

Czech University of Life Sciences Prague

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Bachelor Thesis

**The Impact of Microfinance on Poverty Alleviation in
Zambia: A Case Study of FINCA Zambia**

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Declaration

I declare that I have worked on my bachelor thesis titled "The Impact of Microfinance on Poverty Alleviation in Zambia: A Case Study of FINCA Zambia" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on 15th March 2023.

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The Impact of Microfinance on Poverty Alleviation in Zambia: A Case Study of FINCA Zambia

Abstract

With over half of the population living in extreme poverty, there has been a sense of urgency from policymakers to eradicate the epidemic in order to develop the country's economy through the creation of a productive workforce. The last two decades have seen an influx of microfinance institutions into the country's market, assuring poverty alleviation. The aim of this case study was to examine the effectiveness of microfinance in poverty alleviation. A questionnaire was given to a sample of 52 microfinance clients. The majority of the recipients were (informal) unregistered traders. As a result, interviewer support was used. The results showed that business expansion was the primary justification for borrowing money. This was investigated further, and the results were contrasted with the FINCA-reported pace of expansion. The results showed that there is a discrepancy between the stated and actual expansion proportions. Furthermore, it was shown that FINCA prioritized profits over clients. As more than half of the clients were not among the severely poor, the study also showed that the poorest of the poor were not reached. In terms of women's empowerment, it was found that the majority of FINCA's clientele were female. However, it was unclear whether this majority was proportionately associated with women's empowerment.

Keywords: Zambia, Microfinance, Poverty Alleviation, Economic Development

Abstrakt

Vzhledem k tomu, že více než polovina populace žije v extrémní chudobě, existuje pocit naléhavosti ze strany tvůrců politiky k vymýcení chudoby, se cílem zlepšit ekonomiku země vytvářením produktivní pracovní síly. V posledních dvou dekadách došlo k přílivu mikrofinančních institucí do země a zajištění zmírnění chudoby. Cílem této případové studie bylo zkoumat účinnost mikrofinance při zmírnění chudoby. Vzorek 52 klientů mikrofinancování bylo požádáno o vyplnění dotazníku. Většina příjemců byli neformální obchodníci, a proto byla využita pomoc tazatelů. Zjištění ukázala, že hlavním účelem získání úvěrů byla obchodní expanze. Toto bylo dále zkoumáno a zjištěné údaje byly porovnány s hlášenou mírou expanze FINCA. Výsledky ukázaly, že je rozdíl mezi vykázaným podílem expanze a skutečností. Dále bylo zjištěno, že FINCA byla více orientována na zisk než na klienty. Studie také odhalila, že nejchudší z chudých nebyli zasaženi, protože více než polovina klientů nepatřila mezi extrémně chudé. Pokud jde o posílení postavení žen, bylo zjištěno, že většina klientů FINCA byly ženy, nicméně bylo obtížné zjistit, zda velká část úměrně zaznamenala posílení v postavení žen.

Klíčová slova: Zambie, mikrofinance, zmírnění chudoby, ekonomický rozvoj

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1 Introduction

Most developing countries around the world are languishing in poverty. Poverty is a human condition wherein people live in a situation of hunger, without proper shelter, with poor or no education, poor health, and poor living standards. Poverty is mainly of two types. Namely, monetary, and non-monetary poverty. Monetary poverty is the shortage of income from the poverty line as determined by the World Bank. According to World Bank, it entails low incomes which are inadequate for acquiring basic goods and services necessary for survival with dignity (World Mayor, 2023).

Non-monetary or multi-dimensional poverty on the other hand is where the poor may face several other issues along with a shortage of income, such as poor health, lack of or low levels of education or skilled training, and poor access to clean water and sanitation. Poverty also encompasses inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life (Janíčko, 2014).

Poverty is multi-dimensional, and the World bank has assigned respective indicators to these dimensions. The dimensions are further broken down into ten indicators. These are some of the indicators that are applied in measuring the impact of FINCA in Zambia. Figure 1 shows the dimensions of poverty and its indicators.

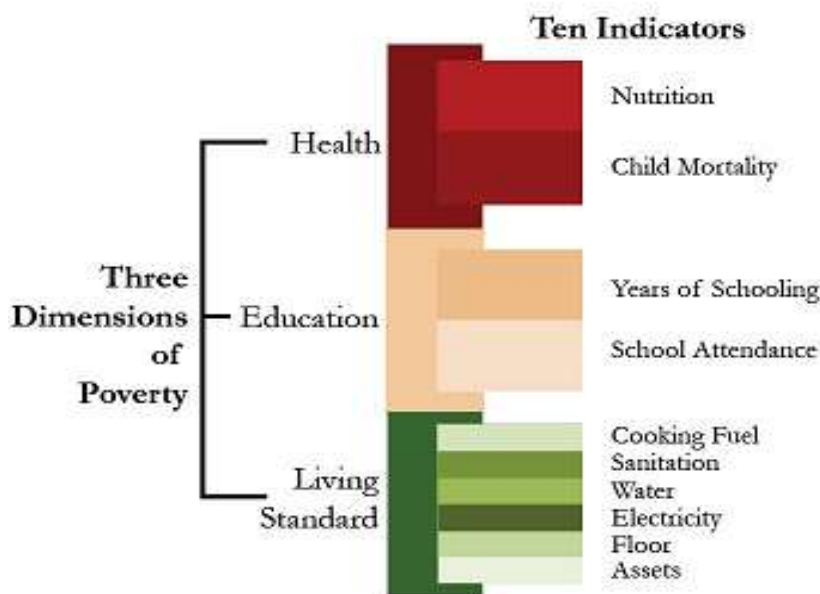


Figure 1: Dimensions of Poverty

Source: GSDRC Applied Knowledge Service

Due to high levels of poverty as well as the financial exclusion of the poor by banks, microfinance has been viewed as the most effective tool in the fight against poverty. This has led to the mushrooming of Microfinance Institutions (MFIs) in most developing countries, Zambia is no exception.

Financial services offered to groups that are normally not included in standard banking are referred to as microfinance. The majority of microfinance institutions concentrate on providing small working capital loans as a kind of credit. Perera asserts that the notion of giving credit to the poor as a means of boosting their income and so eradicating poverty is not a novel one. What is new, though, are the creative ways to extend credit to the underprivileged, such as using social collateral like group guarantees in place of tangible collateral (Perera, 2013).

Microfinance strives to increase the accessibility of financial services for underserved populations, particularly rural poor people and women, to encourage self-sufficiency (FINCA, 2021). The fundamental assumption is that low-income people will be able to engage in the economy and take advantage of entrepreneurial opportunities by starting new businesses, growing existing ones, or introducing new activities if financial services are available (Sayed, et al., 2015). They will then be able to fight poverty and take care of their household's needs on their own. On the other hand, by charging incredibly low interest rates on loans, microfinance organizations will be able to expand their capacity. Microfinance appears to have a considerable impact on household well-being at numerous levels, including asset acquisition, household nutrition, health, and food security, children's education, women's empowerment, and social cohesion, according to a vast number of research from diverse disciplines. The impact of microfinance, however, has recently come under scrutiny, and numerous studies contend that it might have a mixed or even negative effect (Sayed, et al., 2015).

The main reason for selecting FINCA is that it is one of the oldest and largest MFIs in Zambia. FINCA has seen remarkable growth over the last two decades in Zambia.

2 Research Objectives and Methodology

Aims:

- Ascertain whether increasing income levels by microfinance institutions has an impact on poverty alleviation.
- Assess whether there are any mediating factors between microfinance and poverty.
- Assess the practices of microfinance in Zambia, especially in Lusaka.
- Assess whether the destitute (the poorest of the poor) are reached.
- Assess the impact of microfinance on women empowerment.

2.1 Hypothesis

H0: There is no difference between the percentage of FINCA Zambia beneficiaries who expand their business to the percentage of clients who experienced business expansion as reported by FINCA Zambia.

H1: There is a difference between the percentage of FINCA Zambia beneficiaries who expand their business to the percentage of clients who experienced business expansion as reported by FINCA Zambia.

2.2 Significance of the Study

The findings of this study will help ascertain whether MFIs are in an actual sense helping our economy grow by improving the lives of ordinary Zambians or on the contrary leading it into further contraction by fostering dependency on loans whilst falling short of proper appropriation of the loans. The findings will further help in finding effective ways to use Microfinance as a tool for poverty alleviation.

2.3 Research Outline

This study consists of five chapters. The first chapter is an introductory chapter to the study. Within the first chapter, the following subtopics are discussed: the background to the study, statement of the problem, objectives of the study as well as the significance of the study. The second chapter outlines the research methodology employed for the study. The

subcomponents of this chapter are research design, research population, sample size and sample techniques, sources of data and instruments used, procedures and data analysis presentation.

Chapter three is a literature review on microfinance as an effective tool for combating poverty. The chapter discusses the conceptual framework with which this has been done. In chapter 4, the focus is drawn to data analysis of the data received from the field. Further, it discusses the outcome of the study. Lastly, the fifth chapter provides a summary of the findings of the study. Subsequently, concludes and develops significant recommendations based on the outcomes of the study.

2.4 Research Methodology

This Chapter explains the techniques and tools used to conduct this research. The case study is based on primary sources in the form of interviews as well as secondary sources in the case of literature review.

The two major variables of this study are Microfinance and Poverty.

2.4.1 Research Design

Vital to the development of any project is impact assessment. Impact assessment helps in considering the implications of any subject of interest. Thus, can be used for improvements and advancements. The recipients of MFIs' services were the main focus of this study, making it the most effective assessment in measuring the success or failure of microfinance projects with regard to poverty alleviation. The findings of this study will act as a basis for policymakers in the fight against poverty by drawing their focus to the real problems surrounding the phenomenon of poverty in Zambia. Further, it will help MFIs to direct much of their focus on effective methods of poverty alleviation.

2.4.2 Target and Study Population

For this study, former and current recipients of FINCA loans in the capital city of Zambia, Lusaka were used as the target population. The study draws from different types of beneficiaries of FINCA, however, with a special focus on traders. This technique was employed so as to ascertain the broadness of microfinance clients. Additionally, the already existing groups of the clientele base made it easier to make a random selection of the sample from the study population.

2.4.3 Sample Size and Sampling Procedure

The sample consisted of fifty-two (52) purposive randomly selected FINCA clients in Lusaka, Zambia. All of whom had acquired loans, at least once, in the last 5 years. Thirty-six (36) of them were females and sixteen (16) were males.

3 Literature Review

The provision of financial services to those with low and moderate incomes is known as microfinance. These services include mainly microcredit, savings, and insurance. Besides financial services, microfinance provide nonfinancial services such as training programs. The training programs are to ensure that clients are knowledgeable about the resources which are at their disposal. Additionally, the training equips the clients with the necessary skill set to effectively utilise available facilities.

3.1 An overview of Microfinance

The provision of financial services, such as credit, savings, deposits, insurance, and repayment services to persons who are denied access to conventional financial services because they are underprivileged and unable to provide collateral is known as microfinance (Sayed, et al., 2015). Based on this widely accepted definition, it is clear that microfinance exists for non-financial services as well, such as training programs in personal and business financial management, in addition to providing financial services. Therefore, the question that arises is, which of the two types of services are MFIs paying the most attention to? It is clear that the majority of literature places a strong emphasis on the supply of financial services, particularly microcredit. This is a fundamental tenet of microfinance, which holds that a lack of capital or access to it is the major issue.

3.2 Microfinance: Objectives

Governments and policymakers are trying to help over one billion people living in poverty across the globe to improve their lives. Yet they have a challenging task ahead of them. The majority of the underprivileged in developing nations do not have access to official financial intermediaries. This restricts their capacity to accumulate assets, establish businesses, pay for urgent expenses, and purchase health and catastrophe insurance. Local money lenders, family loans, savings accounts, and other informal options are scarce, strictly regulated, or only offered at expensive interest rates. MFIs are then expected to directly address this issue (Perera, 2013).

3.3 An overview of microfinance in Zambia

Once the government changed in 1991, the economy underwent a radical transformation from one controlled by the state to one driven by private sector growth. Decentralization, privatization, and banking sector liberalization were all part of the changes. The expansion of financial institutions in the financial industry was initially a result of liberalization. Nine commercial banks have closed since 1995 as a result of the numerous bank collapses that were also caused liberalization. The majority of Zambians' access to financial services was further restricted by the closure of a number of government-owned financial institutions created specifically to serve the needs of low-income households and the rural poor, as well as by the raising of minimum account balance requirements and the implementation of bank fees as well as the closure of several commercial banks' unprofitable rural branches. These changes have produced a financial system that prioritizes serving the needs of the corporate sector and the privileged working class (Chiumya, 2005).

In 2002, there were 37 bureau de changes, 9 leasing companies, 3 building societies, 1 development bank, 1 savings and credit bank, and 2 microfinance institutions among the formal non-bank financial institutions (NBFIs) that the Bank of Zambia regulated and oversaw under the Banking and Financial Services Act of 2000. (MFIs). Commercial banks were complemented by NBFIs. With the provision of financial services to the underserved rural customers and small enterprises frequently overlooked by the regular banking channels, the NBFIs opened a window for changing the financial sector in Zambia. These organizations can be crucial to the government's attempts to reduce poverty and achieve economic diversity and growth (Kingombe, 2004).

MFIs have arisen to address the funding gap. MFIs provide microfinance services to people in the unorganized sector, including small loans, savings options, and capacity building. Although growth is significantly slower in rural areas, peri-urban and areas along rail lines in the nation show signs of growth. Due to the poor infrastructure and lack of an adequate regulatory and supervisory framework, the delivery of financial services in rural areas has been delayed. (Kingombe, 2004).

More than 70% of Zambia's labour force is currently employed in the country's informal sector, which continues to be the most dynamic in terms of job creation. Therefore, it is

anticipated that for the foreseeable future, the majority of the population will continue to rely on the informal sector for their means of subsistence. Hence, it is necessary to implement regulations to assist this industry, including, among other things, the creation of specialized financial institutions like microfinance institutions (Chiumya, 2005). As earlier alluded to by Chiumya, the proportion of the informal sector remains the same to this day (2023) with 68.6 percent making up the informal sector (see Figure 2).

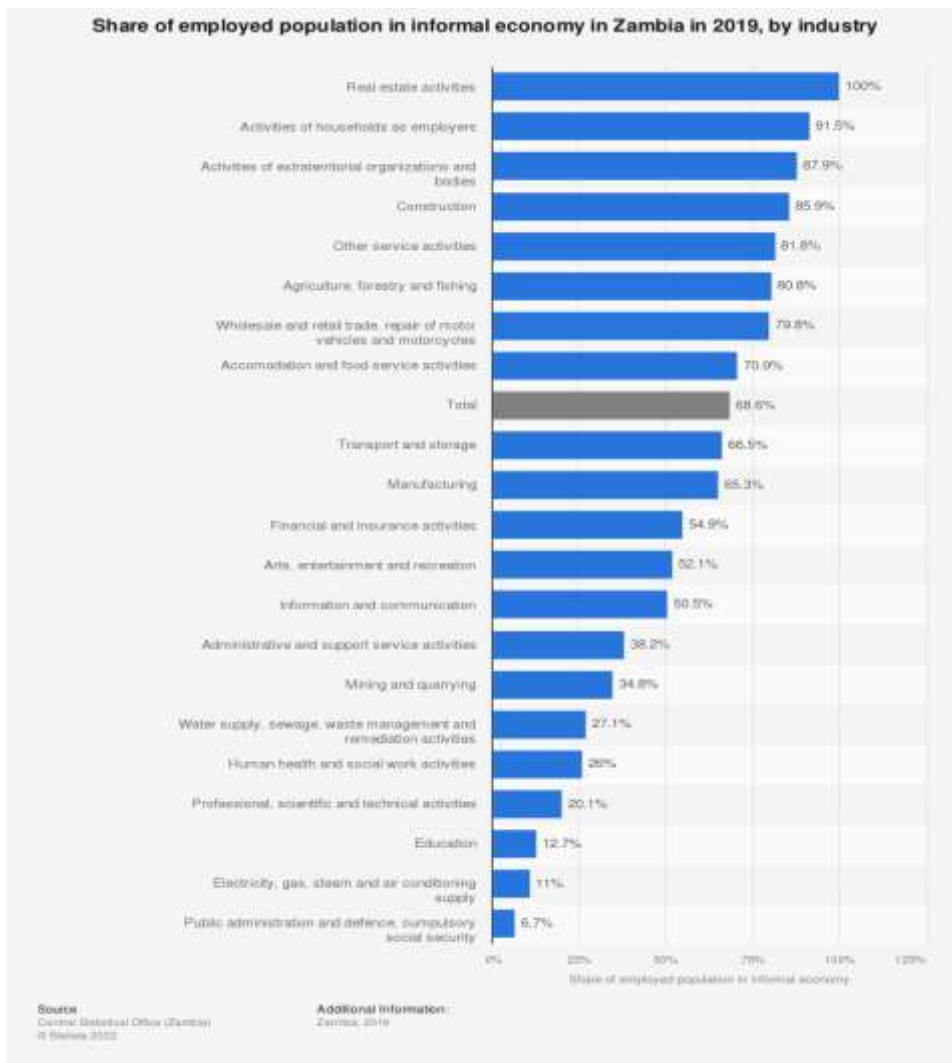


Figure 2: Share of Employed Population in Informal Sector in Zambia, in 2019

Source: Statista

Despite numerous advancements in the nation's banking industry, a sizable segment of the populace continues to be excluded from the formal banking system and lacks access to financial services. Even the relatively newer branches of financial institutions, which make up the majority, are clustered along the rail lines and in urban centres. Despite their rapid expansion in recent years, MFI outreach has been appalling. Furthermore, the variety of services and goods offered is quite limited and is centred on the granting of credit. Most of the time, they don't even offer savings facilities, unless they are used as security (Kingombe, 2004).

In low-income countries, microfinance is becoming a tool for reducing poverty and enhancing the poor's access to financial services. Most people agree that one of the numerous ways to help the poor boost their incomes and productivity is to give them access to financial services. Conventional financial institutions, however, have not been able to offer this service in many nations. This gap is filled by cooperative projects and microcredit. In order to serve the underprivileged and other clients, especially women, who do not have access to official financial institutions, they offer credit through social mechanisms like group-based lending. Their goal is to assist the impoverished in obtaining self-employment so they can escape poverty (Khandker, 1998).

In the 1980s and 1990s, a large number of Sub-Saharan African nations implemented financial sector reforms to enhance the performance of the financial sector in general and financial savings levels in particular. Nonetheless, despite these reforms, the anticipated rise in financial savings levels was short-lived for many countries. Sub-Saharan African nations like Zambia continue to record extremely low levels of savings mobilization as compared to East Asian economies, which is of significant concern to policymakers working on the nation's strategy for reducing poverty (Maimbo & Mavrotas, 2003).

3.4 The Concept of Poverty

There are two main theories as to why people are and remain impoverished. One draws attention to underlying differences, such as aptitude, talent, or motivation. The poverty trap viewpoint is the alternative; it emphasizes how opportunities fluctuate depending on one's access to income. (Balboni, et al., 2022). Most of the world's poor people work, yet they make meagre salaries. Balboni contends that we must understand why people in low-paying employment opt for such employment in order to comprehend why they stay poor.

According to one theory, people who live in poverty have equal access to opportunities, thus if they work in low-wage positions, they must possess characteristics that would prevent them from working in other professions. The opposing viewpoint holds that because poor people are born poor, they have access to fewer opportunities and must work in low-paying jobs. In other words, there is a wealth level below which people are trapped in a state of poverty, where their initial wealth, rather than their skills or character attributes, maintains them in poverty (Balboni, et al., 2022).

Balboni goes on to say that the poor lack the significant assets necessary to engage in more productive work. Unfortunately, such assets cannot be acquired through loans offered by MFIs to the poor. As a result, the poor are prevented from pursuing these professions, and their labour and talent are spent on less lucrative and irregular jobs. They are unable to save enough money to pay for the acquisition of the indivisible assets required to run these projects due to the poor pay and unstable nature of their current jobs. Because of this, the poor continue to be poor—not because they are only suitable for sporadic, useless employment, but rather because they are unable to obtain the better positions. Due to this circumstance, there is a grave talent misallocation problem (Balboni, et al., 2022).

Most people are not poor because they lack skill; rather, their access to more productive pursuits is limited. People are trapped in poverty by circumstance rather than by their inherent qualities. Small pushes will increase spending, but they will not help the poor to escape the poverty cycle. Long-term results will not be improved by interventions that fall short of getting people beyond the threshold (Balboni, et al., 2022).

Policymakers and regulators must make sure that borrowers, the poor, have the requisite skills and expertise to operate businesses and use loan financing in order to successfully and more effectively lower poverty levels. This will enable clients of MFIs to use their loans effectively, which will lower the rate of client default, boost productivity, and benefit both the clients and the MFIs as well as the economy as a whole. In contrast to just granting loans to untrained people who might use the money for emergencies, a skill is permanent and can be used to navigate available opportunities. More effective financing should be the focus of microfinance, as this will open up more opportunities, boost income and economic empowerment, and lessen poverty (Chikwira, et al., 2022).

3.5 Poverty Prevalence in Sub-Saharan Africa

According to the World Bank, someone is considered to be living in extreme poverty if their daily income is \$1.90 or less. Two-thirds of the world's extremely poor people live in Sub-Saharan Africa, where 40 percent of the population in 2018 lived below the US\$1.90-per-day poverty line (The World Bank, 2022).

Sub-Saharan Africa continued to have the highest concentration of extreme poverty in 2019, and there were 60 percent of people living below the US\$2.15 per day poverty threshold there (see Figure 3). Thirty-five percent of the population (389 million) in the region lived below the international poverty line (The World Bank, 2022).

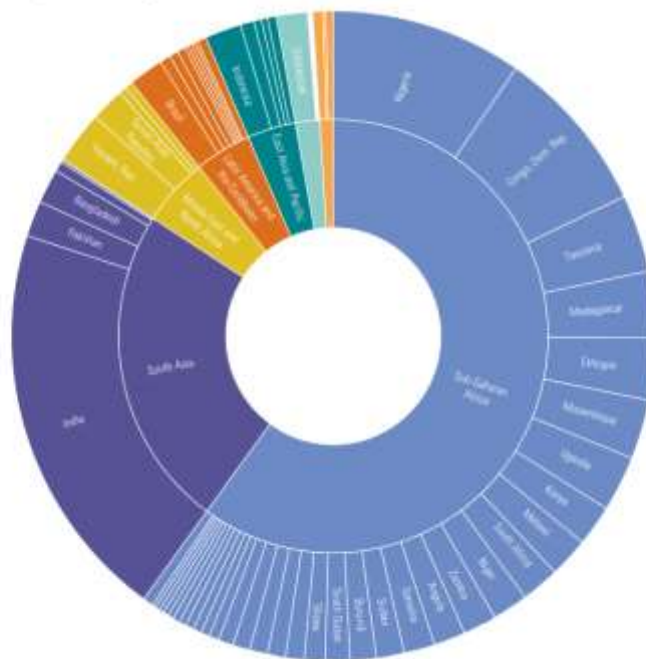


Figure 3: Poverty Share per Region, 2019

Source: World Bank

3.6 Poverty Prevalence in Zambia

Zambia is located in Sub-Saharan Africa. It is one of the countries in the region that is heavily affected by high levels of poverty with over half of the population living in poverty. As of 2021 the country had a population of 18.92 million. The country's poverty rate at

\$1.90 stood at 57.08 percent as of 2015. Furthermore, the poverty rate at national poverty lines was 54.4 percent in 2015 (World Bank, 2022). These statistics raise concerns.

The graph (Figure 4) below shows the percentage of the population over time that is experiencing deprivation in both non-financial (such as access to infrastructure and education) and financial (per capita income or consumption at the \$1.90 poverty line) poverty dimensions (World Bank, 2022).

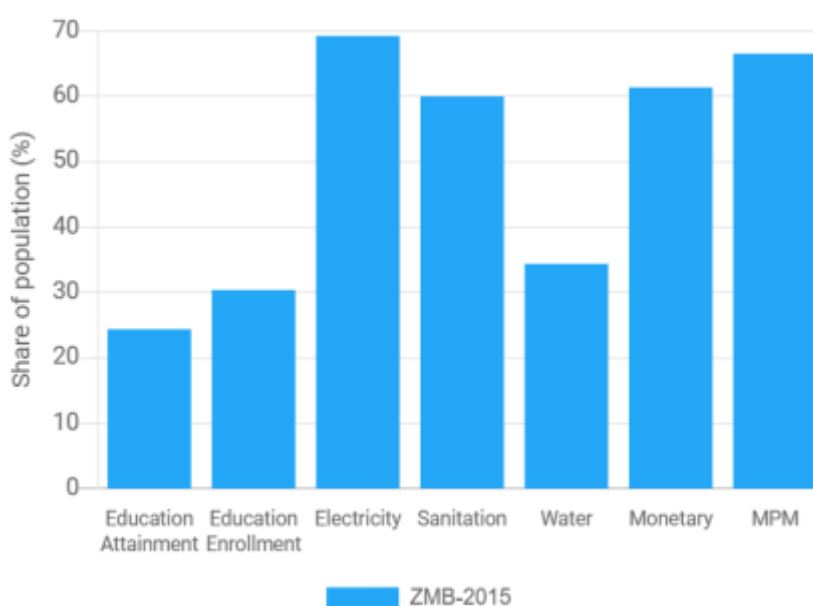


Figure 4: Monetary and Non-monetary Poverty Ratios in Zambia in 2015

Source: World Bank

3.7 Women Empowerment

The feminization of poverty is a worldwide trend. The global poverty rate is said to be higher in women than in men, because of factors such as limited access to education and productive resources like land and credit (Kingombe, 2004). Even though it is not always stated as a microfinance goal, it is one of the self-evident goals since microfinance programs typically and primarily target women as clients. This may be accounted for by the fact that microfinance is intended to assist the poor, and that the majority of the poor are women (Perera, 2013).

A rise in women-headed homes, when a mother is the only source of support for her children, is another global trend. Child victims of extreme poverty are the majority. According to UNICEF, malnutrition caused by extreme poverty kills at least half of the 12 million children under the age of five who pass away every year. Giving mothers the tools to do so is therefore thought to be the most direct strategy to increase child survival and welfare (Kingombe, 2004).

To invest in microbusinesses that they own and run themselves, the majority of the world's poorest women today have access to the financial services of specialized MFIs. Although granting women access to finance would not necessarily result in their empowerment, it is believed that doing so will increase their independence and self-assurance. As such, as they start making a financial contribution to the family's income, they will have more influence over decisions. In actuality, because women typically spend more of their increased income on their households, children's education, and the welfare of their families, this purpose goes a long way toward achieving the first objective of reducing poverty. Hence, assisting women in increasing their salaries entails enhancing family welfare. Also, evidence from the statistics of numerous MFIs clearly demonstrates that women exhibit greater financial responsibility, as evidenced by their superior payback rates (Perera, 2013).

3.8 Overview of FINCA Zambia

FINCA International is part of a Washington based network, located in 22 countries around the world. FINCA Zambia is the local branch of FINCA International. FINCA stands for the Foundation for International Community Assistance. It was launched in 1984 (Kingombe, 2004). FINCA launched its operations in Lusaka, Zambia in 2001. Since then, the institution has made tremendous development. Over a decade later, in 2013, it became the largest MFI in Zambia in total clients and gross loan portfolio (FINCA Zambia, 2017).

3.8.1 FINCA Objectives, Facilities and Services

Low-income microentrepreneurs are offered loans by FINCA rather than grants since the reason of their poverty is a lack of opportunities rather than a lack of motivation to work. In addition, FINCA helps establish community-run, community-focused credit and savings societies, particularly in regions untapped by the formal financial sector. This is done in addition to providing low-income households with loans. The Village Banking approach,

which is very participatory, is used by FINCA. This incorporates the beneficiaries in the development process and provides them a voice. Members not only receive loans but also form coherent groups that handle and collect loan repayments, diligently save money and choose how to invest it, advance together, and establish networks for assistance (Kingombe, 2004).

Although it does not provide business training, FINCA offers a loan repayment training. The training focuses on managing loans and your credit. At times in the past other FINCA programmes have provided some kind of business skills training. Often the results have been less than ideal. FINCA found that there was not a one-to-one improvement of the client's credit management after they had received the business training. In Zambia, FINCA also tried to use the business skills training. This was done at the beginning of their operations in 2001 with a few groups. The program was soon stopped because the results were not great. Then FINCA decided to do it again. A follow up survey was conducted to see if the training had any benefits. Basically, what FINCA wanted to find out was whether their clients could remember the main basic concepts that they were taught during that training. Unfortunately, very few could remember those concepts. It was a very dismal statistic. Thus, FINCA stopped it (Kingombe, 2004).

FINCA's typical client is not very sophisticated they are usually involved in petty trade and marketplace. FINCA deems the training to be more appropriate for clients at a higher level, that take much higher loans and run more sophisticated business. Those are the clients, which FINCA would support for training at their own schedule. FINCA will let them know about this training opportunity and arrange with them, because they are a larger credit risk for FINCA since they are taking larger loans. Moreover, they have more sophisticated businesses and consequently might learn more from the training. There has been a deliberate decision not to offer business counselling or training to clients, largely because if FINCA provides training and then gives the clients a loan, and the client fails then they can come back and say, "you told us to go into this business and advised us how to run it, now that we failed and we didn't repay the loan, it is your fault." Thus, FINCA wants to keep that distinction (Kingombe, 2004).

3.9 Microfinance and Poverty alleviation

Microfinance was formerly thought of as a source of economic hope for the poor, particularly those running small businesses who lacked access to loans and basic banking services (Russo, 2015). Microcredit was anticipated to affect change at the household level by targeting the previously unbanked, a market that established financial institutions had failed to reach in developing countries. The microfinance sector is now projected to be worth \$60-100 billion, with 200 million clients, although the outcomes have been mixed (The World Bank, 2015). As such, a closer look into its operations becomes pertinent.

3.9.1 Weaknesses of Microfinance

3.9.1.1 Profit Orientation at All Cost

Some argue that when institutions that serve the poor achieve financial viability, a level of impact that justifies funding is automatically assured, questioning the validity of impact assessment in the first place. Profitability, or the degree to which revenues surpass service costs, ultimately reflects the degree to which returns to clients from whatever they fund are substantial enough to cover the price of the financial services they received. This method, however, is not very helpful when assessing organizations that are not yet financially self-sufficient but are expected to significantly reduce poverty and rely on ongoing public funding to continue active. When faced with a predicament of this nature, officials who must allocate public resources between competing ends, ask how credit programs affect broader social goals such as the adoption of agricultural technology, income generation, and attainment of food security (Sharma, 2000).

While poverty rates are still rising, microfinance firms are reporting exponential profits and expanding quickly in Zimbabwe. This calls into question the function of lending platforms for microfinance. Despite the wealth of resources aimed at reducing poverty, such as the rise in microfinancing, the degree of poverty among Zimbabweans is rising, especially in the country's marginalized communities. The practical value of microfinance institutions in reducing poverty is still debatable (Chikwira, et al., 2022).

3.9.1.2 Financing Non-substantial Activities

Lack of access to capital offered by conventional financial institutions such as banks is considered the main cause of poverty in developing countries. Thus, pronouncing MFIs as

the most effective source of funds for the poor. However, microfinance supports mainly informal activities that often have a low return and low market demand. It may therefore be hypothesized that the aggregate poverty impact of microfinance is modest or even non-existent (Khandker, 2005).

3.9.1.3 Microcredit, a Solution to Noneconomic Issues

There appears to be a consensus that all targeted credit programs emphasize noneconomic issues. Each program pursues its own social development objective through these groups. To increase the productive capacity of the poor, all programs include human and social development inputs, such as skill development and other training in areas like health, nutrition, and family planning. The depth of training varies from program to program; for BRAC and to some extent for RD-12 members, training is a prerequisite for access to credit, but it is not one for Grameen Bank, which thinks that initially, only training in banking procedures is required for a member to have access to credit. To foster group performance and discipline, Grameen does encourage members to adhere to the many norms and regulations controlling group behavior and members' social circumstances (Khandker, 1998).

Evidently, MFIs are under no obligation to conduct such forms of training. A few of Grameen Bank's decisions intended to improve the living conditions of its clients are presented in Table 1. These focus on the nonfinancial aspect of microfinance and are meant to supplement the financial services. They bear different names across different MFIs, but at their core, they address the same issues.

Table 1: Grameen Bank's Decisions

Grameen Bank's Decisions
Prosperity we shall bring to our families.
We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest.
We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
We shall educate our children and ensure that they can earn to pay for their education.
We shall collectively undertake bigger investments for higher incomes.
We shall take part in all social activities collectively.

Source: Adapted from Village Volunteers website

3.9.1.4 Microfinance, a Social Liability

Despite being viewed as a tool for combating poverty by many, such programs are criticized as a societal liability that wastes limited resources without having a meaningful impact on long-term outcomes. Opponents contend that the microcredit programs' support for small businesses has little room for expansion and hence has no long-term effects on the impoverished. They argue that these initiatives instead make the disadvantaged financially dependent on the program itself (Khandker, 1998).

3.9.2 Strengths of Microfinance

3.9.2.1 Provision of Microcredit

With the explicit purpose of eliminating poverty by providing loans to the poor so they can start their own businesses and earn income, many nations have launched microcredit programs. When it comes to low-income countries that offer microcredit, Bangladesh is at the top. The nation's small-scale microcredit programs lend more money than typical

financial institutions do in rural areas because they take a group-based approach to lending. Increasing the poor's access to institutional credit is viewed by microcredit proponents as a key strategy for eradicating poverty. They contend that these initiatives can reach the underprivileged and circumvent issues caused by flaws in the credit market because of the way they are designed. According to them, increased loan access helps to relieve production limitations and balance out consumption, increasing the poor's earnings and productivity. This viewpoint is somewhat supported by empirical studies; interventions in the credit market increase the consumption and output of the poor who would not otherwise have access to credit (Khandker, 1998).

Microcredit aims not only to provide the poor with financial services but with the added capabilities needed to engage in self-employment business projects and keep their sources of sustainable livelihoods instead of seeking employment opportunities from the public sector. Microcredit is given to the poor to help them create new business projects (although rarely), and to help small entrepreneurs with existing businesses to increase their revenues sustainably (Fakret, 2019).

4 Findings, Data Analysis and Discussion

4.1 Introduction

This chapter comprises the findings of the data collected from 52 respondents in Lusaka, most of which were traders. All the respondents have acquired a loan from FINCA at least once. For the purpose of data collection, a questionnaire was employed. Assessment of the impact of microfinance on poverty was based not only on income (operation capital) but also empowerment. Additionally, the average growth rate of individual clients' capital was determined. For all quantitative data analysis SAS studio was used.

4.2 Demographic Profile of Respondents

Majority of the respondents were females (69 percent) relative to males (31 percent) (see Figure 5). The dominance of females can be attributed to the fact that more women engage in trading activities in Lusaka. Additionally, naturally, women are more likely to be open to group setups as a means of acquiring loans. On the contrary, men would rather acquire loans as individuals. Majority of the recipients were between the ages of 31 and 50 (Figure 6). Further, the results show that majority of the respondents are those with secondary school level education at 34.6 percent followed by those with primary, and tertiary education at 26.9 percent each, respectively. A small percentage of 11.5 percent accounted for those with primary education (Figure 7).

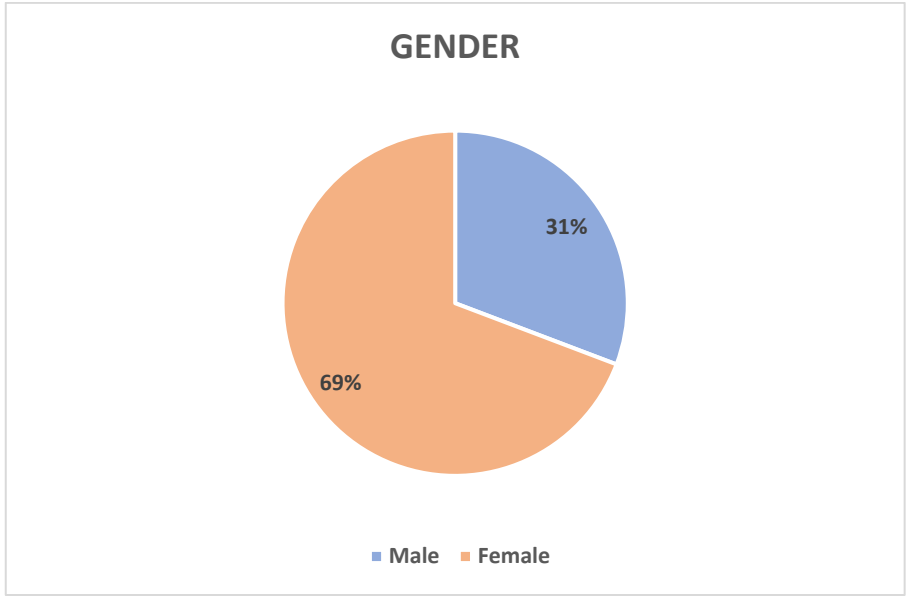


Figure 5: Gender proportions of respondents

Source: Owner’s own study, 2023

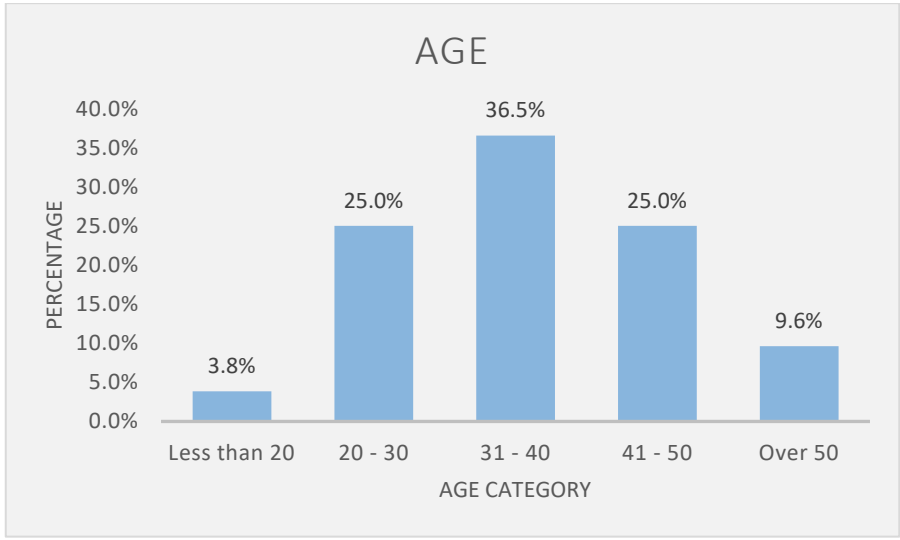


Figure 6: Age ranges of respondents

Source: Owner’s own study, 2023

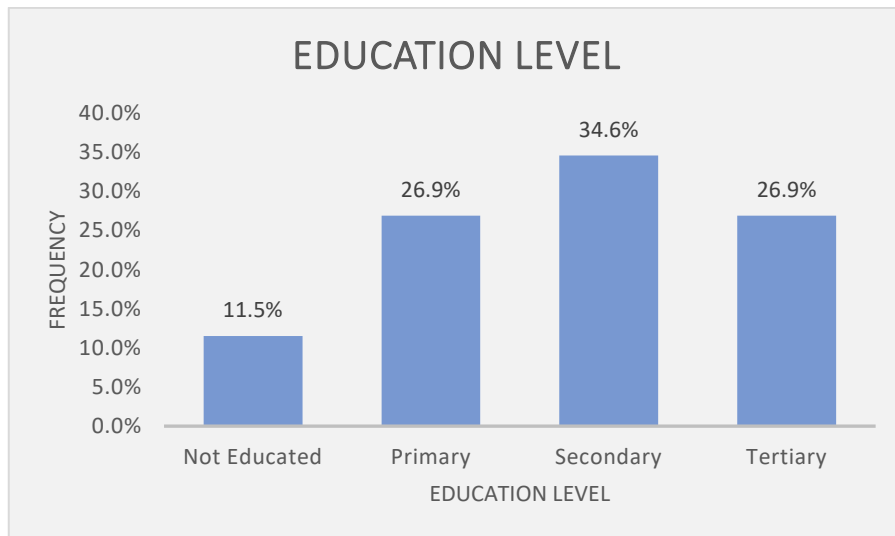


Figure 7: Highest level of education attained.

Source: Owner's own study, 2023

4.3 Reasons For Acquiring Loans

There are several reasons why people get loans from microfinance institutions. One of the reasons is business expansion which may, for instance, demand the purchase of more inventory and acquiring business equipment. Another reason is to start a new business. The results obtained from the study indicate that over half of the respondents acquired these loans for the purpose of expanding their businesses while 21.2 percent got the loans to start new businesses. The remaining 25 percent accessed loans from FINCA solely due to other financial needs (Figure 8)

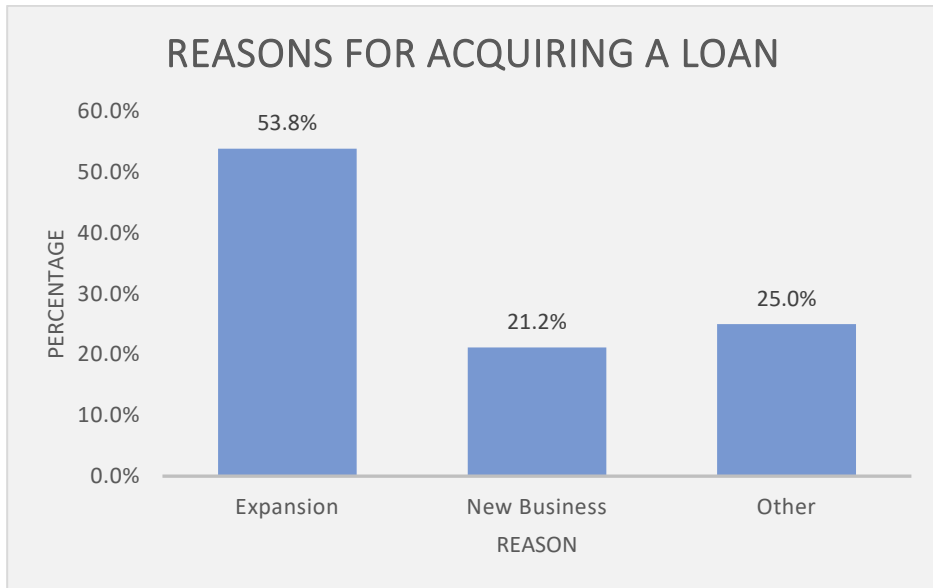


Figure 8: Purposes for acquiring loans.

Source: Owner's own study, 2023

The 53.8 percent of the respondents of the microfinance beneficiaries are further assessed for expansion.

4.4 Analysis of Business Expansion of Clients

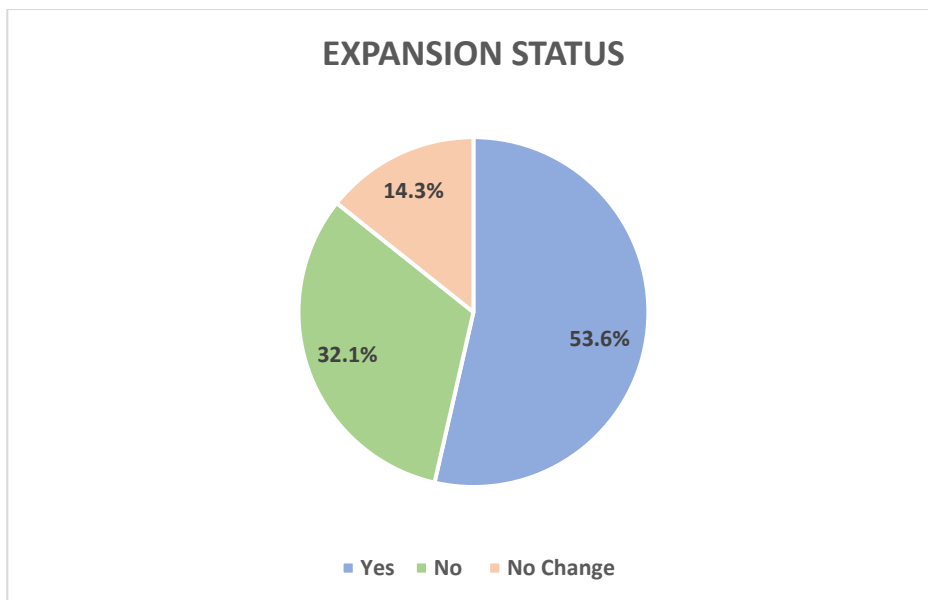


Figure 9: Percentages of change in terms of expansion

Source: Owner's study, 2023

4.4.1 Increase in Level of Income

The respondents whose sole purpose of acquiring a loan was business expansion were further assessed for increment in income levels. According to MFIs, an increase in income levels entails higher living standards; access to quality healthcare and education, and the capacity to buy household goods that were previously out of reach before obtaining microloans. The anticipated result is that rising income levels will ultimately result in clients having more disposable income. Table 2 is an illustration of the findings of this study.

Table 2: Percentages of Business Expansion Status

Change	Frequency	Percentage	Cumulative Percentage
Yes	15	53.6%	53.6%
No	9	32.1%	85.7%
No Change	4	14.3%	100.0%
Total	28	100.0%	

Source: Owner’s own study

From the 28 that acquired the loans for the purpose of expansion, a total of 15 had their businesses expanded due to obtaining the loan. This was ascertained by calculating the growth rate based on their capital at the time of acquiring the loan, the number of years the business has been in operation, and their current capital as of 2023. These findings were further assessed. For further assessment, the rate of expansion of FINCA clients’ businesses as published on their website was compared to the actual expansion rate as obtained from the study. FINCA Zambia reports that 51 percent of their customers get loans for the purpose of expanding their businesses. Of those, 85 percent expand their businesses.

To examine the impact of FINCA loans, a one sample t-test for proportion was employed since the sample size of FINCA beneficiaries who reported expansion in their businesses was less than 30. The two proportions that were compared are 85 percent as the expected proportion, and 53.6 percent as the real proportion. The confidence level that was applied was 95 percent with alpha at 0.05.

4.4.2 Hypothesis Testing Using One Sample Test for Proportion

H0: There is no difference between the percentage of FINCA Zambia clients who expand their businesses to the percentage of clients who experienced business expansion as reported by FINCA Zambia.

H1: There is a difference between the percentage of FINCA Zambia clients who expand their businesses to the percentage of clients who experienced business expansion as reported by FINCA Zambia.

The critical value obtained, at 27 degrees of freedom, from the t-distribution table is 2.052.

After running a t-test in SAS studio. A p-value of 0.00279 was obtained.



Obs	P
1	.002790359

Figure 10: p-Value as calculated in SAS studio.

Source: Owner's own study

4.4.3 Decision

The obtained p-value was less than alpha (0.05). Therefore, the null hypothesis was rejected since the risk of rejecting the null hypothesis when it is true was very low.

4.4.4 Conclusion

The conclusion therefore is that there is a statistically significant difference between the percentage of FINCA Zambia beneficiaries who expand their business to the percentage of clients who experienced business expansion as reported by FINCA Zambia.

The results indicate that the impact of microfinance on poverty alleviation is not exactly as it is claimed to be. The number of businesses expanded from the study indicate that fewer businesses undergo expansion as a result of obtaining microcredit. Moreover, the study observed a continued dependence on loans even by those who reported expansions in their businesses. Additionally, majority continued to run their businesses on the streets. Only 14

percent of the respondents reported to have had their businesses legally registered. The rest continued to operate as non-registered businesses for years.

Further, it is important to note that only 53.8 percent of the recipients of FINCA loans in Lusaka got the loan for the purpose of business expansion, and that only this proportion was tested for the success of business expansion. On the other hand, 25 percent of the recipients got the loan entirely for the purpose of funding their financial needs. The remaining 21 percent got the loans to start new businesses. Only a quarter of the recipients lacked financial capital. Thus, lack of capital or even access to it cannot be taken as the sole reason for poverty.

4.5 Discussion of Some Mediating Factors

4.5.1 Poor Risk Management Practices

Most of the clients interviewed exhibited little-to-no knowledge about risk management practices. MFIs ought to put much emphasis on such subjects. Programs to train clients must be drawn up. This will enable clients to efficiently complete their loan repayments. Some strategies which clients must be educated on include adjusting expenditure in terms of consumption, raising income levels by engaging in various small yet sustainable income-generating activities whilst avoiding get-rich-quick schemes which most of them fall prey to. Clients should also be educated on matters pertaining to savings as a way of shielding themselves from unforeseen predicaments.

4.6 Practices of FINCA Lusaka, Zambia

4.6.1 Focus on Micro Crediting and not Microfinancing

A notable factor was that micro crediting was the central focus of FINCA. This was evident from the training programs that the institution offered to majority of its clients. The focus was on the repayment of loans by its clients, hence the main training offered was on the usage of loan, which fundamentally focused on how the loans must be repaid. Whilst FINCA empowers its clients financially, it neglects to empower them in areas that are paramount to their long-term success. Important aspects such as risk management skills, and financial

management skills, which include savings and investments among other things are completely neglected. Another aspect that is neglected is the provision of effective business management skills to clients. Despite the continued rise of poverty since its inception, FINCA continues to pride itself on its profitability levels over the years, and that is applied as a measure of success for poverty alleviation. Evidently, the client is not the centre of focus for FINCA, but the institution's profitability.

Over 50 percent of the respondents stated that they opted not to renew their loans due to FINCA's aggressive conditions towards clients who were struggling in terms of loan repayment. This reiterates the profitability focus of FINCA as an institution at the expense of the wellbeing of its clients.

Despite clients being required to open a savings account with the institution at the beginning of their microfinance journey, through the survey, it was discovered that only 25 percent of the clients had savings with the institution. The other 75 percent stated that their business revenues were not enough for them to consider saving a portion of it. Majority of the clients cited social, and family demands on their incomes as a cause for lack of savings.

It is a widely accepted phenomenon in financial management that savings are a necessity when it comes to growing and building wealth. Savings enable individuals to manage emergencies with ease. Further, savings enable people and institutions to take on opportunities that they did not anticipate. Savings are also pivotal to making short- and long-term investments. All this is important for the expansion of clients' economic activities. However, most clients are met with failure when it comes to savings due to family demands, not only from their nuclear families but also from extended families. This tends to hinder their progress. Training programs on how to manage savings would equip clients with the much-needed skills for their business expansionary needs. If such programs are not put in place, FINCA will only be funding the day-to-day needs of its clients instead of liberating them from poverty.

4.7 Services for Microentrepreneurs

One of the discoveries was that though FINCA claims to not only offer financial services but also non-financial services, there were no training programs offered to its clients that focused on the non-financial aspect of microfinance. As earlier stated, the only training that

was offered to FINCA clients was the loan repayment training which focused on the application of loans in business as well as the repayment of loans. Unfortunately, FINCA clients are faced with many challenges such as health emergencies, children's school fees and family crises. This means they have problems that require finances. As such, they are likely to use business revenues for their personal or family needs. This then entails that FINCA ought to provide its clients with solutions that solve their problems at the root and not just the symptoms. This can be achieved through promoting financial literacy by providing financial management programs to its clients.

4.8 Entrepreneurial skills

Most poor people tend to engage in small businesses not because they know how to effectively run businesses but because that is the closest and easiest income-generating activity that they can lay their hands on. One terrible assumption that FINCA, like many other MFIs, makes is that all its clients are entrepreneurial. With this assumption the most effective solution is the provision of microcredit to finance clients' businesses. However, a closer look at the beneficiaries reveals that majority of them lack entrepreneurial skills. As such, more effective methods should be explored and applied to alleviate poverty.

4.9 Does Microfinance Reach the Poorest of the Poor (the Destitute)?

To ascertain whether FINCA microfinance services reach the destitute, education as a dimension of poverty is employed. Results obtained from this study indicate that majority of the recipients are those with secondary school education followed by those with tertiary and primary school education respectively. Figure 11 shows that over 60 percent of the recipients of loans from FINCA have attained at least secondary school education. Relative to the 11.5 percent uneducated and 26.9 percent with primary school education, who in total make up 38.4 percent of the recipients, the results of this study indicate that the poorest of the poor are neglected.

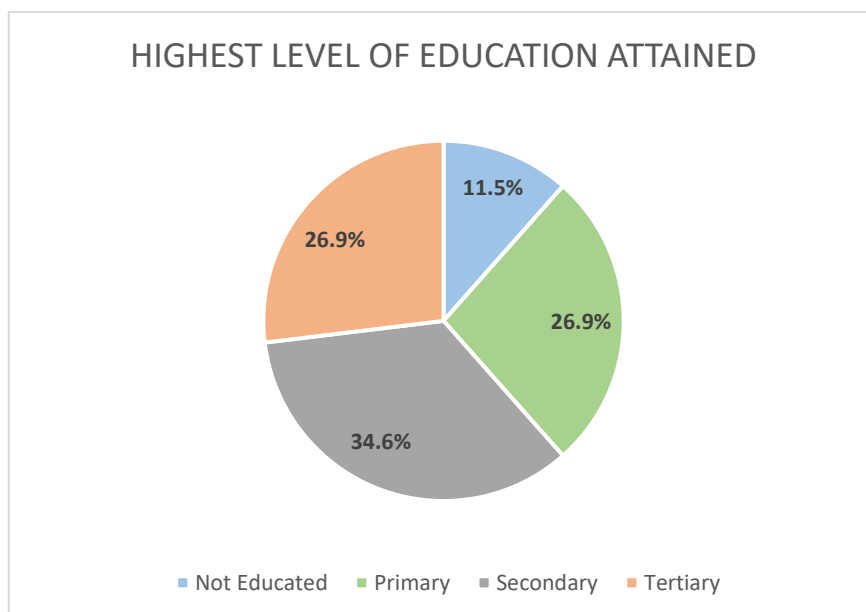


Figure 11: Proportions of those accessing microfinance by education level

Source: Owner's own study

4.10 Women empowerment

The results of this study at first glance suggest that women empowerment was achieved since women make up almost two thirds of the recipients of microfinance. However, this is not enough evidence for such a conclusion. A further detailed study of the success of businesses run by women would be required to ascertain the level of empowerment brought about as a result of accessing loans. Additionally, it would be imperative to ascertain whether financial empowerment is the only kind of empowerment women need, and whether it accords them a voice in society.

4.11 Does Microfinance Alleviate Poverty at All?

According to the findings of this study, microfinance has little impact on poverty alleviation. As observed from the results, of the 53.8 percent who got loans for the purpose of business expansion 53.6 percent recorded an increase in levels of income. At first glance, this can be viewed as success. However, a closer look suggests otherwise. According to the findings, roughly 25 percent of those who received loans did so repeatedly and only to address their financial requirements, which included paying for daily expenses, financing children's

education, and repaying loans they had taken out from other microfinance organizations. This implies that the reliance on microcredit was growing. As a result, the majority of the clients had substantial debt. As a result, homes become dysfunctional as owners live in terror of the repercussions of being unable to pay back loans.

The heavily indebtedness of FINCA clients shows that FINCA is just addressing the symptoms of the issue rather than the root cause. Government officials and other policymakers must take action by developing efficient strategies for reducing poverty if it is to be eradicated. Methods that deal with the core concerns, such as inadequate financial management skills, among others.

5 Summary, Conclusion and Recommendations

This chapter summarises the findings of this study, prescribes some recommendations and draws a conclusion of the study.

5.1 Summary of Major Findings

The purpose of this study is to explore the conditions under which microfinance can help the poor combat poverty.

1. The first aim of this study was to ascertain whether increasing income levels by microfinance institutions has an impact on poverty alleviation. According to the study's findings, an increase in income levels has no bearing on the reduction of poverty because it did not lead to self-sustainability. The traders who obtained loans for business expansion were the study's main subject. The majority of them are still receiving microfinance today. Hence, self-sufficiency was not accomplished.
2. The second aim was to assess whether there are any mediating factors between microfinance and poverty. As a result of the study's findings, it was determined that one of the mediators between microfinance and poverty was a lack of high-quality education, namely education that addressed the context in which the poor live. Despite having access to finance, the majority of clients remained to rely on loans because they were unaware of efficient wealth-building strategies like savings and investments.
3. The third aim was to assess the practices of microfinance in Zambia, especially in Lusaka. The findings indicated that FINCA focuses only on the provision of microcredit, especially when dealing with the poorest of the poor. The only form of training that was offered to them was the usage of loans which focused on loan repayment. FINCA was found to be profit-centred than client-centred. The growth of their clients was in essence of no interest to the institution.
4. The fourth aim was to assess whether the destitute (the poorest of the poor) are reached. The findings indicated that the poorest of the poor are not reached as a large proportion of the recipients were those with a decent level of education. Those with no education only made up a very small proportion of FINCA clients.
5. The fifth and final aim was to assess the impact of microfinance on women empowerment. According to the findings of the study, microfinance is mainly

provided to women. However, it could not be ascertained as to whether this resulted in their empowerment. As such, this calls for an independent in-depth study.

5.2 Conclusion

The potential for microfinance as a strategy for reducing poverty exists. Yet, its efforts are ineffective due to MFIs' current practices, which concentrate solely on one component of their services. MFIs are deviating from their core objective, which is to reduce poverty. The customer is no longer the main focus. Customers are not given non-financial tools and resources that would enable them to become self-sufficient. Poverty reduction will always ever be an aspiration without self-sustainability.

5.2.1 Limitation of the Study

The major constraint of this study was the unwillingness of FINCA staff to provide client information regarding loans to a representative of the researcher. The researcher could not travel to the country due to financial and time limitations. Another constraint was the reluctance of the respondents who feared participating in such a study would jeopardize their privilege to accessing FINCA loans. Additionally, most clients wanted incentives for participating in the study.

5.3 Recommendations

- The government ought to concentrate on putting the financial literacy curriculum that was just added to the school curriculum into action. Education should be provided to educators about the significance of these activities. If successfully carried out, the program will have a significant impact on reducing poverty. This is because incorrect financial management practices are to blame for the ongoing cycles of poverty. These bad financial practices have been passed down over numerous generations. If the nation is to be freed from extreme poverty, a mindset shift is necessary.
- If its consumers were financially literate, microfinance would still be successful under the current operating model. The wealthy do receive financial literacy training from banks and other financial institutions. They therefore continue to prosper. The impoverished are pushed deeper into poverty by being ignored. As a result, it is the

obligation of the government and other policymakers to implement measures that will encourage innovative and improved financial management practices. Government should offer personal finance management, company finance management, savings plans, and investment programs in addition to providing government empowerment funding.

- FINCA and other microfinance organizations must handle the issue of poverty strategically. All of the theoretically suggested tools ought to be used. Most importantly, focus should be placed on identifying and eliminating the cause of poverty rather than just treating its symptoms. MFIs can accomplish this by working with other societal stakeholders.
- In keeping with the above suggestion, the government ought to routinely monitor and evaluate MFI operations. As a result, if MFIs fail to achieve their set goals, they should be held accountable.
- Further, the government needs to develop and use reliable criteria to assess how well MFIs are doing at reducing poverty. Profitability and loan portfolio are poor indicators of success. Instead, metrics like how many MFI clients have improved their financial literacy, how many have saved money, and how many are accumulating wealth should be used.

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Questionnaire

1. Full name

2. Gender

Male

Female

3. Age

Less than 20

20 - 30

31 - 40

41 - 50

over 50

4. Marital status

Single

Married

Divorced

Widow

Seperated

5. Highest level of Education

Not educated

Primary school education

Secondary school education

Tertiary

6. Do you know how to read?

Yes

No

7. Job type
- Hairstylist
 - Maid
 - Marketeer
 - (Trader)
 - Carpenter
 - Restaurant owner
 - Tailor
 - Not working
 - Other: _____

8. How many people are in your household?

- 1
- 2
- 3
- 4
- 5
- More than 5
- 0

9. Did you renew your loan from FINCA?

10. If no, why didn't you renew the loan?

- No need
- High interest rates
- Aggressive conditions
- Fear of being not able to pay back the loan and be jailed
- Other: _____

11. Have you been working before getting the loan?

- Yes
- No

12. What was your last job?

- Maid
- Government worker
- Private sector
- workerFarmer
- Markete
- erTailor
- Other: _____

13. Is this your first time to take a loan?

Yes

No

14. How many times have you taken a loan before this one?

- 1
- 4
- 2
- 3
- 5
- 6
- More than 6
- 0

15. What is the value of all loans taken before (approx.)?

16. When did you take your first loan?

- Less than 1 year ago
- 1 year ago
- 2 years ago
- 3 years ago
- 4 years ago
- 5 years ago
- 6 years and more

17. When did you take your last loan?

- Less than 1 year ago
- 1 year ago
- 2 years ago
- 3 years ago
- 4 years ago
- 5 years ago
- 6 years and more

18. Why did you take this loan?

- Expanding an ongoing business
- Financial needs
- Starting a new business
- Other: _____

19. Are there any loans you didn't repay?

- Yes
- No

20. Why didn't you repay other loans?

- Business loss
- Natural disaster
- Family financial problems
- Market recession
- Other: _____

23.

21. For how long have you been taking loans from FINCA?

- Less than 1
- year1 year
- 2 years
- 3 years
- 4 years
- 5 years
- More than 5 years

22. How did you know aboutFINCA?

- Neighbours
- Friends
- Relatives
- Advertisement
- FINCA staff
- Other: _____

23. Did you have to present any guarantee to take a loan?

- Yes
- No

24. What is the required guarantee?

- Savings
- Assets
- Business
- Salary
- Group (Belonging to a group)
- Other: _____

25. Are there any conditions for getting a loan?

Yes

No

26. What are the conditions?

Minimum wage

limitAge

Having a business

Starting a business

Attending a training program

Other: _____

27. Does FINCA offer training programs for its clients?

Yes

No

28. If yes, have you been invited to attend a training program?

Yes

No

29. What kind of training program have you attended?

Marketing

Usage of

loansSavings

Investments

Other: _____

30. Was the training beneficial to you?

Yes

No

31. What is your source of funds for the loan repayment?

- Business revenues
- Salary
- Borrowing
- Another loan
- Other household income
- Other: _____

32. Have you made any savings after taking the loan?

- Yes
- No

33. What was the main reason for taking the loan?

- Starting a new business
- Expanding an existing business
- Repaying debt
- Meeting family expenses
- Educating children
- Marrying
- Buying a new car
- Other: _____

34. What is your type of business?

- Trade
- Industry
- Services
- Agriculture
- No business
- Other: _____

35. Was the loan enough to finance the business?

Yes

No

36. If no, what other sources do you depend on to finance your business?

- Another
- businessJob
- Rent
- Personal savings
- Another loan
- Other: _____

37. Is your business the main source of family income?

Yes

No

38. If no, what are your other sources of family?

- Another
- businessJob
- Rent
- Other: _____

39. When did you start your business?

- Less than 1 year ago
- 1 year ago
- 2 years ago
- 3 years ago
- 4 years ago
- 5 years ago
- More than 5 years ago

40. How much was your capital when you started the business?

41. How much is your business capital now?

42. Where do you market your products?

- Shop
- Market
- Streets
- Other: _____

43. Is your business legally registered?

- Yes
- No

44. Does your business make profits?

- No profits
- Losses
- Make profits

45. What do you do with business profits?

- Use for daily expenses
- Save
- Reinvest it all in my business
- Reinvest part of it in my business
- Other: _____

46. What kind of investment do you make from the profits?

- Buying new equipment or materials
- Hiring workers
- Other: _____

47. Do you work in your business?

Yes

No

48. How many people are working with you?

1

2

3

4

5 and more

0

49. Rate the importance of quality food over quantity of food.

Not important

1

2

3

4

5

Very important

50. Rate the importance of education level of children.

Not important

1

2

3

4

5

Very important

51. Rate the importance of spending on medicine.

Not important

1

2

3

4

5

Very important

52. Rate the accessibility of FINCA loans.

Not easily accessible

1

2

3

4

5

Easily accessible

53. Any comments about FINCA loans?

The data in this questionnaire is confidential and will not be used except for the purpose of scientific research.