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Do Public Microcredit Schemes Enhance Small-scale Enterprise Development? Perspectives of Selected Borrowers in Lilongwe, Malawi

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Abstract

Since the 1980s, microcredit schemes have increasingly become a popular policy instrument for supporting small-scale enterprise development agendas in developing countries. This notwithstanding, the efficacy of public sector intervention in microcredit provision has not received much scholarly attention in Malawi, as existing studies have focused on actions by private microcredit institutions (MCIs). Thus, while policymakers highly regard the perceived efficacy of public MCIs, the subject is rarely exposed to empirical questioning. This paper reports on a study that used a welfarist approach to assess whether public MCIs enhance small-scale enterprise development. The study used Q methodology to collect and synthesise primary data from 21 National Economic Empowerment Fund loan clients in Lilongwe District. Findings revealed that smaller loan sizes, absence of grace period, diversion of loan proceeds towards spending on household necessities, physical collateral requirements, and other often-not-documented costs negate the envisaged enterprise development claims of microcredit schemes. These findings suggest the potential failure of public microcredit to achieve the intended enterprise development goals because similar access barriers existing in conventional private credit markets remain rooted in current public microcredit schemes. The paper calls for practical policy action addressing these bottlenecks that alienate the very people who require financial inclusion.

Keywords: Financially excluded, Public microcredit, Q methodology, Small-scale enterprises.

1. Introduction

Since the 1980s, microcredit schemes have increasingly become a popular policy instrument for supporting small-scale enterprise development in developing countries. Microcredit involves providing small-scale loans to financially excluded people to promote small-scale enterprise development (Panda, 2016; Hearth, 2018). The principal objective of microcredit is to promote the economic empowerment of the poor through financial inclusion (Panda, 2016). In the context of this paper, public microcredit schemes are defined as microcredit programmes managed and funded by the government. The subject of public microcredit is topical in Malawi because government intervention in microcredit provision has, for long, been formally projected as an effective tool for enhancing small-scale enterprise development for the financially excluded but economically active people. As such, this paper aims to assess whether the prevailing public microcredit design enhances small-scale enterprise development as envisaged by policy. Much of the discourse surrounding public sector involvement in microcredit delivery focuses on political interference and the patronage side of it (Barman et al., 2009; Schmidt, 2015; Hossein, 2016; Zidana et al., 2024). However, little has been researched on the efficacy of the design itself.

To begin with, the popularity of the microcredit concept from the 1980s has seen corresponding growth in the number of microcredit institutions (MCIs) in Africa, Asia, and the rest of the developing world. Ideally, these MCIs provide financial intermediation to the unbanked population, empowering them to contribute actively to economic and social development through improved incomes and employment (Khandker, 1998). Microcredit's theory of change revolves around the conviction that providing the financially excluded with credit to enable them to manage small-scale enterprises activates their latent entrepreneurial capacity and leads to reduced unemployment and poverty amongst poor communities (Noruwa & Emeka, 2012).

At its inception, microcredit was a promising economic empowerment intervention proponents believed would eliminate poverty within a single generation (Bateman, 2012). Thus, after four decades of sustainable microcredit supply with the support of international development financial institutions, notably the World Bank, researchers became interested in evaluating its performance towards achieving the promised ideals. A review of the literature shows that most studies have produced mixed results. Nevertheless, amidst such evidence, there has been a burgeoning strand of literature in the 2000s contending that microcredit has not brought in the much-touted socio-economic transformation as envisaged at its inception (Bateman, 2003, 2012, 2020, 2022; Iskander et al., 2022). This strand of evidence argues that, instead, microcredit has generally pushed borrowers into debt cycles, mostly citing the classic case of Cambodia, where microcredit programmes have thrived, but borrowers remain poorer and enslaved as worsened health outcomes were reported amongst beneficiaries (Iskander et al., 2022). Further, critics of public microcredit programmes contend that owing to the micro nature of the targeted enterprises, microcredit is not a worthwhile mechanism for utilising scarce public resources because such enterprises cannot generate improved incomes or create sustainable employment, as claimed by proponents (Khandker, 1998).

Both public and private MCIs have traditionally supplied microcredit services. Fundamentally, private MCIs do not restrict the use of their loans for specific investments because their only motivation is profit-making. Hence, their borrowers use loans for various purposes, including protection against household vulnerabilities caused by economic crises such as natural disasters or illnesses (Burritt, 2006). Loans from private MCIs are also used to directly fund education for children and smoothen general household consumption. However, public microcredit programming in Malawi is formally premised on achieving one single objective: to promote enterprise development and micro-entrepreneurship (Government of Malawi, 2002, 2006, 2012, 2019, 2020). Hence, eligible borrowers are individuals or groups who own small-scale enterprises. Based on this latter premise, the current paper focuses on assessing public microcredit schemes rather than private ones due to this acclaimed developmental objective. The remaining sections of this paper cover the following aspects: the theoretical framework underpinning the study, a synopsis of other findings on the impact of microcredit, research methods employed, findings, discussion, and conclusions and recommendations.

2. Institutionalist and Welfarist Views on Microcredit: A Theoretical Framework

The research problem for the study was shaped by distinguishing the two schools of thought on microcredit delivery and measurement of impact. These schools are the welfarist view and institutionalist view. While both schools recognise the potential of microcredit to alleviate poverty (for instance, Khandker, 1998; Robinson, 2001; Guttman, 2007; Hearth, 2008), they diverge in their approaches to delivery and impact measurement of microcredit (Berguiga & Adair, 2015). While the delivery approach for welfarists targets financially excluded people, usually the rural and credit-riskier population (Berguiga & Adair, 2015), institutionalists care less about who benefits. What matters to institutionalists is that MCIs must adopt lending models that ensure their financial self-sustainability. Thus, institutionalists focus on quantitative metrics such as repayment rates, default rates, and profitability of an MCI as measures of success.

Since microcredit services target the financially excluded poor, from the welfarists' standpoint, the impact of microcredit is measured by how the intervention improves the welfare of the borrowers. Based on this welfarist view, public sector involvement in microcredit provision is justified. However, the continued pervasive nature of poverty in countries like Malawi, where subsidised public microcredit schemes have been consistently implemented since 1958 (Chirwa, 2002), raises contestations on the universal validity of the efficacy of public microcredit programmes. In other words, public sector involvement is based on the objective of providing better and more affordable microcredit services while reaching remote clients to address market failures caused by profit-driven private microfinance institutions (MCIs) and promote financial inclusion. Therefore, continued government investment of limited public funds in microcredit programmes can only be justified by evidence demonstrating positive outcomes for borrowers. These outcomes should ideally be superior to those obtained from private MCIs' clients.

This paper adopts the welfarist view to interrogate the performance of public microcredit schemes based on the cardinal principle of promoting financial inclusion, as opposed to institutional profitability concerns. Further, the interest of this paper is on the financially excluded people rather than how microcredit impacts the already financially included people who benefit from these schemes. The significance of this study is that as successive governments strive to achieve Sustainable Development Goal 1 of ending poverty, there is an opportunity cost for each intervention chosen. Considering the tight fiscal space in which governments in Malawi and the rest of the developing world operate, the need to assess the efficacy of economic empowerment interventions is inevitable to enable the direction of resources into such interventions that maximise societal welfare function, subject to the existing resource constraints. Because the Malawi Government claims, in its various policy documents, that the objective of its involvement in supplying public microcredit is to enhance small-scale enterprise development (Government of Malawi, 2002, 2006, 2012, 2019, 2020), this paper aims to assess whether the configuration of current schemes aids to achieve this objective.

3. Impact of Microcredit: Findings from Selected Studies

As previously noted, while some studies have examined the performance of microcredit programmes over time and across different contexts, the findings are inconsistent, ranging from positive to negative and inconclusive. To start with, a study on the impact of microcredit on women-owned enterprises in Yemen by Ahmad (2012) showed that 95% of the interviewed women held positive perceptions about microcredit, deeming them supportive of their business financing needs. However, the inclusion criteria of respondents in this study did not pay differentiated attention between public and private microcredit beneficiaries. Hence, the findings do not close the gap as intended in the present study. Awuah and Addaney (2016) reported similar findings in a study that used a combination of qualitative and quantitative techniques. Specifically, they established a positive relationship between microcredit and the growth of small-scale enterprises in Ghana, as findings revealed that the revenue and profitability of enterprises registered desired positive turns. Like Ahmed (2012), this latter study was interested in aggregate outcomes, hence devoid of interrogating outcome differentials between better-off and poorer borrowers, let alone differences in enterprise development outcomes between private and public MCIs' beneficiaries.

Employing static and dynamic panel data models that controlled for education, inflation, employment, and income distribution of the borrowers, Felix and Belo (2019) examined the impact of microcredit across 11 Asian countries. The findings showed that microcredit was effective in improving enterprise performance. Despite the diversity in ownership structures of MCIs across all countries involved, this study was only interested in the impact of MCIs as an essential constituent of the financial sector, but not in the impact on small-scale businesses, nor was it interested in disentangling the effects of public MCIs. In Nigeria, Babajide (2012) also assessed microcredit's role in enhancing small-scale enterprises' growth. The study employed multiple regression analysis of panel data comprising 502 businesses financed through microcredit. The findings revealed that microcredit did not enhance the growth of the enterprises. Rather, other factors, including the location of an enterprise and its size, had a positive and significant impact on business growth. This study brought another often-overlooked dimension about the centrality of other business development support services besides access to affordable finance in enhancing enterprise growth. This dimension is often neglected in policy and practice. Babajide's (2012) findings did not deviate much from van Rooyen et al.'s (2012) systematic review of literature on the impact of microcredit in sub-Saharan African countries of Ethiopia, Ghana, Kenya, Madagascar, Malawi, and Rwanda, which revealed that although microcredit clients' enterprises insignificantly performed better than non-clients', the longer a client stayed on a microcredit programme, the worse the profit outcomes recorded. These two separate studies showcase the negative side of microcredit as they indicate that interventions that improve access to finance do not necessarily yield positive outcomes all the time, implying that the relationship is not determinate.

Using a sample of small-scale oil processors in the central region of Malawi, Mtsitsi et al. (2016) employed a mixed methods approach to compare the financial performance of business enterprises that benefited from microcredit and those that did not. On the positive side, the findings revealed that microcredit increased the market share, competitiveness, and productive efficiency of the enterprises. On the downside, it also increased the debt-equity ratios of the borrowers, leading to increased default risks. Although this study produced valuable findings, its focus was on the performance of financial ratios for the enterprises. Again, the study involved cooperatives as opposed to individual enterprises; hence, dynamics ought to be different. Furthermore, the participating cooperatives did not obtain the loans from public MFIs, which was the focus of the study reported in this paper.

For studies specific to public microcredit schemes, Aluko et al. (2024) found that the South African Microfinance Apex Fund (SAMAF) produced positive outcomes, as

87% of loan beneficiaries registered improved incomes from their businesses. SAMAF was set up by the government to address market failure in the provision of microcredit services to the financially excluded after noting that private MCIs were hesitant to extend credit to the poor. A possible explanation for the success of the South African model is that the country has a very strong business development ecosystem comprising accelerators and incubators that adequately build capacity of the small-scale enterprises in all areas of business management before accessing the loans, unlike in Malawi where the ecosystem is weak. In Brazil, the National Bank of Economic and Social Development (BNES), a government-owned microcredit development bank, did not register any significant impact on employment generation and incomes of its borrowers, according to a study by Goldsmidt et al. (2022). Specifically, the results showed that access to credit by the poor did not improve as anticipated. Serpa (2008) seemed to explain this finding as he argued that public loans in Brazil did not benefit the intended small-scale entrepreneurs due to the onerous paperwork required in the loan application processes which forced most small-scale entrepreneurs to give up. Instead, the loans benefitted more prominent firms employing personnel with the capacity to deal with the required paperwork. Serpa (2008) extended to argue that because public microcredit schemes are subsidised by the government, and they mostly earn negative interest rates, they create perceptions amongst borrowers that the loans are not meant to be paid back. These arguments relate to Malawi’s situation, at least based on anecdotal evidence. Hence, this current study was pivotal.

In India, Tambe et al. (2017) assessed the impact of the National Rural Livelihoods Mission in the Madhya Pradesh region in promoting small-scale enterprises for its borrowers. National Rural Livelihoods Mission is a public microcredit programme that organises women into self-help groups and builds their capacity in small-scale entrepreneurship before giving them some loans. This study used a household survey approach, recruiting 2,615 households. Findings revealed that the very poor were made worse off due to the burden of repaying the loans, an outcome that further worsened their poverty situation. As can be observed from this study, despite prior capacity building on business management, the very poor beneficiaries reported worsened outcomes, implying that there could be some design factors that militated against success, but were ignored in this study. These might include interest rate levels, repayment requirements, modalities, and loan sizes, among other hypothesised factors.

As the academic debate on the efficacy of microcredit in poverty alleviation intensifies, a growing body of scholarship contends that microcredit programmes are anti-developmental due to the debt burden they impose on the poor. This scholarship is backed by extensive studies; for instance, in India by Barman et al. (2009), Cambodia by Iskander et al. (2022), and the Cambodian League for the Promotion and Defence of Human Rights (LICADHO), (2023). These studies revealed extreme stress behaviour among borrowers or borrowing households, including committing suicide and compromising the health and education outcomes of their children as they struggled to save money to manage loan repayments. The direction of this debate suggests that it is not necessarily the ease of access to finance that would result in a determinate positive impact on the financially excluded. However, the modalities and structure of such loans, as well as the socio-economic status of the borrowers, should be considered in programming to achieve the desired efficacy. Motivated by these conflicting discourses on the potency of microcredit, this paper initiates the conversation about whether government involvement in the supply of microcredit in Malawi through public MCIs yields better outcomes.

4. Methodology

The study adopted a qualitative design. The methodological focus of the study design revolved around discerning meanings as opposed to quantifying phenomena, collecting as much data as possible on a few cases rather than the converse, and generating phenomena descriptions that were rich as opposed to measuring specific variables (Schutt, 2018). The study's guiding philosophy was to treat the behaviour of microcredit borrowers as complex, socially constructed, carrying multiple meanings, interpretations, and realities, such that in-depth interviews were deemed the most suitable for this study. Specifically, the study employed Q methodology to collect, manage, and interpret field data.

The choice of the Q methodology was based on its suitability to support the systematic analysis of qualitative perspectives, following a multi-step procedure (Damio, 2016). The appeal of this method is that it has proved to be a powerful tool for studying qualitative viewpoints and discourses of study participants (Zambrano et al., 2024). The key steps that were followed in the Q methodology include generating a Q-set, identifying a P-set, conducting Q-sort, analysing data, and interpreting results (Watts & Stenner, 2005; Stone & Turale, 2015; Damio, 2016; Gall, 2017; Lee, 2017).

Before undertaking field data collection, prior ethical clearance was obtained from the Mzuzu University Research Ethics Committee (MZUNIREC) under protocol approval Ref. No. MZUNIREC/DOR/22/98. This was crucial in ensuring that the research adhered to ethical standards and protected the rights and welfare of participants. Further, each respondent signed an informed consent to participate in the study. The informed consent ensured that participants were fully aware of the nature of the study, including its purpose, procedures, potential risks, and benefits, allowing them to make an informed decision about their involvement.

4.1 Study Area and Study Participants

The study recruited individual microcredit beneficiaries of the National Economic Empowerment Fund (NEEF) drawn from Lilongwe, one of the 32 local government authorities in Malawi. Lilongwe is one of the most commercially active districts, with more than 47 trading centres across 12 Traditional Authorities (Lilongwe District Council, 2017). Small-scale enterprises in the district are mostly involved in general retailing, welding, carpentry, butchery, small-scale agro-processing, agro-dealing and value addition, and operation of maize mills, among other activities. Figure 1 shows the location of the study area. NEEF is the only government MCI technically established in September 2020 with the mandate to alleviate challenges of access to finance faced by small-scale enterprises. The MCI embodies the practices and characteristics of public MCIs that have existed before, making it the best case for studying public microcredit programming in Malawi. Specific study sites were selected for convenience considerations. We also ensured that the sample included a combination of loan defaulters, non-defaulters, women, and youth to allow the study to generate a balanced story.

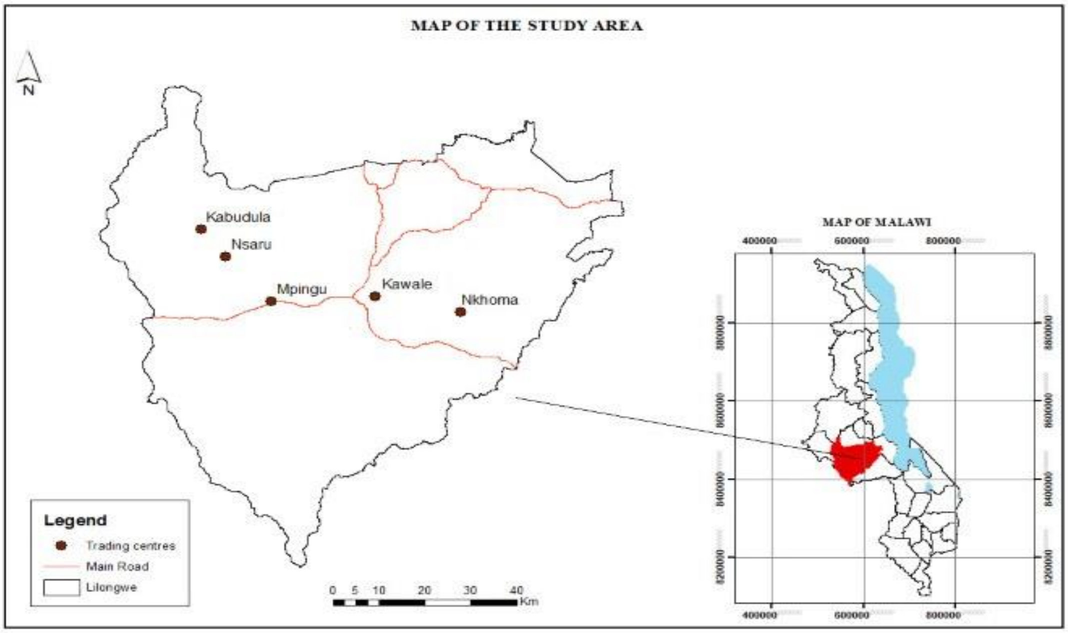

Figure 1: *Map of Lilongwe showing the location of the study sites*

A sample size of 21 respondents (n =21) was included in both Q sorting and in-depth interviews. All respondents recruited in the Q sorting exercise automatically participated in one-on-one in-depth interviews thereafter. This sample size satisfied Q method requirements, according to Watts and Stenner (2005), Stone and Turale (2015), Damio (2016), and Gall (2017), who recommended a sample size of ten or more subjects as adequate for a Q study. Specifically, being a qualitative study, the sample size of 21 also exhibited data saturation trends in responses.

4.2 Construction of Q-set and Data Collection

The process of developing possible statements (responses) proceeded by gathering the most common statements, perceptions, opinions, and perspectives deemed relevant to characterising the performance of public microcredit schemes. This process was informed by a literature review, published reports, and theoretical constructions identified within the research conceptualisation process. Specifically, common sentiments from NEEF borrowers that were constantly featured in the local print and electronic media were also considered when constructing statements.

The Q-set development process was further informed by what the literature prescribes as microcredit's conceptual objectives. To this end, the study drew inspiration from Vega (1998), who posited that a good design of an impactful microcredit programme should demonstrate and be measured by its degree of outreach. The notion of outreach has some dimensions that include its quality (the degree to which microcredit products are valued by its clients), cost (affordable interest rates and transaction costs), and depth (how microcredit serves the targeted poor). Other attributes of microcredit that formed the basis of assessment include the extent to which public loan schemes mitigate collateral challenges to build the capacity of its targeted micro-entrepreneurs through training and to advance the socio-economic empowerment of borrowers through increased engagement in entrepreneurship. The study, therefore, assessed the efficacy of public microcredit based on whether the lending design, conditions, and practices facilitate or hinder the achievement of the foregoing parameters.

Grounded in the foregoing founding principles of microcredit, we constructed statements that were used to measure how the borrowers rated microcredit’s capability to achieve the intended objectives and principles. In this vein, a final Q-set of 29 statements was developed (available on request). The Q-set covered all topical aspects of public microcredit, including repayment requirements, interest rate levels, loan sizes, business management capacity of borrowers, and overall perceptions on impact, among others. The Q set was then exposed to study participants, with each statement assigned a code number, resulting in 29 cards mapped to each of the 29 statements. The codes were assigned on individual cards, and respondents were requested to place each card depending on their level of agreement or disagreement with each statement. These coded statements were placed on a pre-developed quasi-normal distribution Likert-type scale sorting grid with values ranging from -4 to 4. A statement card placed at -4 implied the least agreement to the statement by the respondent, whereas +4 placement denoted the most agreement. A sample of the completed sorting grid, as captured during a sorting exercise at the Mpingu site in Lilongwe, is illustrated in Figure 2:

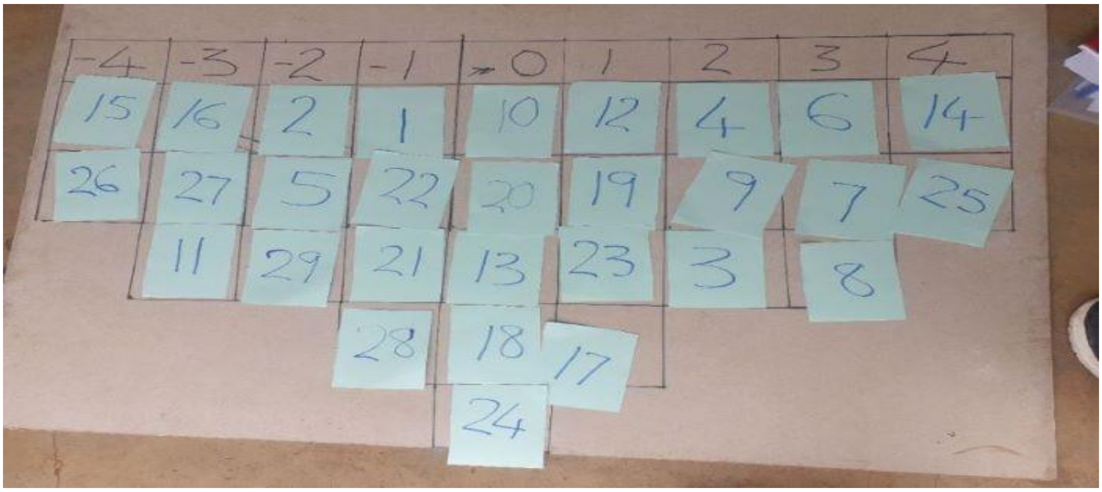

Figure 2: *Sample of a completed sorting grid by a respondent*

After completing the sorting exercise with each respondent, the study proceeded to one-on-one, open-ended, post-sorting interviews with participants to generate viewpoints and perspectives behind their ranking of statements. These post-sorting interviews aimed to enrich the analytical process and development of themes. The results of the Q sort were recorded in an Excel spreadsheet after each interview, while follow-up interviews were recorded in field notebooks.

4.3 Data Analysis

The Statistical Package for Social Sciences (SPSS) version 16 was used to organise and analyse the data recorded in the Excel spreadsheet. SPSS was chosen due to its capability to support the analysis of qualitative data collected through the Q methodology. As a first step, the study determined the number of like-minded groups of opinions that could be extracted to represent the views of respondents. According to Shrestha (2021), the rule of thumb is to retain factors with an eigenvalue of more than 1 (EV>1). However, a researcher is at liberty to decide on the number of factors to be retained for interpretation (Damio, 2016). From the clustering of respondents' perspectives, the second step was to analyse statements and issues that emerged prominently within each cluster to constitute themes. Lastly, thematic analysis was employed to analyse textual data from individual in-depth interviews that followed immediately after the conduct of each Q-sort. Thematic analysis was meant to augment the deeper understanding of emerging discourses and underlying meanings behind the individual sorts. These interviews helped to triangulate findings from the initial sorting exercises.

5. Findings

After undertaking factor extraction, the results showed that all the 21 respondents' sorting clustered into six key broader categories of issues. These clusters represented the grouping of Q sorts by study participants with similar perspectives, viewpoints, or opinions on the research question (Stone, 2015). Thus, in this paper, the factor extraction procedure merely guided us to decide which respondents shared perceptions and perspectives or conducted the sorting almost identically. The numbers in Table 1 denote codes given to each of the 21 participants (ranging from 1 to 21). From the similarities in their sorting, we thematically analysed common perspectives that emerged prominently within those clusters and made interpretations.

Table 1: *Clustering of participants' responses*

Cluster	Respondents whose perspectives were correlated					
1	4	5	6	7	8	9
2	10	11	12	13	15	
3	14	16	17	21		
4	1	3	19			
5	20					
6	2	18				

Specifically, the common substantive issues that emerged from the clustering of perceptions and viewpoints from this factor extraction process, as shown in Table 1, were as follows: (1) public microcredit was characterised by collateral requirements and associated hidden costs, (2) the sizes of the loans were too small to make an impact, (3) there were inherent enterprise management capacity challenges, (4) limited depth of outreach, and (5) no tangible impact on enterprise growth as an overall conclusion. Next, each finding is presented.

5.1 Collateral Requirements and Hidden Costs of Loans

Although the findings revealed agreement amongst respondents that public microcredit loans were generally relevant, common perspectives within the first cluster indicated that NEEF loans did not practically serve the financially excluded as they mainly benefit applicants with physical collateral to pledge. This was demonstrated by respondents' agreement in sorting to statement 1 from our Q-set, which read, 'public microcredit programmes have benefited those who can pledge collateral'. On this, borrowers reported that collaterals were required at two levels. The first level was to satisfy the identification of physical collateral at the appraisal stage. The second level involved successful applicants being required to mobilise cash collateral, typically 20% of the amount approved, and deposit with NEEF before the approved loan amount is disbursed. In addition, respondents revealed that an additional 5% of the approved amount was charged as a processing fee and an additional 1% as insurance cover.

Further, the lack of repayment grace periods came out as a significant setback. It was revealed that borrowers were required to commence repayments by the end of the month immediately following the loan disbursement. Respondents indicated that this arrangement was stressful as first repayments normally became due when borrowers had not even invested the funds in projects for which the loans were contracted. A common, desperate measure usually adopted by borrowers confronted with such circumstances was to use part of the loan proceeds to repay the loan portion falling due. The findings also revealed that the depth and quality of inclusion were normally challenged by costs associated with servicing the loans. The modalities of honouring loan repayments were costly as beneficiaries were required to travel to their respective banks to make monthly repayments and then to NEEF offices to present deposit slips as evidence of repayment. Post-sorting interviews captured the following sentiments from a borrower in Kawale:

> Before getting the loan, we are required to open bank accounts. This entails sourcing money for the minimum deposit required by the bank. In the process, we incur bank account maintenance charges levied by the bank. This reduces the impact of the loan as the amount is practically offset by these additional costs. During repayment at the end of each month, we have to go to the bank in town using our transport fares to deposit the agreed instalments in the NEEF account and then present a deposit slip at their Kawale satellite office.

This process was costly for borrowers as it involved incurring travel costs to and from the repayment points throughout the loan amortisation period. The challenge of hidden costs was compounded by revelations that loan tenors, which were mostly between 6 and 12 months for most products accessed by respondents, were too short and hence restrictive to enable borrowers to realise tangible returns or invest in capital-intensive business ventures (as demonstrated by respondents' agreement to statement 25 in our Q-set). It was revealed that costly loan repayment modalities negated the benefits of otherwise flexible lending avenues provided by NEEF.

5.2 Small Loan Sizes

The second emerging theme revealed that the loan sizes approved by NEEF were too small against borrowers' preferences. Post-sorting interviews revealed that most approved loan sizes ranged from MK50,000 to MK150,000 per borrower (an equivalence of 26 to 86 United States dollars). Procedurally, NEEF required those who belong to groups to apply for the loans as a group after aggregating loan requirements by each member to determine the group size of loans applied for and disbursed. Respondents recounted that the smaller loan sizes increased the temptation of diverting funds to other uses because they got tempted to think that a smaller amount was easier to repay. Volatility in prices of goods and services on the market in recent years was reported to have compounding effects on the smaller loan size problem because the goods and services a specified loan amount would be estimated to buy at the time of application and what the money bought at the time of disbursement differed significantly. Consequently, respondents argued that this rendered the smaller loan sizes useless for business purposes.

All six statements that fitted into this second cluster agreed with statement factor 21 in the Q-set that borrowers diverted the loan proceeds to attend to the pressing needs of their family before investing the remaining portion (if any at all) into their business operations. Respondents indicated that the typical household necessities that consumed their loan proceeds included buying food for the family during lean periods and paying school fees and medical services. In most cases, the majority reported that they did not even invest in the enterprises for which the loan was contracted. When asked how they managed repayments, the common finding was that borrowers formed savings and loan groups as a coping mechanism for managing loan repayments. When repayment dates were due, the common practice was to obtain loans from the savings and loans groups to settle the NEEF loans. In cases where repayments were due for both the savings and loans group and NEEF simultaneously, the former was prioritised, leading to defaults on the NEEF loans.

5.3 Enterprise Management Capacity Challenges

The study findings also revealed some business-related environmental factors that affected the efficacy of the loans; prominent among them was the lack of market research skills to manage enterprises (statement 28 in the Q-set). Lack of these skills negatively affected their capacity to undertake the prior evaluation of the viability of enterprises or to identify businesses that could easily generate tangible returns on the loans. The outcome of this skill deficiency was demonstrated by respondents' agreement to statement 23 in the Q-set (everybody is investing in almost the same type of business, hence creating excess supply), a scenario that eliminates profit margins from the market to the detriment of the borrowers' enterprises.

The study further revealed that the skills deficiency challenge was compounded by the unreliability and inaccessibility of local markets, which were mostly season-dependent. This perspective was confirmed by respondents' affirmative positions to statement 27 in the Q-set on economic behaviour and livelihoods of borrowers. Findings revealed that the performance of the enterprises was further negatively affected by the rainy season because, in addition to being small-scale entrepreneurs, the borrowers were traditionally farmers. So, depending on the season, they survived by switching tasks from enterprise management to subsistence farming. Their involvement in small-scale enterprise management was more temporal and survivalist, only intended to navigate through the off-farm lean periods.

5.4 Limited Depth of Outreach

The study further revealed insightful findings regarding the depth of loan coverage. Respondents expressed their expectation for a longer-term relationship between the borrowers and NEEF, advocating for access to loans over multiple cycles. They argued that such an arrangement would afford NEEF an opportunity for financial handholding and enable closer observation of the growth trajectory of beneficiaries' enterprises. However, their experience indicated that NEEF’s primary interest was to reach as many people as possible rather than to foster the growth of individual businesses. They perceived this focus on funding a high volume of businesses as detrimental to achieving meaningful impact. In their view, respondents argued that the focus on quality would entail NEEF focusing on building longer-term relationships with borrowers and monitoring the performance of their businesses rather than being interested in disbursement and collection of repayment instalments. The need for a long-term customer handholding relationship between NEEF and the borrowers was supported by a strong agreement with statement 14 in the Q-set, which recommended emphasis on capacity building on business management by NEEF as the key to promoting enterprise development as opposed to focusing on disbursement and collections as metrics for achievements.

5.5 Limited Impact on Enterprise Growth

Most importantly, findings also revealed no evidence that borrowers’ business enterprises registered growth that could be directly attributed to the loans. However, they admitted the loans enabled them to revive their businesses as seasonal or subsistence microentrepreneurs. This conclusion was shown by agreement to statement 9 of the Q-set (my business has not registered any significant growth from the time I started benefitting from public microcredit loans). In addition, a more conclusive statement was the positive agreement to statement 7 of the Q-set (microcredit loans have thrown me into a debt cycle; I have to borrow to repay the installments when they fall due). The respondents further indicated that policymakers generate a misplaced attribution on the ability to repay the agreed loan installments to proper utilisation of the funds or to imply that such repayments were made from the proceeds from the business. The findings revealed that the prevailing practice was for borrowers to look for money elsewhere to repay the loan when it fell due, as reported earlier. For women’s groups, the common trend was that the groups formed to access NEEF loans were transitioned into village savings groups. Immediately, the group members got the loan disbursement from NEEF; they started contributing and saving so that they could borrow from those savings to manage repayments.

6. Discussion

The findings presented in the preceding section suggest that the public microcredit model has perpetuated similar barriers to accessing finance as those found in the mainstream private credit market system, thereby hindering its capacity to catalyse small-scale enterprise development. To begin with, the findings revealed that the financially excluded borrowers were burdened by physical and cash collateral requirements and the high cost of acquisition and repayment of NEEF loans, including physical travels to and from their banks to make monthly repayments. This finding is consistent with Barman et al.'s (2009) conclusion that microcredit loans overburden beneficiaries and throw them into a debt cycle. Further, the empirical finding that beneficiaries in the study sites are compelled to form savings and loan groups as a strategic response to enable them to access loans from the groups to repay NEEF to hedge themselves against the potential risk of default is consistent with the documented preference for SHG loans over MCI loans among Indian borrowers. Indirectly, this finding seems to support the contention by Barman et al. (2009) that the current market model of microcredit might not be a suitable model for poor borrowers who would be more comfortable working with these voluntary savings and investment groups over which they have democratic control on lending decisions.

Furthermore, the findings lend credence to Bateman's (2003) contention that the prevailing microcredit paradigm is primarily profit-oriented, resulting in the provision of loans at higher costs, hence making it difficult for the poor to repay. Based on our empirical evidence, it is anticipated that the cost of borrowing will escalate further, particularly in light of NEEF's recent policy change mandating insured collateral, as reported by Chilora (2023). This requirement implies that borrowers will incur additional insurance costs, over and above loan processing fees of between 3% and 10% of the loan's value. This new requirement further specifies the value of collateral to be 150% of the loan value (Chilora, 2023), implying the poor will even have limited space to increase the size of the loans due to inherent collateral constraints.

Furthermore, our findings regarding the diversion of loan funds towards spending on household consumption support Bateman's (2012) assertion that most poor communities in developing countries are not adequately prepared for credit-based or market-oriented solutions to economic empowerment and would be better served by direct income transfers and subsidies. Consistent with Bateman's (2012) argument, the study revealed that the relatively modest loan amounts ranging from MWK50,000 (US$26) to MWK100,000 (US$52) often rendered it infeasible for borrowers to establish sustainable microenterprises, thereby incentivising the diversion of funds towards household consumption. The paper poses that the likely push factor for diversion is the poverty status of beneficiaries. In such circumstances, with such small loan sizes, the expectation of such small loans to impact small-scale enterprise development did not get support from empirical evidence. Further, we contend that these small loans promote subsistence rather than sustainable entrepreneurship. Notwithstanding the foregoing finding, caution should be taken on loan sizes as studies have shown that granting larger amounts of loans to the poor might not be a solution either, as it would likely increase their indebtedness and promote distress behaviour, often characterised by the selling of valuable household assets and compromised nutrition as noted by Iskander et al. (2022). Specifically, these fears were confirmed in Cambodia where over 167,000 borrowers sold their land and other valuable assets to service their loans with various MCIs (LICADHO, 2023).

Additionally, the empirical evidence underscores significant deficiencies in business management competencies among NEEF loan recipients, which compromises the efficacy of the loans. This finding suggests that small-scale entrepreneurs not trained in essential business management skills, including market research, are prone to investing in similar business ventures, leading to a lack of diversification within the community. This programming gap implies that even if the loans become more affordable and accessible, they may fail to achieve their goal of developing targeted enterprises. This is primarily due to the lack of essential skills among beneficiaries. Goyal et al. (2018) conducted a study in South Africa that highlighted this issue, revealing that small-scale enterprises often struggle to access crucial business development services and mentorship, which are vital for their growth and sustainability. This study finding challenges the dominant belief amongst enterprise development practitioners, who prioritise the provision of affordable financing over the need for capacity building among beneficiaries.

Overall, this paper challenges the dominant institutionalist view that equates positive repayment rates to improved welfare of beneficiaries or efficacy. Our findings suggest that borrowers often resort to borrowing from savings groups to meet NEEF loan repayments. While ensuring repayment, this practice masks underlying struggles and potential negative consequences. As discussed earlier, our results align with those of Barman et al. (2009), Iskander et al. (2022), and LICADHO (2023), who also identified debt distress as a prevalent issue among microcredit borrowers.

7. Conclusion

This paper assessed borrowers’ experiences regarding the extent to which current public microcredit schemes facilitate small-scale enterprise development. The findings point to the potential failure of public microcredit schemes to make the desired impact to promote small-scale enterprise development in the study sites. Evidence showed that access to finance by the financially excluded people remains constrained by collateral requirements and hidden costs of the loans, small loan sizes amidst competing household needs, enterprise management skills deficiency within the borrowing community, and limited depth of outreach. The paper concludes that public microcredit programming has not addressed the underlying causes of financial exclusion prevalent in the mainstream credit market because similar barriers remain pervasive, if not elevated. The findings strengthen arguments for the failure of public microcredit to serve the poor, whom the intervention professes to serve. The findings call for a deeper conversation and reflection in this regard. Specifically, the paper concludes that microcredit loans might not be a suitable intervention for the poor borrowers in the study area because the loans potentially contribute to increased indebtedness and the vicious cycle of poverty occasioned by economic struggles to honour repayments. This conclusion further questions the rationale for continued government intervention if financial inclusion cannot be guaranteed.

Based on these findings, the paper recommends that rather than committing huge financial resources to microcredit schemes, the government should instead provide a strong regulatory and policy framework for growth and setting up of more sustainable voluntary and member-based savings and loan groups to serve the financial needs of the rural poor as a preparatory stage for them to access privately-provided microcredit services upon graduating into a higher income category. This recommendation is supported by the recurring field observation, which showed that borrowers voluntarily formed savings and loan groups (locally called *banki mkhonde*) within their villages as a fallback mechanism to access small loans to cope with repayment obligations of NEEF loans. We regarded this as a silent voice, signalling that the voluntary loan groups were what the borrowers needed, as opposed to top-down microcredit schemes. Further research should focus on an experimental study to compare the outcomes of beneficiaries of public against private microcredit schemes but disaggregated by income levels. More importantly, future studies might consider an experimental study on microcredit beneficiaries and non-beneficiaries.

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