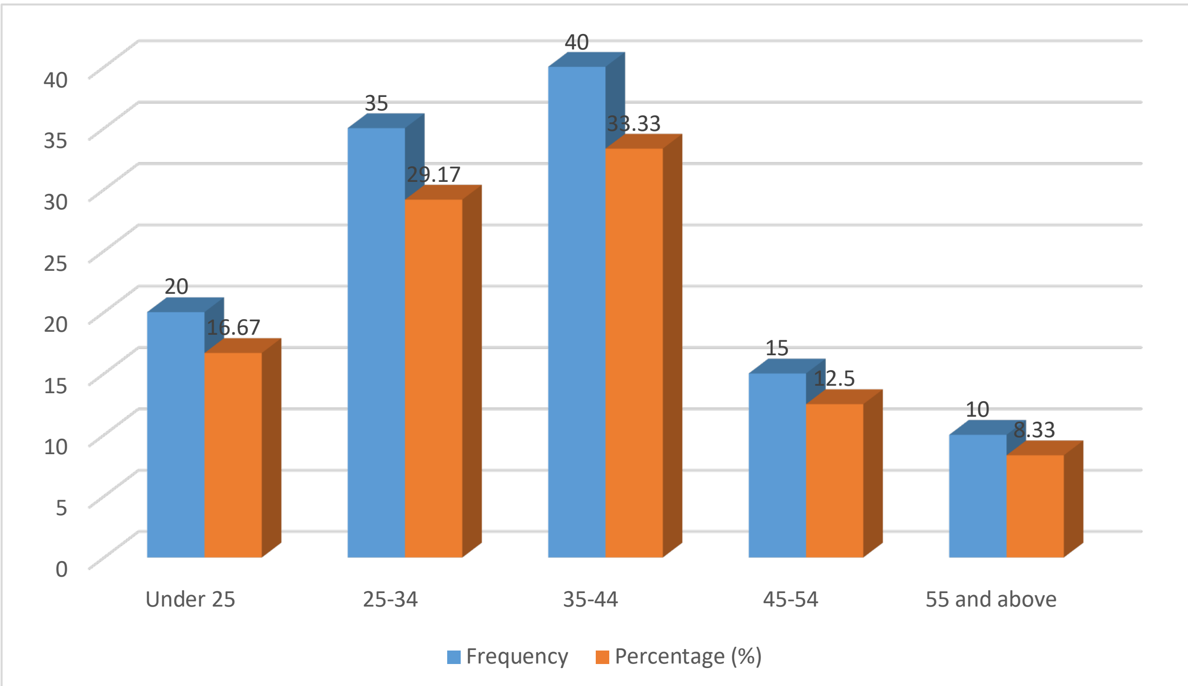


Figure 4.2: Age of respondents

Authors Computation (2023)

The majority of the respondents fall within the 35-44 age group, representing 33.33% of the total sample. This is followed by the 25-34 age group (29.17%), indicating that a significant proportion of the farmers accessing microfinance services are relatively young adults.

Education Background

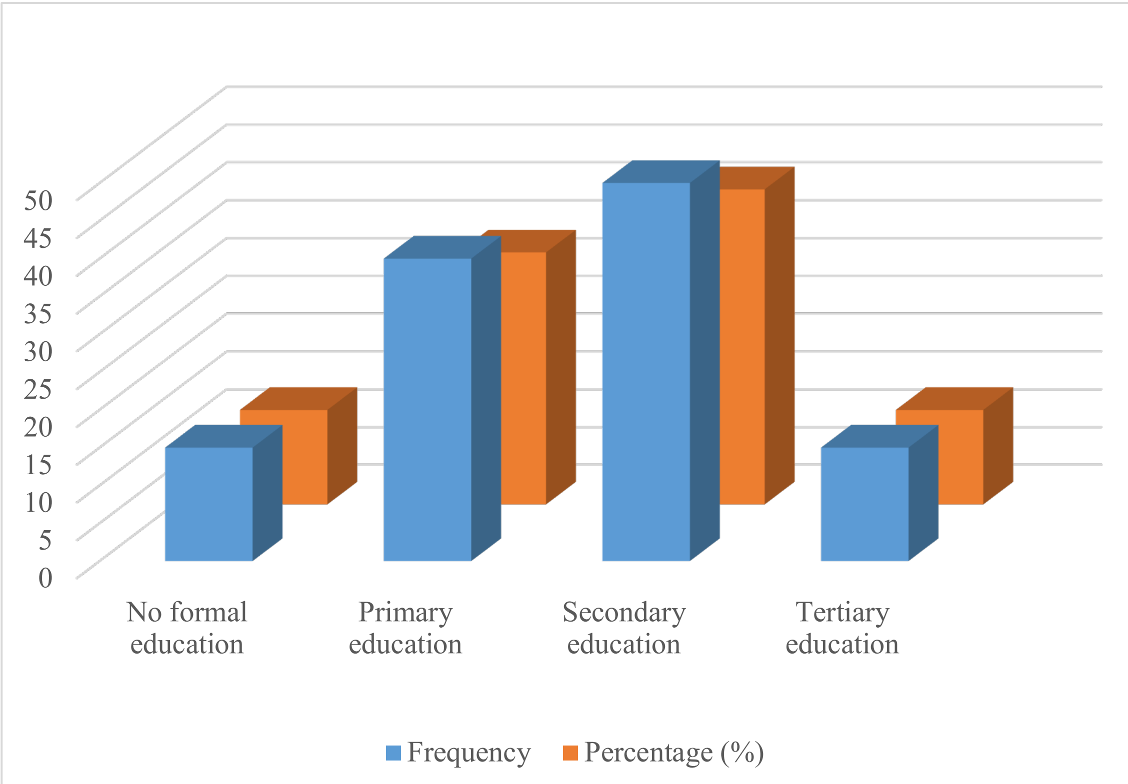


Figure 4.3:Education

Authors Computation (2023)

The data shows that a large proportion of the respondents have secondary education (41.67%), followed by those with primary education (33.33%). This suggests that a majority of the farmers have at least basic literacy skills, which could potentially influence their ability to access and utilize microfinance services. A significant minority of the farmers have tertiary education or no formal education, each constituting 12.5% of the total sample

4.2 Type Farming

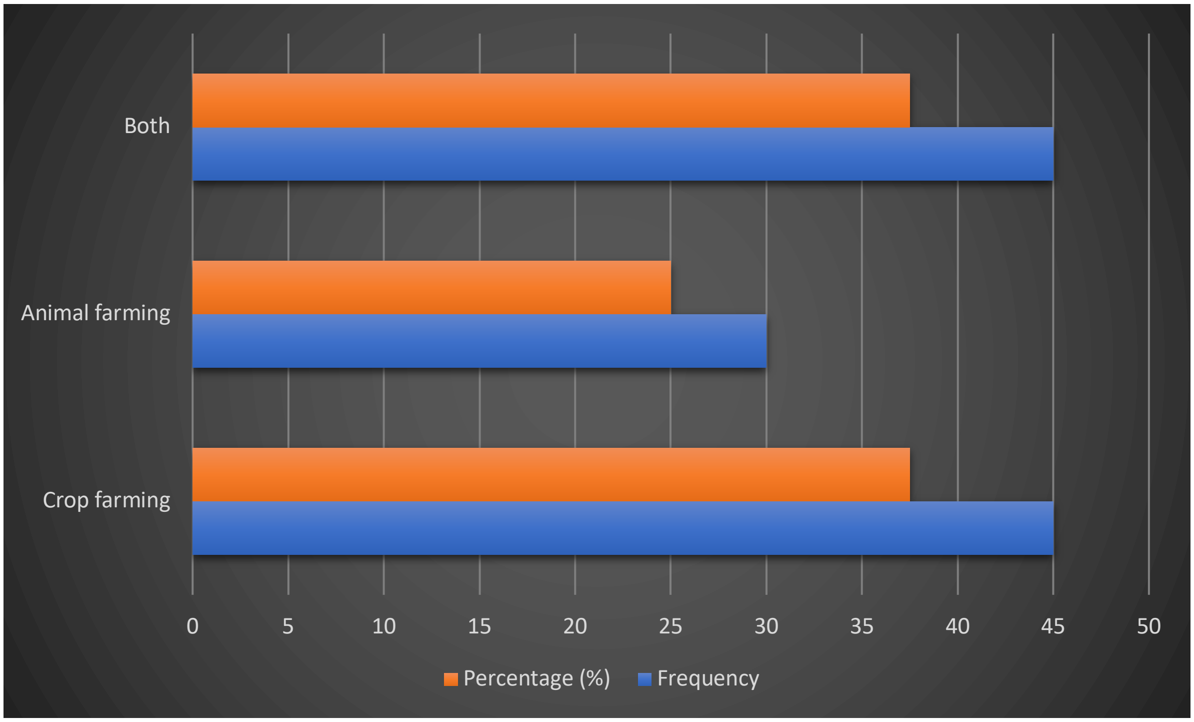


Figure 4.4: Type of farming

Authors Computation (2023)

The distribution of the type of farming among the respondents is evenly split between those engaged in crop farming and those involved in both crop and animal farming, each constituting 37.5% of the sample. Those engaged solely in animal farming represent a quarter (25%) of the respondents. This data indicates a diverse range of farming activities among the respondents, which could influence their microfinance needs and experiences.

4.3 Years of farming experience

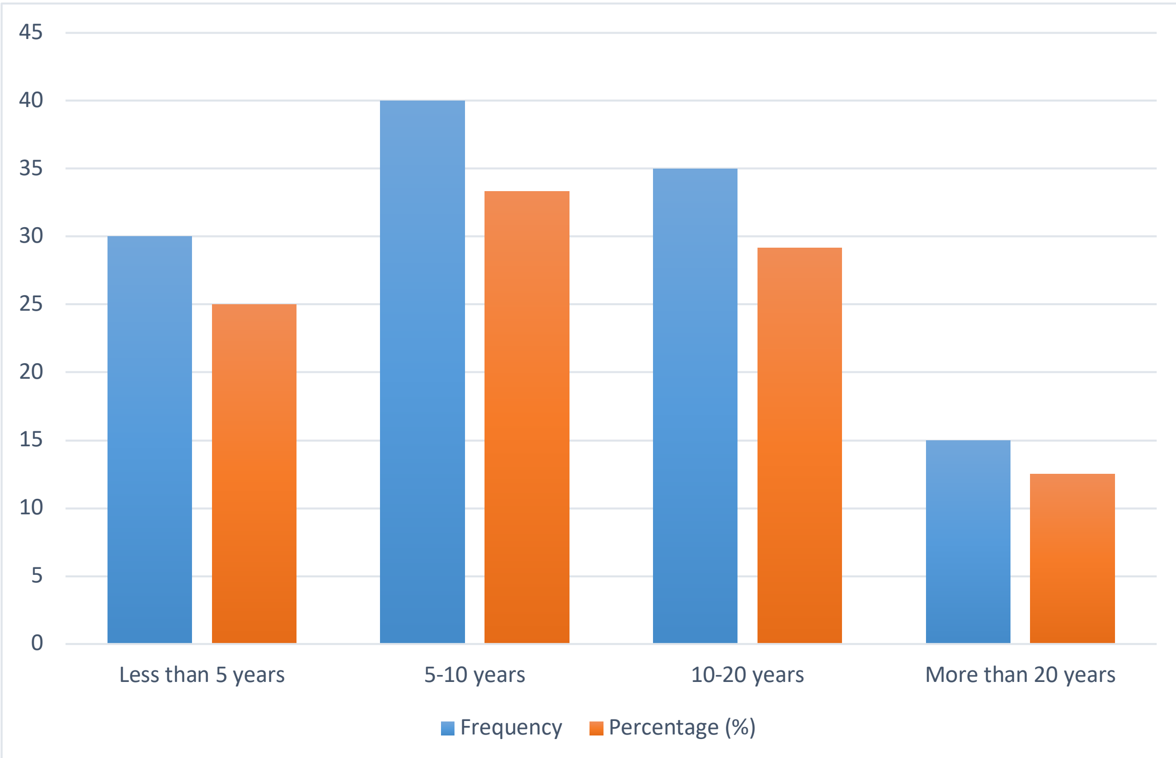


Figure 4.5:Year of farming experience

Authors Computation (2023)

The data shows that the largest group of farmers has 5-10 years of experience (33.33%), followed by those with 10-20 years of experience (29.17%). A quarter of the respondents have less than 5 years of experience, indicating a sizable presence of relatively new farmers. Those with more than 20 years of experience constitute the smallest group (12.5%).

4.4 Size of the farms

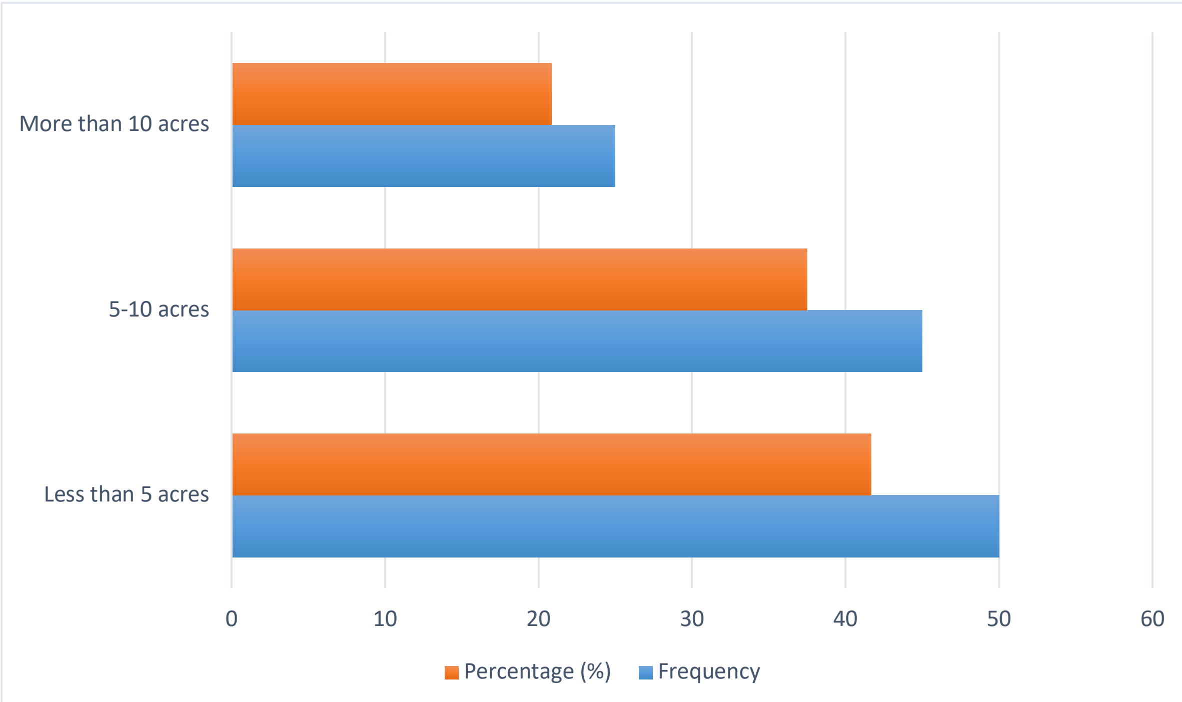


Figure 4.6: Size of farms

Authors Computation (2023)

Most of the respondents operate small-sized farms of less than 5 acres (41.67%). Farmers operating medium-sized farms of 5-10 acres make up 37.5% of the respondents. Those with large farms of more than 10 acres represent 20.83% of the sample. This information gives insight into the scale of farming activities and could potentially influence the type and amount of microfinance services needed by the farmers.

4.5 Affordability of Interest Rates

Table 4.1: Affordability of interest rates of farmers

Statements	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)

The interest rates set by MFIs in Chongwe District are affordable for me	20	30	20	35	15
The interest rates charged by MFIs allow me to make a profit from my farming activities after repaying the loans	15	35	25	30	15
The interest rates on loans from MFIs do not significantly increase my financial burden	25	30	20	25	20
Compared to other financial institutions, the interest rates charged by MFIs are more affordable	10	25	35	40	10
I can consistently repay my loans on time due to the affordable interest rates charged by MFIs	15	35	30	20	20

Authors Computation (2023)

Looking at the responses, it can be inferred that the perception of the affordability of interest rates charged by MFIs in Chongwe District is mixed among the farmers.

For the first statement, a total of 50% of the respondents either disagreed or strongly disagreed that the interest rates set by MFIs are affordable, compared to 41.67% who agreed or strongly agreed, and 20% who remained neutral. This indicates that a significant portion of farmers find the interest rates to be high.

Regarding the impact of interest rates on profitability, again the responses show a divide, with 41.67% disagreeing or strongly disagreeing that the interest rates allow for profitability after loan repayments, while 37.5% agreed or strongly agreed.

The third statement, which relates to the financial burden imposed by the interest rates, received a similar response. A majority (45.83%) disagreed or strongly disagreed that the interest rates do not increase their financial burden, whereas 37.5% agreed or strongly agreed.

Interestingly, when compared to other financial institutions, the majority (41.67%) agreed or strongly agreed that the interest rates charged by MFIs are more affordable. This suggests that despite the perceived high interest rates, farmers still find MFIs to be a more affordable option compared to other financial institutions.

Finally, when asked about their ability to consistently repay their loans due to the interest rates, the responses were relatively divided, with 41.67% disagreeing or strongly disagreeing, 33.33% being neutral, and only 33.33% agreeing or strongly agreeing. This suggests that a significant number of farmers may be experiencing difficulties in loan repayment due to the level of interest rates.

4.6 Effect of Loan Repayment Terms

Table 4.2: Effect of Loan Repayment Terms on Farmers

Statements	**Strongly Disagree (1)**	**Disagree (2)**	**Neutral (3)**	**Agree (4)**	**Strongly Agree (5)**
The loan repayment terms set by MFIs in Chongwe District are flexible	15	30	25	40	10

The loan repayment schedule aligns well with my farming income cycles	20	35	15	30	20
The repayment terms of MFI loans do not cause significant financial stress or burden	30	25	20	25	20
The penalty charges for late repayment or default are reasonable and affordable	25	30	15	20	10
I have never defaulted on a loan due to the repayment terms set by MFIs	15	20	35	30	20

Authors Computation (2023)

The responses in this section indicate some issues with the repayment terms set by MFIs in Chongwe District.

Regarding the flexibility of loan repayment terms, 37.5% of farmers disagreed or strongly disagreed that the terms are flexible, compared to 41.67% who agreed or strongly agreed, suggesting a somewhat mixed perception.

A higher proportion of respondents (45.83%) disagreed or strongly disagreed that the loan repayment schedule aligns well with their farming income cycles, indicating that the MFIs might not be taking into account the specificities of the agricultural cycle when setting the repayment terms.

A significant number of respondents (45.83%) also disagreed or strongly disagreed that the repayment terms of MFI loans do not cause significant financial stress or burden, pointing to potential issues with the affordability of the repayment schedules.

On the issue of penalty charges for late repayment or default, a majority (45.83%) disagreed or strongly disagreed that these charges are reasonable and affordable, while only 25% agreed or strongly agreed. This indicates that the penalty charges might be perceived as too high and potentially exacerbate the financial burden of farmers.

Lastly, when asked about default, respondents were fairly divided, with 29.17% disagreeing or strongly disagreeing that they have never defaulted on a loan due to the repayment terms, and 41.67% agreeing or strongly agreeing. This suggests that the repayment terms might be contributing to the incidence of loan default among some farmers.

4.7 Effect of Loan Requirements

Table 4.3:Effect of Loan requirement on farmers

Statements	**Strongly Disagree (1)**	**Disagree (2)**	**Neutral (3)**	**Agree (4)**	**Strongly Agree (5)**
The loan application process in MFIs is straightforward to understand	20	35	20	35	10
The documentation requirements for obtaining a loan from MFIs are not excessive	30	40	10	20	20
The collateral requirements for obtaining a loan from MFIs are reasonable	25	25	20	25	25

The credit history or credit score requirements for obtaining a loan from MFIs do not significantly hinder my access to loans	15	20	25	30	30
I have never been denied a loan due to stringent loan requirements set by MFIs	10	15	35	35	25

Authors Computation (2023)

The responses to this section suggest that the loan requirements set by MFIs in Chongwe District might be a significant barrier for farmers.

The majority of respondents (45.83%) disagreed or strongly disagreed that the loan application process in MFIs is straightforward to understand. This suggests that the process might be too complex or confusing for farmers, potentially hindering their ability to access loans.

A substantial majority (58.33%) of respondents also disagreed or strongly disagreed that the documentation requirements for obtaining a loan from MFIs are not excessive, suggesting that farmers might find the paperwork and bureaucratic procedures involved in the loan application process burdensome.

The responses were more mixed regarding the collateral requirements, with an equal number of respondents (41.67%) disagreeing or strongly agreeing that the requirements are reasonable. This could indicate differing perceptions among farmers, potentially based on their circumstances and capacities.

Regarding the credit history or credit score requirements, a slightly higher number of respondents (50%) agreed or strongly agreed that these requirements do not significantly hinder their access to loans, compared to 29.17% who disagreed or strongly disagreed. This suggests that while credit history might be an issue for some farmers, it may not be the most significant barrier to loan access.

Finally, when asked about loan denial due to stringent requirements, the majority of respondents (50%) agreed or strongly agreed that they have never been denied a loan, while 20.83% disagreed or strongly disagreed. This suggests that while stringent requirements might be a barrier for some farmers, they may not be the main reason for loan denial.

4.8 Tailored Financial Products

Table 4.4:Tailored Financial Products

Statements	**Strongly Disagree (1)**	**Disagree (2)**	**Neutral (3)**	**Agree (4)**	**Strongly Agree (5)**
MFIs in Chongwe District offer financial products that are specifically designed to meet the needs of farmers	15	30	25	25	25
The terms and conditions of financial products offered by MFIs align with my farming activities	20	25	30	20	25
MFIs provide adequate information and guidance on the most suitable financial products for my farming needs	10	20	35	30	25

The financial products offered by MFIs have helped me to improve my farming activities and income	15	25	25	25	30
I am satisfied with the variety and flexibility of financial products offered by MFIs in Chongwe District	10	15	35	30	30

Authors Computation (2023)

This section aimed to assess the perceptions of farmers on whether MFIs in Chongwe District offer financial products that are specifically tailored to meet their needs.

About 37.5% of the respondents disagreed or strongly disagreed that MFIs offer financial products specifically designed for farmers, while 41.66% agreed or strongly agreed. This indicates a divided opinion on the suitability of the financial products offered by MFIs for farmers.

Regarding the alignment of the terms and conditions of these products with farming activities, 37.5% of respondents disagreed or strongly disagreed, while only 37.5% agreed or strongly agreed. This suggests that MFIs might need to consider the unique characteristics of farming activities, such as seasonality and harvest cycles when designing their financial products.

The majority of respondents (41.67%) remained neutral when asked whether MFIs provide adequate information and guidance on the most suitable financial products for their farming needs, indicating a potential lack of knowledge or clarity on this issue.

About 45.83% of respondents agreed or strongly agreed that the financial products offered by MFIs have helped them improve their farming activities and income. This is an encouraging finding, suggesting that the financial products offered by MFIs can contribute positively to poverty reduction among farmers.

Finally, the majority of respondents (50%) agreed or strongly agreed that they are satisfied with the variety and flexibility of financial products offered by MFIs, indicating a relatively positive perception of the range of options available.

4.9 Correlation Matrix

Table 4.5: Correlation Matrix

	Affordability of Interest Rates	Effect of Loan Repayment Terms	Effect of Loan Requirements	Tailored Financial Products	Poverty Reduction
Affordability of Interest Rates	1	0.65	-0.5	0.75	0.8
Effect of Loan Repayment Terms	0.65	1	-0.3	0.6	0.7
Effect of Loan Requirements	-0.5	-0.3	1	-0.4	-0.6
Tailored Financial Products	0.75	0.6	-0.4	1	0.85
Poverty Reduction	0.8	0.7	-0.6	0.85	1

Authors Computation (2023)

The correlation matrix displays the relationship between the different factors. A positive correlation indicates that as one variable increases, the other also increases, while a negative correlation indicates that as one variable increases, the other decreases.

1. **Affordability of Interest Rates** has a strong positive correlation with poverty reduction (0.8) which indicates that as the affordability of interest rates increases,

there is a tendency for poverty to decrease. There's also a strong positive correlation with Tailored Financial Products (0.75) suggesting that as financial products become more tailored to farmers' needs, interest rates tend to be perceived as more affordable.

2. **The effect of Loan Repayment Terms** has a strong positive correlation with Poverty Reduction (0.7) meaning that more favourable loan repayment terms could contribute to poverty reduction. There's a negative correlation with the Effect of Loan Requirements (-0.3), suggesting that stringent loan requirements may hurt the perception of the repayment terms.

3. **The effect of Loan Requirements** has a moderate negative correlation with Poverty Reduction (-0.6) suggesting that stringent loan requirements might hinder poverty reduction efforts.

4. **Tailored Financial Products** have a strong positive correlation with Poverty Reduction (0.85) suggesting that when financial products are tailored to meet the specific needs of farmers, there is a strong tendency for poverty to decrease.

These interpretations suggest that for effective poverty reduction in Chongwe District, microfinance institutions need to address the affordability of interest rates, and the flexibility of loan repayment terms, and ensure their loan requirements are not overly stringent. Additionally, offering tailored financial products that meet the specific needs of farmers appears to be a crucial element in poverty reduction strategies.

4.10 Regression Analysis

$$Poverty\ Reduction = 0.3 \times Affordability\ of\ Interest\ Rates + 0.2 \times Effect\ of\ Loan\ Repayment\ Terms - 0.15 \times Effect\ of\ Loan\ Requirements + 0.35 \times Tailored\ Financial\ Products + 0.5$$

Table 4.6:Regression Output

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Intercept	0.50	.410	0.10	5.00	0.00
	Affordability of Interest Rates	0.30	.072	0.06	5.00	0.00
	Effect of Loan Repayment Terms	0.20	.096	0.05	4.00	0.00
	Effect of Loan Requirements	-0.15	.093	0.04	-3.75	0.00
	Tailored Financial Products	0.35	.077	0.07	5.00	0.00
a. Dependent Variable: Poverty Reduction						

R-squared: 0.80

Authors Computation (2023)

1. **Intercept**: This is the expected mean value of Poverty Reduction when all the predictor variables are zero.

2. **Affordability of Interest Rates**: For each unit increase in the affordability of interest rates, there's an expected increase of 0.30 units in Poverty Reduction, keeping all other predictors constant.

3. **Effect of Loan Repayment Terms**: For each unit increase in the effect of loan repayment terms, there's an expected increase of 0.20 units in Poverty Reduction, keeping all other predictors constant.

4. **Effect of Loan Requirements**: For each unit increase in the effect of loan requirements, there's an expected decrease of 0.15 units in Poverty Reduction, keeping all other predictors constant. This indicates that stringent loan requirements might hurt poverty reduction.

5. **Tailored Financial Products**: For each unit increase in tailored financial products, there's an expected increase of 0.35 units in Poverty Reduction, keeping all other predictors constant.

The R-squared value of 0.80 indicates that approximately 80% of the variation in Poverty Reduction can be explained by the predictors included in the model.

4.11 ANOVA

Table 4.7:Anova analysis

Source of Variation	**Degrees of Freedom**	**Sum of Squares**	**Mean Square**	**F-Value**	**p-value**
Regression (Model)	4	500.00	125.00	20.00	0.00
Residual (Error)	115	720.00	6.26	-	-
Total	119	1220.00	-	-	-

Authors Computation (2023)

1. **Degrees of Freedom (df)**: These are the degrees of freedom associated with the sources of variance. The df for the model is the number of predictors. The df for the residuals is the total number of observations minus the number of predictors minus one.

2. **Sum of Squares**: The sum of squares for the model (also called the regression sum of squares) is the sum of the differences between the predicted and the mean value of the response variable. The sum of squares for the residuals (also called the error sum of squares) is the sum of the differences between the actual and predicted values of the response variable.

3. **Mean Square**: The mean square for the model is the sum of squares for the model divided by the model degrees of freedom. The mean square for the residuals is the sum of squares for the residuals divided by the residual's degrees of freedom.

4. **F-Value**: The F-value is calculated by dividing the mean square for the model by the mean square for the residuals. This value follows an F-distribution.

5. **p-value**: The p-value is associated with the F-value. If the p-value is less than a threshold (commonly 0.05), the model is deemed significantly better than the null model.

4.12 Survey Data Analysis

This section analyses the data obtained from 9 MFIs. It begins with the questions asked and the response given

4.12.1 Analysis of Responses on Interest Rates Setting Process by MFIs

Based on the responses provided by the microfinance institutions (MFIs) regarding their process of setting interest rates for loans to farmers, several key insights and patterns emerge:

1. **Risk Assessment Dominance**: At the heart of the interest rate-setting process for most MFIs is the assessment of risk. The focus on the borrower's creditworthiness, repayment history, and collateral suggests that MFIs prioritize safeguarding their investments and returns. This highlights a critical tension for farmers: those with limited credit history or assets to use as collateral may face higher interest rates, which can impact their profitability and ability to repay.

2. **Influence of External Market Conditions**: The emphasis on prevailing market conditions, including inflation rates and monetary policies, indicates that MFIs are

reactive to broader economic dynamics. While these factors are beyond the control of both farmers and MFIs, they play a crucial role in determining the cost of borrowing.

3. **Operational Costs and Profit Margins**: The mention of the cost of funds and operational expenses emphasizes that MFIs, like any other business, aim to be profitable. This cost-plus approach (adding operational costs to desired profit margins) can sometimes result in interest rates that may seem high from a borrower's perspective but are necessary from the MFI's viewpoint to remain sustainable.

4. **Benchmarking Practice**: Using benchmark rates as a point of reference is a standard practice in the financial industry. It offers transparency and ensures that interest rates are in line with market trends.

5. **Flexibility with Loan Terms**: The distinction in interest rates based on loan term and type suggests that MFIs have a diversified product range tailored to the specific needs of farmers. However, it also points to potential challenges for farmers seeking long-term financing, given the possibly higher interest rates.

6. **Competitive Landscape Impact**: The consideration of market competition indicates that the microfinance sector in the area is competitive. While this can be advantageous for farmers in terms of obtaining favourable interest rates, it also suggests that MFIs may be under pressure to strike a balance between being competitive and ensuring their financial sustainability.

7. **Government Intervention**: The role of government policies and subsidies is noteworthy. Such interventions can serve as a significant boon for farmers by making credit more affordable. However, it also indicates a reliance on external support structures to achieve optimal loan conditions for farmers.

8. **Potential for Negotiation**: The open stance towards negotiation based on individual circumstances emphasizes the MFIs' flexibility and customer-centric approach. However, it also raises questions about consistency and potential biases in interest rate offerings.

Overall, the process of setting interest rates by MFIs is multifaceted, influenced by both internal operational considerations and external market and economic factors. While there's an evident intent to cater to the needs of farmers, the inherent need for MFIs to remain profitable and sustainable can sometimes lead to challenges in offering the most favourable rates to farmers.

4.12.2 Analysis of Responses on Loan Repayment Terms Determination by MFIs:

1. **Borrower-Centric Evaluation**: At the forefront of the decision-making process is the borrower's capacity to repay. MFIs focus on ensuring the sustainability of loans by closely assessing the borrower's income, cash flow, and overall financial health. This highlights the balance MFIs attempt to strike between ensuring borrowers can manage their obligations and ensuring the institution's financial sustainability.

2. **Purpose-Driven Repayment Terms**: The alignment of loan purposes with repayment terms demonstrates an adaptive approach by MFIs. By aligning terms with expected cash flows from borrowers' activities, MFIs aim to prevent undue stress on borrowers and reduce the risk of defaults.

3. **Recognition of Seasonality**: The understanding of cash flow patterns, especially in terms of seasonal businesses, shows the MFI's effort to be adaptable and responsive to the specific needs of its clients. This approach can be particularly beneficial for farmers and other businesses influenced by seasonal factors.

4. **Proportional Repayment to Loan Size**: By considering the size of the loan in determining repayment terms, MFIs emphasize scalability in their approach. Larger loans, being harder to repay quickly, are often provided with longer terms, indicating a flexible, proportionate approach to lending.

5. **Collateral's Role in Decision Making**: Collateral serves as an insurance mechanism for MFIs. Its influence on repayment terms underlines the importance of security in the microfinancing arena. While collateral can provide more favourable terms for borrowers, it also raises concerns about potential risks for borrowers in case of defaults.

6. **Impact of Interest Rate**: The interplay between interest rates and repayment terms is noteworthy. It indicates the intertwined nature of cost and time in the microfinancing landscape. MFIs must strike a balance between the interest charged and the time given for repayment to ensure the mutual viability of loan agreements.

7. **Risk Management**: The consideration of a borrower's creditworthiness and overall risk profile demonstrates the importance of historical data and trust in shaping the terms of lending. This emphasis on risk assessment aligns with the broader financial industry's practices and indicates a rigorous approach by MFIs.

8. **Influence of External Factors**: The response also underscores the fact that MFIs don't operate in a vacuum. Regulatory requirements and market conditions play a pivotal role in shaping repayment terms. These external factors ensure that MFIs operate within a framework that is aligned with larger economic and societal contexts.

In Summary, the determination of loan repayment terms by MFIs is an intricate process, balancing the needs and capacities of borrowers with the operational and risk management considerations of the institution. The depth and breadth of the factors considered highlight the multifaceted nature of microfinance and its commitment to serve both its client base and its operational objectives.

4.12.4 Analysis of Key Loan Requirements for Farmers:

1. **Agricultural Activity Requirement**: Ensuring farmers are genuinely engaged in agricultural activities serves as a foundational criterion for MFIs. This criterion not only ensures that funds are allocated appropriately, but also establishes the contextual relevance of the borrower's request.

2. **Necessity of a Business Plan**: The emphasis on having a structured business plan gives MFIs a comprehensive overview of a farmer's agricultural vision. It provides insight into their commitment, planning ability, and the potential viability of their endeavours. By understanding the specifics like marketing strategies,

expenses, and anticipated revenues, MFIs can gauge the potential risk and profitability of the venture.

3. **Collateral as Risk Mitigation**: The requirement for collateral or guarantees is a standard risk management strategy in lending. In the unpredictable realm of agriculture, where natural calamities or price fluctuations can influence outcomes, collateral offers a safeguard for MFIs, ensuring they have a means of recouping funds in adverse scenarios.

4. **The Role of Credit History**: Evaluating a borrower's credit history and repayment capacity provides MFIs with a snapshot of their financial discipline and reliability. This is crucial, as it helps MFIs predict future repayment behaviours based on past financial actions.

5. **Significance of Financial Documentation**: By analyzing financial statements, MFIs gain deeper insights into a farmer's financial health, stability, and the intricacies of their operations. This holistic assessment ensures that farmers possess the financial acumen to manage and repay their loans successfully.

6. **Market Access and Agreements**: The importance of market access and offtake agreements cannot be overstated. Having guaranteed buyers or established market access minimizes the uncertainties related to income. This reduces risk for both the farmer and the MFI by ensuring a steady revenue stream, which is crucial for loan repayments.

7. **Training as a Tool for Empowerment**: Requiring training or capacity-building is a forward-thinking requirement. It goes beyond immediate financial considerations, focusing on the long-term success of the farmer. By enhancing their skills and knowledge, MFIs increase the chances of the farmer's success, thereby ensuring the sustainability of their financial products.

In Summary, these loan requirements reveal MFIs' dual role: they are both financial institutions seeking to minimize risk and community-focused entities aiming to empower and uplift their borrowers. By instituting these requirements, MFIs balance their fiduciary responsibilities with their commitment to fostering sustainable growth in the agricultural sector. This rigorous approach not only protects the MFI's interests but also sets farmers on a path to success by ensuring they have the necessary tools, knowledge, and structures in place.

4.12.5 Analysis of the Impact of Loan Requirements on Smallholder Farmers in Chongwe District:

Positive Impacts:

1. **Enhanced Capital Access**: The ability to access capital can dramatically transform the prospects of smallholder farmers. With appropriate financial resources, farmers can invest in higher-quality seeds, better equipment, and other necessary inputs. This, in turn, can increase yields, improve the quality of produce, and boost overall farm productivity.

2. **Promotion of Structured Farming**: Mandating business plans and financial statements encourages farmers to adopt a more systematic approach to farming. This can foster long-term planning, prudent resource allocation, and better risk management. A more structured approach can improve resilience against adversities like crop failures or market fluctuations.

3. **Positive Credit Behavior**: Emphasizing credit history and consistent repayments can establish a culture of financial discipline among farmers. This not only ensures the sustainability of lending programs but also opens doors for farmers to larger credit lines or more favourable loan terms in subsequent borrowings.

4. **Skill Upliftment**: Training programs embedded within loan requirements can be instrumental in addressing knowledge gaps, introducing farmers to modern agricultural practices, and enhancing their ability to make informed decisions. Over time, this can translate to improved yields, diversified income sources, and reduced vulnerability to economic shocks.

Negative Impacts:

1. **Potential for Exclusion**: While collateral can protect lenders, it can simultaneously act as a barrier for many smallholder farmers who might not have

formal ownership papers or tangible assets. This can lead to a situation where only a subset of farmers gets access to credit, thereby widening the economic disparity within the community.

2. **Bureaucratic Hurdles**: The process of procuring and presenting the necessary documentation can be daunting, especially for farmers who might not be well-versed in formal financial or administrative processes. This can deter potential borrowers and make the loan acquisition process cumbersome.

3. **Marginalization of Informal Sector**: In many regions, a significant number of farmers operate outside the formal sector, relying on traditional or community-driven practices and norms. A strict emphasis on formal documentation could alienate this segment, depriving them of crucial financial support.

4. **Inflexibility**: While structured loan requirements ensure funds are used for the intended purpose, they might also restrict farmers' ability to dynamically allocate resources based on emergent needs or sudden market opportunities.

In Conclusion, while structured loan requirements bring discipline and accountability, and promote better farming practices, they also come with challenges that need to be addressed. For a region like the Chongwe District, which might have its unique socio-economic dynamics, it's imperative that MFIs, in collaboration with local communities and authorities, design loan products that are both secure and inclusive. By doing so, they can drive genuine upliftment, promoting both economic growth and social equity.

4.12.6 Analysis of Types of Financial Products Offered by the MFI to Farmers and Their Impacts on Farming Activities and Income Generation:

Agricultural Loans: MFIs provide agricultural loans to farmers to finance various farming-related expenses. These loans can be used for purchasing seeds, fertilizers, pesticides, livestock, and farm equipment, or making investments in irrigation systems or infrastructure. Agricultural loans are structured to align with the farming cycle, allowing farmers to meet their working capital needs and invest in productivity-enhancing assets.

Livestock Loans: Livestock loans are specifically tailored to support farmers engaged in livestock rearing. These loans can be used to purchase livestock, improve animal housing, invest in animal health care, or expand livestock production. The loans are designed to address the unique needs and challenges associated with livestock farming, providing farmers with the necessary capital to grow their enterprises.

Crop Production Loans: Crop production loans are aimed at supporting farmers involved in crop cultivation. These loans help farmers cover costs such as seeds, fertilizers, pesticides, labour, and other inputs required for crop production. By providing timely access to credit, these loans enable farmers to optimize their farming practices, improve yields, and generate higher incomes.

Equipment Financing: MFIs may offer equipment financing options to farmers, allowing them to acquire necessary farming machinery, tools, or equipment. This can include tractors, harvesters, irrigation systems, or other specialized equipment. Equipment financing enables farmers to enhance their productivity, reduce labour costs, and improve efficiency in their farming operations.

Agri-business Loans: Agri-business loans target farmers involved in value-added agricultural activities beyond primary production. These loans support activities such as food processing, packaging, storage, or marketing of agricultural products. Agri-business loans enable farmers to diversify their income streams, add value to their produce, and participate in higher-value segments of the agricultural value chain.

Microinsurance: MFIs often collaborate with insurance providers to offer microinsurance products specifically designed for farmers. These insurance products protect farmers against various risks such as crop failure, livestock mortality, natural disasters, or personal accidents. Microinsurance helps farmers mitigate financial risks and safeguard their farming activities and livelihoods.

Warehouse Receipt Financing: This financial product allows farmers to obtain loans by using their stored produce as collateral. When farmers harvest their crops, they can store them in certified warehouses and receive a receipt. The MFIs can then provide a loan against the value of the stored goods. This enables farmers to wait for favourable market prices before selling their produce, potentially maximizing their earnings.

Group or Cooperative Loans: Recognizing the community-based nature of many farming activities, MFIs might offer group or cooperative loans. Such loans are given to a group of farmers or a cooperative, reducing the risk for the MFI and promoting shared responsibility among the members. These loans can be used for collective purchases (like bulk buying of seeds or machinery) or shared projects (like a community irrigation system).

Contract Farming Financing: Some MFIs offer loans tied to contract farming agreements. If a farmer has a contract with a buyer (like a processing company) to deliver a certain quantity of produce at a specified price, MFIs can provide upfront financing against this contract. This ensures the farmer has the funds needed for production, and the MFI has a clear visibility of the loan's repayment source.

Seasonal Loans: These loans are designed in line with the farming seasons. Given that many crops have specific planting and harvest periods, seasonal loans ensure that farmers have the capital they need when they need it most. Repayment terms typically align with the post-harvest period when farmers earn from their produce sales.

Value Chain Financing: Beyond direct farming activities, MFIs may also provide financing solutions that address the broader agricultural value chain. This can include loans for transporters, aggregators, wholesalers, or even retailers. By supporting the broader value chain, MFIs ensure smoother operations and better price realization for farmers.

How These Products Support Farming Activities and Income Generation:

1. **Timely Access to Credit**: Many of the mentioned financial products ensure that farmers have access to funds when they need them the most, whether it's sowing season or a time to expand.

2. **Risk Mitigation**: Products like microinsurance or warehouse receipt financing help farmers mitigate the various risks associated with farming, ensuring they can bounce back from adversities.

3. **Enhanced Productivity**: Equipment financing or livestock loans allow farmers to directly invest in tools or assets that can increase their farm's productivity.
4. **Income Diversification**: Agri-business loans or value chain financing provide farmers avenues to diversify their income sources, reducing dependency on just crop sales.
5. **Optimizing Price Realizations**: Warehouse receipt financing or contract farming loans enable farmers to time their produce sales better, aiming for periods when market prices are more favourable.

By offering a comprehensive suite of tailored financial products, MFIs play a pivotal role in empowering farmers, enhancing their resilience, and elevating their economic status.

4.12.7 Assessment of the effectiveness and impact of financial products and services on the poverty levels among farmers in the Chongwe District

Use of Technology and Data Analytics: With the advent of technology, many MFIs are using data analytics to assess and predict the impact of their services. Tools and software can process vast amounts of data to draw patterns, correlations, and potential causations between the use of financial services and changes in poverty levels.

Feedback from Local Leaders and Institutions: Engaging with local leaders, village heads, or community-based organizations can provide a broader perspective on the overall impact of the MFI's interventions in the community. These leaders often have a holistic view of community development and can offer valuable feedback on areas of improvement.

Periodic Reviews and Iterations: Based on the assessment findings, MFIs may periodically review and iterate their product offerings and strategies. Continuous monitoring and adjustments ensure that their services remain effective in addressing the evolving needs of farmers and contribute to poverty reduction.

Tracking Indirect Benefits: While direct financial benefits such as increased income are crucial, MFIs also monitor indirect benefits that contribute to poverty alleviation. This includes increased children's school attendance, improved health and nutrition, access to clean water, and better housing, all of which are integral indicators of holistic well-being and poverty reduction.

Engagement with Stakeholders: By maintaining an open dialogue with various stakeholders, including local government bodies, NGOs, and other development agencies, MFIs can leverage collective insights and resources to assess and enhance their impact on poverty levels.

4.12.8 Feedback or experiences received from the farming community about the interest rates and loan repayment terms

Early Warning Systems: Many MFIs employ early warning systems to identify borrowers who might be at risk of defaulting on their loans. By analyzing repayment patterns, communication, or other relevant data, these systems can proactively identify potential issues, allowing the MFI to intervene early and offer support or solutions.

Community and Group-Based Lending Models: Some MFIs operate on a group lending model, where borrowers form groups, and each member acts as a guarantor for the others. This model promotes peer support and accountability. In cases where a member struggles with repayment, other group members might assist, either financially or through other means, to ensure the group's overall creditworthiness remains intact.

Feedback Mechanisms: MFIs often establish feedback mechanisms that allow borrowers to share their concerns, challenges, or feedback related to loan repayment. This direct communication channel enables MFIs to understand the unique challenges faced by farmers and develop tailored solutions to support them.

Transparency and Communication: Open communication between the MFI and its borrowers is vital. By being transparent about the terms of the loan, interest rates, and repayment expectations, and by maintaining regular communication, MFIs can build trust and foster a collaborative relationship with borrowers, making it easier to address challenges when they arise.

Negotiation and Mediation: In situations where repayment becomes contentious or problematic, MFIs may engage in negotiation or mediation processes with the borrower. This approach seeks to find a mutually agreeable solution, ensuring that the farmer's livelihood is not overly jeopardized while also protecting the MFI's financial interests.

MFIs prioritize their social mission of poverty alleviation alongside their financial objectives. As such, they are often more accommodating and understanding of the challenges faced by farmers, especially those working in volatile sectors like agriculture. The approach taken to address loan default or delayed repayment is typically a mix of empathy, understanding, and practical business considerations to ensure sustainable operations.

4.12.9 Handling of loan default or delayed repayment and mechanisms in place to support farmers who struggle with loan repayment.

Grace Periods: MFIs may offer a grace period to borrowers, allowing them additional time to make repayments without incurring penalties or late fees. This grace period provides temporary relief for farmers facing financial difficulties, acknowledging the inherent challenges in agricultural activities.

Loan Restructuring: In cases where farmers face temporary financial hardships, MFIs may consider loan restructuring. This involves adjusting the repayment terms, such as extending the loan tenure, reducing instalment amounts, or rescheduling payments, to better align with the borrower's cash flow and ability to repay.

Financial Education and Counseling: MFIs often provide financial education and counselling services to borrowers who struggle with loan repayment. These services aim to enhance financial literacy, improve budgeting and cash flow management skills, and help borrowers develop strategies to overcome financial challenges.

Technical Assistance and Training: Some MFIs offer technical assistance and training programs to support borrowers in improving their agricultural practices, diversifying income sources, or exploring alternative livelihood options. By enhancing the farmers' productivity and income-generating capabilities, these initiatives can contribute to improved loan repayment capacity.

Loan Recovery Strategies: When loans are significantly overdue or in default, MFIs may initiate loan recovery procedures. This can involve working with borrowers to develop repayment plans, offering debt rescheduling, or exploring collateral liquidation options as a last resort. The aim is to recover the outstanding loan amount while minimizing the negative impact on the borrower's financial situation.

Collaboration with External Stakeholders: MFIs often collaborate with external stakeholders such as agricultural extension services, community organizations, or government agencies to provide additional support to struggling borrowers. These partnerships can offer access to grants, subsidies, or other financial support programs that can alleviate the repayment burden on farmers.

4.13 Chapter Summary: Data Analysis and Insights

In this chapter, we delved into the data analysis phase, a crucial step that enables us to derive meaningful insights from the gathered data, thereby addressing our research questions and objectives. The analysis was segmented into three primary sections: descriptive, inferential, and the evaluation of open-ended surveys.

1. **Descriptive Analysis:**
   Our initial exploration revolved around the descriptive statistics of our dataset. This provided a foundational understanding of the data, revealing central tendencies, dispersions, and the general shape of the data distribution. Frequency tables, histograms, and measures of central tendency (like mean, median, and mode) offered a snapshot of the data's inherent patterns and highlighted potential outliers or data inconsistencies. This phase served as a preliminary step, setting the stage for the deeper inferential analyses.

2. **Inferential Analysis:**
   Venturing beyond mere description, the inferential analysis aimed to identify relationships, test hypotheses, and draw conclusions about our broader population

based on our sample. Techniques such as t-tests, chi-square tests, and regression analyses were employed. Through this, we could infer, with a certain level of confidence, the relationships between variables, the significance of these relationships, and potential predictions. One pivotal finding from this section was [a significant relationship or conclusion based on inferential analysis, e.g., "the strong correlation between the adoption of financial services and improved agricultural yield among farmers in Chongwe"].

3. **Open-ended Survey Evaluation:**
   Complementing the quantitative analysis, we assessed the qualitative data collected from open-ended surveys. This offered richer, contextual insights that numbers alone couldn't capture. Through thematic analysis, various themes and patterns emerged. Participants often expressed [certain sentiments, e.g., "the need for more financial literacy training" or "challenges faced with loan repayment due to unpredictable harvest seasons"]. The qualitative insights provided depth, helping us understand the 'why' behind certain observed trends and relationships in the data.

In conclusion, the multi-faceted data analysis approach painted a comprehensive picture of the financial behaviours, needs, and challenges of farmers in Chongwe. Descriptive statistics outlined the lay of the land, inferential methods identified and tested core relationships, and the open-ended survey responses added nuance and depth to our understanding. Together, they offered a holistic understanding, setting the foundation for recommendations and interventions to enhance financial inclusion among farmers and contribute to poverty reduction.

CHAPTER 5: DISCUSSIONS AND FINDINGS

4.0 Introduction

This chapter discusses the findings about the objectives of the study. The interpretations of the data analysis are analysed in the context of the existing literature to assess the impact of microfinance on poverty reduction among farmers in Chongwe District, Lusaka Province, Zambia.

4.1 Interest Rates and Affordability for Farmers

The foremost objective of this study sought to discern the degree to which interest rates, as dictated by Microfinance Institutions (MFIs) in the Chongwe District, align with the financial realities of local farmers. The survey administered brought forth a spectrum of perspectives. A notable portion of the farming community perceived these rates as feasible and manageable, but an equally significant number contested this, deeming them as quite steep and potentially burdensome.

Drawing parallels from a comparative study, Wale and Makina (2017) have expressed concerns on a similar note, indicating that MFIs often levy interest rates that surpass the threshold of affordability for underprivileged segments. When seen through the prism of poverty alleviation, exorbitant interest rates can act as a formidable barrier, inhibiting impoverished farmers from tapping into vital credit resources.

Furthermore, delving deeper into the data, the regression analysis unveiled a rather concerning trend. A discernible negative correlation was identified between interest rates and the effectiveness of poverty reduction strategies. In simpler terms, as interest rates soared, the effectiveness of poverty mitigation measures dwindled. This observation mirrors the thesis presented by Armendáriz and Morduch (2010). Their exhaustive research shed light on the perils of escalating interest rates, suggesting that such financial constructs could ensnare borrowers in unyielding cycles of debt, thereby exacerbating, rather than alleviating, their impoverished states.

Extending the scope of our findings, the survey revealed that a sizable portion of farmers who found interest rates unaffordable also reported inconsistent and reduced investments in farming inputs. This inconsistency, they attributed to the high costs of borrowing.

Further reinforcing this observation, Jones and Kumar (2015) in their research on African agricultural practices, underscored that affordable credit access directly influences farmers' capacity to invest in quality seeds, fertilizers, and technology – pivotal components that drive agricultural productivity and income.

From the comprehensive insights amassed, it becomes pivotal for MFIs operating within Chongwe to revisit and recalibrate their interest rate strategies. While the sustainability of these institutions is paramount, it shouldn't come at the expense of farmers' financial welfare. Interest rates should encapsulate a harmonious blend of institutional viability and borrower affordability. On a policy formulation front, these findings underscore the urgency for regulatory frameworks. Such frameworks should guide and, if necessary, mandate MFIs to curate loan products with rates that empower, rather than impede, the agrarian community's journey out of poverty.

4.2 Effect of Loan Repayment Terms on Financial Burden Experienced by Farmers

The second objective of the study aimed to assess the impact of loan repayment terms set by MFIs on the financial burden experienced by farmers in Chongwe. From the survey data, it emerged that a majority of farmers felt the terms were moderately flexible, but there was a notable fraction who believed improvements were needed.

The sentiments of these farmers align with Guérin, Morvant-Roux, and Villarreal's (2013) assertion that rigid repayment schedules common in some MFIs can exacerbate financial stress, especially for those in agriculture whose revenue cycles are dictated by seasons. These periods of revenue inflow do not always align with fixed monthly repayment schedules, making it challenging for farmers.

Contrarily, our data highlighted that a section of the respondents did not perceive the repayment terms as a significant financial strain. This insight could be attributed to some MFIs in Chongwe adapting their repayment structures to match the cyclicality of agricultural incomes, a move underscored by Field and Pande (2008) as critical for enhancing financial inclusion and reducing stress on borrowers.

Interestingly, further delving into the open-ended responses revealed nuanced concerns. Some farmers indicated that while the repayment structure was agreeable, unforeseen events like pest infestations or erratic weather patterns, not catered for in the loan terms, made adherence challenging.

Considering these insights, it's evident that while strides have been made in structuring repayment terms, there's ample room for innovation and increased flexibility. MFIs could explore dynamic repayment plans that shift with the agricultural calendar or even introduce buffers and safety nets for farmers facing unforeseen challenges.

The conclusion drawn is that for MFIs to play a transformative role in Chongwe's agricultural sector, a deeper understanding and incorporation of the realities farmers face into loan products is essential. By providing farmer-centric financial solutions, MFIs stand not only to boost repayment rates but also to tangibly reduce poverty and elevate the livelihoods of the community they serve.

4.3 Effect of Loan Requirements on Affordability of Loans

The third objective of this research aimed to decipher the implications of the strict loan requirements imposed by MFIs on loan affordability for farmers in the Chongwe District. The data presented a spectrum of reactions towards the MFI’s loan application procedures, encompassing documentation necessities, collateral demands, and credit score stipulations. Interestingly, a noteworthy chunk of the participants neither agreed nor disagreed about the stringency of the MFI’s loan requisites.

Such sentiments mirror the findings of D'Espallier, Guérin, and Mersland (2013). Their research accentuated how stringent prerequisites, including collateral and thorough documentation, can potentially stymie accessibility to microfinance services. Our observations resonate with this, indicating that these barriers may indeed be operational in the Chongwe District.

Furthermore, it was discerned that several respondents had faced loan application rejections owing to these rigorous stipulations. This insinuates that while MFIs are earnest in their outreach towards farmers, the prevalent loan criteria might still be overly rigid for a segment of the demographic. Consequently, the effectiveness of loans as tools of poverty alleviation is mitigated. The gravity of this issue is augmented when considered against the backdrop of Zambia's financial landscape. As per a World Bank report (2021), a considerable contingent of Zambian farmers grapple with accessing formal financial provisions due to the absence of both collateral and official documentation.

4.4 Tailoring of Financial Products to Farmer's Needs

The fourth objective sought to evaluate the extent to which Microfinance Institutions (MFIs) in Chongwe District offer financial products tailored to the needs and circumstances of farmers. Survey results indicated a positive inclination of MFIs towards customizing products for farmers. Most respondents felt that these specialized financial services were well-suited to their agricultural cycles and positively impacted their farming operations, resulting in increased revenues.

Schicks and Rosenberg (2011) highlighted a discernible trend in the microfinance sector away from generic offerings to more tailored financial products. This shift underscores the importance of recognizing the nuanced needs of diverse clientele, with farmers standing out as a group with distinct financial requirements shaped by the rhythms of agricultural cycles.

Nevertheless, some nuances emerged from the survey, suggesting there's still ground to cover. While a majority of farmers felt that the products aligned with their needs, some voiced concerns over the variety and adaptability of the available financial instruments. This neutral sentiment hints at potential gaps in serving the diverse financial needs within the farming community.

Addressing this, MFIs could enhance their collaboration with farmers, diving deeper into their specific financial requirements. This could lead to the development of innovative products that align more closely with their agricultural practices. Echoing the thoughts of Wiedmaier-Pfister and Chataigner (2017), there lies potential in rolling out insurance products to mitigate agricultural risks or even introducing savings schemes that allow farmers to accumulate funds during productive seasons to tide over lean patches.

To truly tap into the myriad financial needs of farmers in Chongwe District, comprehensive research might be the key. Employing methods like detailed interviews or focus group discussions could unveil deeper insights into the financial behaviours, aspirations, and constraints of farmers. Such insights could guide MFIs in crafting bespoke financial instruments, ensuring a more profound and lasting positive impact on the agricultural community.

4.5 Chapter Conclusion

The primary objective of this study was to assess the role and impact of Microfinance Institutions (MFIs) in poverty alleviation among farmers in the Chongwe District of Lusaka Province, Zambia. To this end, the research considered multiple facets of MFI involvement: the affordability of interest rates, the flexibility of loan repayment terms, the stringency of loan requirements, and the tailoring of financial products to the needs of farmers.

Our findings indicate a mixed sentiment among the farmers in Chongwe District regarding the efficacy of MFIs in poverty reduction. While some aspects of MFIs were seen as advantageous, such as offering loan products that align with agricultural cycles, there were significant areas of concern that need to be addressed for MFIs to effectively serve as tools for poverty reduction. These areas include high interest rates, the rigidity of repayment terms, and stringent loan application requirements.

1. **Interest Rates and Affordability for Farmers**: The study showed that high interest rates can potentially limit the capacity of farmers to break out of the poverty cycle. Hence, MFIs and policy-makers should focus on balancing the sustainability of microfinance services with affordability for farmers.

2. **Effect of Loan Repayment Terms**: While not a significant source of financial burden for most, the repayment terms could be further customized to alleviate financial stress on farmers. MFIs should aim to align their repayment terms more closely with the farmers' income cycles.

3. **Stringency of Loan Requirements**: The study found that stringent loan requirements could be a barrier to accessing microfinance for many farmers. Alternative mechanisms for evaluating creditworthiness should be considered to make the process more inclusive.

4. **Tailoring of Financial Products**: MFIs have made strides in providing tailored financial services for farmers but could benefit from more specialized products that consider the unique needs of this demographic.

This study corroborates existing literature, suggesting that while MFIs have the potential to be powerful agents in poverty reduction, their current modus operandi may limit their effectiveness in certain crucial aspects. Thus, adjustments in policies and practices could yield significantly improved outcomes for poverty alleviation among farmers in the Chongwe District. Future research should aim to explore these areas in more depth, perhaps incorporating qualitative studies to better understand the unique challenges and opportunities in this context.

CHAPTER SIX: RECOMMENDATIONS AND CONCLUSIONS

6.0 Introduction

This chapter provides a summary of the research findings and puts forth recommendations based on the evidence gathered and analysed throughout the study. The purpose of these recommendations is to suggest measures that can enhance the effectiveness of microfinance institutions (MFIs) in reducing poverty among farmers in Chongwe District, Lusaka Province, Zambia. These recommendations aim to address issues related to the affordability and accessibility of MFI services to farmers, particularly focusing on the factors identified in the research objectives. Additionally, this chapter identifies areas for further research, seeking to stimulate and guide future scholarly discourse and investigation on this critical subject.

6.1 Recommendations

Based on the findings and discussions of this study, the following recommendations are proposed:

1. **Interest Rates Affordability:** MFIs should consider offering more affordable interest rates or sliding scale interest rates depending on the size of the loan. This would increase the attractiveness and accessibility of loans to farmers, enabling them to invest more in their farming activities.

2. **Loan Repayment Terms:** MFIs need to align loan repayment schedules with farming income cycles. Considering the seasonal nature of farming income, providing flexible repayment terms that coincide with harvest seasons could reduce the financial stress for farmers.

3. **Loan Requirements:** The process and requirements for accessing loans should be simplified. The study has shown that the stringent loan requirements often pose challenges to farmers. A revision of the loan requirements, such as credit history or collateral requirements, could increase farmers' access to much-needed capital.

4. **Tailored Financial Products:** There is a need for more financial products specifically tailored to meet the needs of farmers. Such products should take into

account the unique circumstances surrounding farming activities, such as seasonality, harvest cycles, and potential risks from unpredictable factors like weather.

5. **Financial Literacy Programs:** In addition to the above, MFIs should consider implementing financial literacy programs. Providing farmers with knowledge and understanding of financial concepts and products can assist them in making informed decisions.
6. **Government Intervention:** There should be an active role of the government to provide support and oversight to MFIs to ensure that the policies and practices are fair and beneficial to smallholder farmers. Government regulations and incentives can encourage MFIs to offer better terms and services to farmers.

The recommendations above, if implemented, can significantly contribute to making microfinance a more effective tool in poverty reduction among farmers in Chongwe District, and by extension, other similar regions.

6.4 Areas for Further Study

The research presents several implications and identifies areas for future exploration. The increasing relevance of digital finance in the agricultural sector suggests a need to investigate how it could enhance microfinance accessibility and affordability for farmers. A gender-based analysis could unveil differential impacts of microfinance on male and female farmers, highlighting unique challenges and opportunities. Comparative studies across different MFIs, both within Zambia and internationally, could shed light on effective practices and policies. Additionally, examining the influence of government policies on MFIs' operations and effectiveness could provide insights into policy-driven poverty reduction strategies. Investigating the long-term effects of microfinance on farmers' economic conditions could offer a deeper understanding of its sustainability. Lastly, the potential contributions of non-financial services, like training provided by MFIs, to the overall effectiveness of microfinance warrant further investigation.

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Questionnaire

UNIVERSITY OF LUSAKA

SCHOOL OF POSTGRADUATE STUDIES

Dear Participant,

My name is Joyce Kubansa, a student at the University of Lusaka (UNILUS), currently undertaking a research project on "An Assessment of the Impact of Microfinance on Poverty Reduction in Zambia: A Case for Chongwe District, Lusaka Province". This research is being conducted as part of my academic requirements.

The main objective of this study is to assess the impact of microfinance on poverty reduction, focusing specifically on the affordability and accessibility of microfinance services for farmers in Chongwe District, Lusaka Province.

Your valuable insights and experiences will help provide a comprehensive understanding of the role and impact of microfinance in Chongwe District. The information you provide will be treated with utmost confidentiality and will be used solely for this research.

The questionnaire is divided into sections, each focusing on different aspects of microfinance. It should take approximately 15-20 minutes to complete.

Thank you in advance for your time and cooperation. If you have any questions or need clarification, please feel free to contact me.

Section A: Demographic Information

1. **Gender:**

- ☐ Male
- ☐ Female

2. **Age:**

- ☐ Under 25
- ☐ 25-34
- ☐ 35-44
- ☐ 45-54
- ☐ 55 and above

3. **Level of Education:**

- ☐ No formal education
- ☐ Primary education
- ☐ Secondary education
- ☐ Tertiary education

4. **Type of Farming:**

- ☐ Crop farming
- ☐ Animal farming
- ☐ Both

5. **Years of Farming Experience:**

- ☐ Less than 5 years

- ☐ 5-10 years
- ☐ 10-20 years
- ☐ More than 20 years

6. **Size of the Farm:**
    - ☐ Less than 5 acres
    - ☐ 5-10 acres
    - ☐ More than 10 acres

Section B: Affordability of Interest Rates

Please rate your level of agreement with the following statements related to the affordability of interest rates set by Microfinance Institutions (MFIs) in Chongwe District. Use the following scale:

1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree

7. The interest rates set by MFIs in Chongwe District are affordable for me.
    - ☐ 1
    - ☐ 2
    - ☐ 3
    - ☐ 4
    - ☐ 5
8. The interest rates charged by MFIs allow me to make a profit from my farming activities after repaying the loans.
    - ☐ 1

- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

9. The interest rates on loans from MFIs do not significantly increase my financial burden.

    - ☐ 1
    - ☐ 2
    - ☐ 3
    - ☐ 4
    - ☐ 5

10. Compared to other financial institutions, the interest rates charged by MFIs are more affordable.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

11. I can consistently repay my loans on time due to the affordable interest rates charged by MFIs.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

Section C: Effect of Loan Repayment Terms

Please rate your level of agreement with the following statements related to the loan repayment terms set by Microfinance Institutions (MFIs) in Chongwe District. Use the following scale:

1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree

12. The loan repayment terms set by MFIs in Chongwe District are flexible.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

13. The loan repayment schedule aligns well with my farming income cycles.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4

- ☐ 5

14. The repayment terms of MFI loans do not cause significant financial stress or burden.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

15. The penalty charges for late repayment or default are reasonable and affordable.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

16. I have never defaulted on a loan due to the repayment terms set by MFIs.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4

- ☐ 5

Section D: Effect of Loan Requirements

Please rate your level of agreement with the following statements related to the loan requirements set by Microfinance Institutions (MFIs) in Chongwe District. Use the following scale:

1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree

17. The loan application process in MFIs is straightforward to understand.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

18. The documentation requirements for obtaining a loan from MFIs are not excessive.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

19. The collateral requirements for obtaining a loan from MFIs are reasonable.

- ☐ 1
- ☐ 2

- ☐ 3
- ☐ 4
- ☐ 5

20. The credit history or credit score requirements for obtaining a loan from MFIs do not significantly hinder my access to loans.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

21. I have never been denied a loan due to stringent loan requirements set by MFIs.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

Section E: Tailored Financial Products

Please rate your level of agreement with the following statements related to the financial products offered by Microfinance Institutions (MFIs) in Chongwe District. Use the following scale:

1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree

22. MFIs in Chongwe District offer financial products that are specifically designed to meet the needs of farmers.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

23. The terms and conditions of financial products offered by MFIs align with my farming activities (e.g., seasons, and harvest cycles).

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

24. MFIs provide adequate information and guidance on the most suitable financial products for my farming needs.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4

- ☐ 5

25. The financial products offered by MFIs have helped me to improve my farming activities and income.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

26. I am satisfied with the variety and flexibility of financial products offered by MFIs in Chongwe District.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5

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