Agricultural Microfinance in Malawi: Investigating the Role of Financial Services in the Agricultural Sector of Developing Countries

INTRODUCTION:

Over the past three decades, microfinance has evolved into a valuable tool used for the advancement of impoverished communities throughout the world. By providing loans and other financial services, microfinance institutions (MFIs) create opportunities for borrowers to engage in income-generating activities and escape the cyclical effects of poverty. However, in many African countries, most households are highly dependent on agriculture and only a small percentage of the population benefits from microfinance initiatives. In addition to the inherent risks associated with the agricultural sector, high transaction costs, operational inefficiencies, and the absence of effective government policies have hindered the growth of agricultural microfinance. Consequently, the provision of financial services remains limited for rural households despite their essential need for credit access.

RESEARCH:

Through the Consortium grant, I had the opportunity to travel to Malawi and visit a field experiment on agricultural microfinance conducted through Cheetah Paprika Company, Malawi Rural Finance Company Limited, University of Michigan, and the World Bank. In this project, MRFC gave loans to farmers who purchased seeds from Cheetah. Partnering with MRFC, Cheetah trained farmers on how to use inputs, such as seeds and fertilizer, to grow paprika, and purchased the final product from some of the farmers. MFFC also set up a saving commitment account for farmers who wanted to set aside their season’s profits for emergencies, events or the next harvest season.

In Malawi, I met with farmers, and employees at Cheetah and MRFC to discuss the benefits and challenges of agricultural microfinance. During my visit, I also met with banking officials at the Malawi Reserve Bank, Institute of Bankers in Malawi, and the Deepening Microfinance Sector Project to learn more about banking regulations within the country and to gain insight on the proposed Microfinance Bill.

I spent significant amount of time at MRFC headquarters displayed in Figure 1 where I conducted informational interviews with several MRFC employees, such as the Branch Manager, Executive Director, and Loan Supervisors. Through these interviews, I learned more about MFRC’s mission, Figure 2, and what significant obstacles they faced when expanding access to rural areas throughout Malawi. In addition to these interviews, I also reviewed microfinance literature and reports conducted by various organizations, such the World Bank, IMF, and UNDP.
Figure 1: Malawi Rural Finance Company Limited, Lilongwe, Malawi.

Figure 2: Mission Statement of Malawi Rural Finance Company Limited

Malawi Rural Finance Company Limited

MISSION
“To provide quality financial services through appropriate technology to the widest range of customers especially the poor, mostly women, youths and people with disabilities”.

VISION
“To be a dynamic and innovative microfinance institution targeting poverty reduction among Malawians”.

OUR CORE VALUES
• Customer satisfaction and quality service delivery is our priority;
• Involvement, Teamwork and adherence to high ethical standards is our method of operation;
• Continuous learning and willingness to accommodate views of customers is our essential element to improve delivery services;
• rewarding good performers (customers and staff) is our way of recognising contributions made to the company;
• Humility in dealing with rural communities and other stakeholders is our way of building relationships;
• Continuod provision of financial services and sustainability is our ultimate measure of success;
• Profitability is our ultimate measure of efficiency;
• Zero tolerance on delinquency is our goal in lending operations.
GOALS:

With this research, I am preparing a paper which examines microfinance in the agricultural sector of developing countries and sets forth possible solutions for expanding credit access to the rural poor. This paper is divided into two main components. Part I provides an overview of agricultural microfinance and describes the benefits and challenges of lending to rural farmers. Part II evaluates microfinance initiatives and regulations in various developing countries and explores the potential impact of the law and technology on the development of sustainable MFIs within Malawi. Overall, I hope to provide more insight on agricultural microfinance, and I would like to send this paper to MRFC and the various banking officials I met with while in Malawi.