

**ASSESSMENT OF THE EFFECT OF VILLAGE SAVINGS AND LOAN
ASSOCIATIONS ON THE PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES IN LILONGWE DISTRICT, MALAWI**

MASTER OF BUSINESS ADMINISTRATION DISSERTATION

SYMON CHAWINGA

UNIVERSITY OF MALAWI

THE POLYTECHNIC

MARCH, 2022



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MASTER OF BUSINESS ADMINISTRATION DISSERTATION

BY

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Submitted to the Department of Management studies, Faculty of Commerce, in partial fulfilment
of the requirements for the degree of Master of Business Administration

University of Malawi

The Polytechnic

MARCH, 2022

DECLARATION

I declare that this thesis is my own work, except in acknowledged in text and references. It has not been submitted before for any degree or examination in any other university. It has been submitted in partial fulfillment of the requirements of the Degree of executive Master in Business administration (MBA) in the University of Malawi

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Date: 7 March, 2022

CERTIFICATE OF APPROVAL

We, the undersigned, certify that we have read and hereby recommend for acceptance by the University of Malawi a thesis entitled, “*Assessment of the effect of Village Savings and Loan Associations on the performance of small and medium enterprises in Lilongwe district, Malawi*”.

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DEDICATION

To my dad and my late mum, for their love, prayers, untiring support and encouragement throughout my studies.

To my wife, Sokalawo, and my children, Victoria, Diana and Andrew, thank you very much for your endurance, understanding and support throughout my studies.

Above all, I dedicate to God for making it possible. To God be the glory for he is in control.

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I am very grateful to God for giving me this opportunity to attain the Executive MBA and for being on my side during the period of the study. When I was down I could turn to Him for support and when I excelled I also celebrated joyfully with Him.

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ABSTRACT

Small and Medium Enterprises play a significant role in the socio-economic development of economies, ranging from poverty reduction to employment creation. However, SMEs are confronted with numerous challenges. Notable among them, as documented in the literature, is limited access to formal financing. This has prompted SME owners in sub-Saharan Africa to seek affordable credit and savings services outside the formal banking sector through Village Savings and Loan Association (VSLAs).

The purpose of the study was to assess the effect of VSLAs on the performance of SMEs in Lilongwe district. The study adopted a mixed-methods approach. There were many SMEs in Lilongwe at the time the study was being conducted and their population was not known. A Sample size of 666 was determined using the formula by Cochran (1977) of which 333 were SMEs whose owners were members of VSLAs and the other 333 were non-VSLA members. A total of 666 Semi-Structured questionnaires were administered to the respondents but only 596 were filled and returned, representing a response rate of 89%. Systematic random sampling method was used in selecting the respondents. Data were analyzed using Stata 14 with correlation analysis, independent sample t-test and multiple linear regression analysis.

The results revealed that VSLA loans and savings facilities have a positive effect on the performance of SMEs in Lilongwe district. Furthermore, the study revealed that SMEs that were accessing loans from VSLAs experienced a higher increase in the number of employees, a higher positive change in the value of business assets and revenue compared to SMEs whose owners were not members. The study also confirmed that age of the business owner, education level, business experience and number of employees were statistically significant (at 95% confidence interval) in influencing performance of SMEs. The study recommends that SME owners should be encouraged to Join VSLAs as a way of improving the performance of their enterprises.

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LIST OF ACRONYMS AND ABBREVIATION

SMEs	Small and Medium Enterprises
VSLAs	Village Savings and loan Associations

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CHAPTER ONE: INTRODUCTION

1.0. Chapter Overview

This chapter presents the background of the study by focusing on the significance and role of SMEs in developing economies. The chapter also highlights the research problem, its justification and the significance of the study.

1.1. Study background

Small and Medium Enterprises (SMEs) play a significant role in the socio-economic development of economies, ranging from poverty reduction to employment creation. It has been argued that SMEs account for 90% of all businesses in the world and have been considered vital in the process of industrialization and economic growth, by significantly contributing to employment generation, income generation and catalyzing development in urban and rural areas (Lemuel, 2009; Peterhoff, Romeo & Calvey, 2014). Recognizing the social and economic development potential that they possess, SMEs have gained increasing attention all over the world and it is of no surprise that the performance of SMEs is of all huge concern in different countries (Peterhoff, Romeo & Calvey, 2014). It is worth noting that in developing countries, a majority of entrepreneurs own SMEs and their significant contribution to gross domestic product (GDP) and improving income of their households cannot be ignored (ILO, 2008; Ghosh, 2004).

Cognizant of the need to promote SMEs, in developing countries, both governments and the private sector have and continue to put in place initiatives, interventions and institutions to promote small scale businesses. In spite of their potential and their role, SMEs are confronted with numerous challenges. According to Oboh (2002); Okpara (2000) and Wale-Awe (2000), as cited by Lemuel (2009), SMEs are generally very vulnerable to several factors and only few of them manage to survive. The factors include: difficulty in accessing credits from banks and other financial institutions; harsh economic conditions which are occasioned by unstable government policies; gross under-capitalisation, inadequacies resulting from the highly dilapidated state of Infrastructural facilities; exorbitantly high operating costs; lack of transparency and corruption; and the lack of interest and lasting support for the SMEs sector by government authorities, to mention but a few (Oboh, 2002; Okpara, 2000; Wale-Awe, 2000 as cited by Lemuel, 2009). The

challenges stipulated above are not different from those revealed in the World Bank Enterprises survey of 2009. The survey revealed unreliable power supply, exorbitant tax rates, corruption, limited access to land, inadequately educated workforce, crime and complicated business licensing procedures as some of the challenges facing the SMEs sector. Notable among the challenges to SMEs performance as documented in literature is limited access to formal financing. According to Lemuel (2009), having access to finance gives SMES the chance to develop their businesses and to acquire better technologies for production, therefore ensuring their competitiveness. However, there is a huge challenge for SMES globally when it comes to sourcing for initial and expansion capital funds from traditional commercial banks. World Bank (2005) argues that only 30% of the small firms in Sub-Saharan African countries have access to affordable and proper financial capital.

According to Anderson et al. (2009) the inability to acquire affordable credit to finance capital stock for SMEs and the increasing cost of living for households has prompted entrepreneurs in Sub-Saharan Africa to seek affordable credit and saving services outside the formal banking sector in the name of Village Saving and Credit Associations (VSCAs) also known as Village Savings and Loans Associations (VSLAs). VSLAs are a community banking model with low income earning people as members who mobilise funds from within the same neighborhood. Funds are raised to a credit pool that offer affordable loans at low interest rates with flexible repayment period. These have become a common and popular way of banking among men and women in rural areas and urban slums of Sub Saharan African countries (Gugerty, 2007; Allen, 2006). Majority of entrepreneurs, mostly SMEs, have also benefited from such affordable, reliable and available credit services that they are unable to access from the formal banking sector. Similar to other microfinance institutions, VSLAs combine multiple characteristics of formal financial markets: savings accounts, access to loans, and credit insurance. However, to provide credit and insurance services, each VSLA relies on its members having accumulated enough capital through savings, a minimum level of which is compulsory at the weekly or monthly meetings (Ksoll, BieLilleør., Lønborg., & Rasmussen, 2015). VSLAs have proven to be very effective in accelerating growth and building local capacity. Members have access to highly responsive and safe financial services, and this enables them to upscale economic activities, improve household health and welfare, acquire business skills, educate their children, and improve the quality of their

social lives both within the family and the surrounding community. It has been argued that poor and less educated people are easily intimidated by the formal, lengthy and complicated procedures at banks, just as many people distrust the banks because of the non-transparent pricing structures (Care international uganda, 2014). When VSLAs were introduced, most of these issues were addressed by offering financial services with low or no overhead costs, completely transparent and collective decision making, charge free savings and dividends from the loans a development which has swung towards SMEs.

1.2. SME Sector in Malawi

It is imperative to note that there is no singular definition of what constitutes SMEs because institutions in different parts of the world have different definitions. The definition of SMEs varies from country to country based on the countries' guidelines (Bouri, Breij, Diop, Kempner, Klinger, & Stevenson, 2011). In Malawi, SMEs are defined based on the number of employees and turnover of the enterprise. The SME policy deconstructs SME nomenclature to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). According to Micro, small and medium enterprises (MSME) policy statement for Malawi, the official working definitions are outlined in the Table 1.1 below;

Table 1.1: Official Definition of MSMEs in Malawi

Category	Number of employees	Turnover(MK)
Micro	1 – 4	Up to 120,000.00
Small	5 – 20	120,001 to 4 million
Medium	21 – 100	Above 4 million to 10 million
Large	Above 100	Above 10 million

Source: Ministry of industry Trade and private sector Development (1998)

Notwithstanding the classification of SMEs, their impact on the national GDP has been so remarkable. SMEs are the back bone of all the economies and are a key source of economic growth, dynamism, and flexibility in advanced and industrialised countries as well as emerging and developing economies (OECD 2006).

1.3. Problem statement and justification

Worldwide, SMEs have gained increased attention due to the significant role that they play in social- economic development of economies. Literature seems to agree that SMEs positively contribute to poverty reduction, employment creation and catalysing development in the urban and rural urban areas (Lemuel, 2009; Peterhoff, Romeo & Calvey, 2014). However SMEs face a myriad of challenges but there seems to be a clear consensus that access to formal financing is chief of all these challenges. It has been argued that SMEs globally encounter problems when sourcing initial and expansion capital from traditional commercial banks (Lemuel, 2009). World Bank (2005) argues that only 30% of the small firms in Sub-Saharan African countries have access to affordable and proper financial capital. In a bid to survive and remain relevant in the modern world, SMEs, especially in the developing world, have resorted to seeking informal sources of finance through Village Savings and Loans Associations (VSLAs). VSLA model is a self-managed and self-capitalized microfinance methodology having its members mobilize and intermediate local pools of investment finance, it offers savings, credit insurance and credit services in markets outside the reach of formal institutions and it has spread to at least 73 countries in Africa, Asia and Latin America with over 12 million active participants worldwide (Edengenet, 2016).

The effect and impact studies of VSLAs in developing countries, including Malawi, exist in literature but have mainly focused on a household poverty reduction, livelihood enhancement and social; wellbeing (Ampah et al., 2017; Beyene, 2018; Brunie, 2014; Karlan, 2017 and Harelimana, 2018). Very few studies exist in literature particularly in Rwanda and Kenya which have attempted to assess the linkages between VSLAs and SMEs (see: Gichuki, Mulu-Mutuku and Kinuthia, 2014; Sibomana and Shukla, 2016). Moreover the fact that SMEs benefit from VSLA membership through savings, affordable loans as start-up capital or for business expansion and that literature in Malawi is limited on effects of VSLAs on SMEs makes it an interesting case with a lot of unanswered questions and worthy exploring. It is therefore against this background that this study was motivated to assess the effect of VSLAs on performance of SMEs in Malawi with particular focus on Lilongwe district.

1.4. Study Objectives

The overall objective of the study was to assess the effect of VSLAs on the performance of the SMEs in Lilongwe district. Specifically, the study sought:

- i. To examine the effect of socio-demographic factors on the performance of SMEs in Lilongwe district.
- ii. To assess the effect of VSLA loan facilities on the performance of SMEs in Lilongwe district.
- iii. To ascertain the effect of VSLA savings facilities on the performance of SMEs in Lilongwe district.
- iv. To analyse the effect of formal business training on the performance of SMEs in Lilongwe district.

1.5. Research Questions

- i. What is the effect of social-demographic factors on the performance of SMEs in Lilongwe district?
- ii. To what extent do VSLA loan facilities affect performance of SMEs in Lilongwe district?
- iii. What is the effect of VSLA savings facilities on the performance of SMEs in Lilongwe district?
- iv. What is the effect of formal business training on the performance of SMEs in Lilongwe district?

1.6. Significance of the study

The study contributes to the existing academic literature on SMEs and VSLAs in Malawi and globally. It could serve as a resource for researchers who might use it in future studies. The findings of this study might provide significant contributions for future research in the fields of VSLAs. Furthermore, the research helps draw insights for policy formulation process, development planning and business planning in developing strategies and policies for the improvement of the SME sector in Malawi.

1.7. Chapter summary and Organization of the study

The first chapter has provided the background to the study by focusing on the significance and role of SMEs in developing economies. The chapter has also provided the research problem and its justification and it has been indicated that the study adds to the existing literature and provides insights on policy planning and formulation process. The rest of the study is organised as follows:

Chapter two provides a review of theoretical literature and empirical literature. Theoretical literature focuses on the theories and concepts that are linked to SMEs whilst empirical literature reviews previous related studies on VSLAs and SMEs. Chapter three focuses on discussing the methodology employed in the study by focusing on the research design, research philosophy, study population and study area, data analysis tools and study limitations.

CHAPTER TWO: LITERATURE REVIEW

2.1.Introduction

This chapter presents the literature review related to the assessment of the effect of VSLAs on the performance of SMEs. The chapter presents theories, concepts and models on SMEs growth, theoretical analysis, and empirical analysis and provides a conceptual framework that guided the study.

2.2. Theoretical literature

2.2.1. Characteristics of SMEs

A research report by Bolton Committee identified three important characteristics that are likely to have strong effect on management decision-making within the small enterprises (Bolton, 1971). They have a relatively small share of the marketplace; they are managed by the owners in a personalized way and they are independent in the sense that they are not forming part of a larger enterprises. According to Carson et al. (1995), SMEs by definition are small in size, they go on to say that it has a major influence on the management and decision making in the organization. Carson et al. (1995) further suggested that in the internal environment the SMEs are crippled with lack of resources that suppresses their growth potentiality; also, they cannot afford to hire specialist to perform tasks for them; therefore, they must rely on a more generalist management structure. The SMEs are also characterised by their independent nature (Carson et al., 1995). They are independent because they are not part of a complex system such as a small division of a large, SMEs are also characterised by their management style which is of a personalized fashion. Managers know all the employees personally and participate in all parts of managing the business from marketing to manufacturing, small enterprises are typically flexible and can respond more quickly than the larger organisations to the changing market place. This flexibility gives small enterprises a unique competitive advantage (Heathfield, 1997). Externally, the SMEs small size means that it has advantage when it comes to specialization and filling niche markets with products; however, size can be disadvantage when it comes to obtaining financing of the business that is why most of SMEs rely on personal assets of owners and management to finance the business. However, these characteristics that define the SMEs are important to explain the way the SMEs conduct the marketing aspects of their businesses and shape the nature of SMEs at the rate at which they grow in domestics and foreign markets.

2.2.2. Capital structure of SMEs

Studies on capital structure attempt to explain the specific mixture of long term debt and equity the firm uses to finance its operation. The firm has a great deal of flexibility in choosing the financial structure (Stephen, Randolph & Bradford, 2008) most of research has focused on the proportion of debt to equity observed on the right hand of the balance sheet. There is no universal theory that attempts to explain the firm capital structure, but finance theories offer some broad competing models, tradeoff theory and pecking order theory and these theories appear to have most support. The theories of optimal capital structure differ in their relative emphasis on certain factors. The trade-off theory emphasizes on the tax-related benefits of debt when offset by cost of financial distress and pecking order theory states that the firms prefer internal financing to external financing, and if external financing is to be used the cheapest possible security is chosen first (Stephen, Randolph & Bradford, 2008). Asmawi (2013) argues that the optimal capital structure of the firm is achieved at trade- off theory where by the tax saving are more than the cost of financial difficulties, it happens when a company borrows up to the point where the tax saving from the additional debt is equal to the cost of financing in the event of financing difficulties, the company will benefit from debt by looking at the efficient market and symmetric information. Furthermore, the optimal capital structure of the firm does not exist in the pecking order theory because a firm determines the source of capital according to sequence of hierarchy.

However, to determine the optimal capital structure is still an ongoing complex matter, researchers are still puzzled by how a firm chooses the debt, equity or hybrid security issues. Shafie (2012) noted that applicability of trade-off theory to SMEs has been the focus of number of studies as the debt tax shield is as relevant for SMEs as it is for publicly quoted firms. One of the reasons that could explain why SMEs might not follow the tradeoff theory is lack of knowledge among managers, but pecking order theory is among the most influential theories of the capital structure of firm where by pecking order theory describes a hierarchy of financial choices firm make. According to this theory internal financing is preferred first, followed by debt and lastly outside equity, also this theory might be applicable to this study (Shafie, 2012).

2.2.3. Access to finance and SMEs growth

Finance and its access, enable individual or firm to do what they desire to do. It is gradually being recognized as a significant aspect of economic development. Access to finance means “availability of the supply of reasonable quality financial services at reasonable cost, where reasonable quality

and reasonable cost has to be defined relative to some objective standard with the cost reflecting all pecuniary and non-pecuniary cost” (Claessens, 2006).

Also access to finance can be defined as the absence of price and non-price barriers in the use of financial services” (Demirguc-Kunt & Levine, 2008). According to Hall et al (2004) growth is likely to place a greater demand on internally generated funds and push the firm into access to external funding. Ganbold (2008) asserts that firms with high growth will capture relatively higher debt ratios. In the case of small firms with more concentrated ownership, it is expected that high growth firms will require more external financing and should display higher leverage. Aryeetey et al. (1994) maintain that growing SMEs appear more likely to use external finance – although it is difficult to determine whether finance induces growth or the opposite (or both). As enterprises grow through different stages, i.e., micro, small, medium and large scale, they are also expected to shift financing sources. They are first expected to move from internal sources to external sources (Aryeetey, 1998). There is also a relationship between the degree of previous growth and future growth. Michaelas et al. (1999) argue that future opportunities will be positively related to leverage, in particular short term leverage. They argue that the agency problem and consequently the cost of financing are reduced if the firm issues short-term debt rather than long-term debt. Myers (1977), however, holds the view that firms with growth opportunities will have a smaller proportion of debt in their capital structure. This is because conflicts of interest between debt and equity holders are especially serious for assets that give the firm the option to undertake such growth opportunities in the future. He argues further that growth opportunities can produce moral hazard situations and small-scale entrepreneurs have an incentive to take risks to grow. The benefits of this growth, if realized, will not be enjoyed by lenders who will only recover the amount, i.e. the principal and interest, of their loans, resulting in a clear agency problem. This will be reflected in increased costs of long-term debt that can be mitigated by the use of short-term debt. Empirical evidence seems inconclusive, some researchers found positive relationships between sales growth and leverage (Kester, 1986; Titman & Wessels, 1988; Barton et al., 1989). It is also important to note that the dividend payout of the firm could affect choice of capital in financing growth. Generally, firms with low dividend payout are able to retain more profits for investments. Such firms would therefore depend more on internally generated funds and less on debt finance. On the other hand, firms with high dividend payout are expected to rely more on debt

in order to finance their growth opportunities but other evidence suggests that higher growth firms use less debt.

2.2.4. Sources of finance for SMEs

Financing is needed to start up a business and ramp it up to profitability. There are several sources to consider when SMEs look for finance. The sources of finance can be divided into two major groups that are namely equity and debt finance. Equity finance is obtained in return for the proportional share of the firm value (retained earnings), where it may be obtained through persons funds or private investors which include family member, friends and partners (Kueli, Charles & Peggy, 1990). Also using trade credit can also be considered as part of internal sources because businesses use the interactions with suppliers and customers, but at the same time making use of the maximum trade credit periods until suppliers are paid (Mitter & Kraus, 2011). However, personal savings of the owner-managers have been shown in most research to be the most important sources of equity finance, especially to new establishments of SMEs and for startup mainly comes from informal sources (Hasan, 1990). In spite of SMEs relying on informal sources that are often insufficient because of the low saving rates especially in developing countries when they first need to establish themselves, most of them in fact need the external finance to grow and develop. Debt finance mostly provided through banks, is seen as the entrepreneur's second favorite funding type, the reason lie in the tax shield effects as well as the fact that no ownership need to be relinquished (Mitter & Kraus, 2011). Hence many SMEs which require external finance prefer to use debt as source of external finance, particularly bank which has remained the dominant sources of capital from SMEs in most countries. However, banks provide debt financing for firms particularly successful ones and those that continue to grow and this automatically points to the fact that debt financing has its own limitation for the SMEs to access finance, it might be a short term loan or long term loan (Romano et al., 2001).

2.2.5. The Lifecycle Approach

The lifecycle approach assumes that the availability of financial sources changes as the firm develops, becomes older and less informationally opaque. As described by Weston and Brigham (1981), the approach was conceived on the premise of rapid growth and lack of access to the capital market. Small firms were seen as starting out by using only the owners' resources. If these firms survived, the dangers of undercapitalization would soon appear, and they would then be likely to make use of other sources of finance, such as trade credit and short-term loans from banks.

However, if the firms achieve rapid growth they would experience the problem of illiquidity resulting from lack of availability of long-term finance and over-reliance on short-term finance. Such a situation would lead to a financial gap that would force the firms to reduce their growth and seek costly equity capital from venture capital providers.

The dynamic small firm would therefore have to choose between reducing its growth to keep pace with its internally generated funds, acquire a costly stock market quotation, or seek that most elusive form of finance – venture capital (Weston & Brigham, 1981).

Thereby indicating a trend in SMES that expanding small firms are likely to experience rising short-term debt and use little or no long-term debt.

2.2.6. The Pecking Order Theory

The pecking order theory as propagated by Myers and Majluf (1984). The theory attempts to explain the way in which firms choose their financing method and includes asymmetric information as a significant aspect of this process. It states that firms finance their needs in a hierarchical order, first by using internally available funds, followed by debt and finally, external equity. This practice is more common in Small firms and indicates the negative relationship between profitability and external borrowing by small firms. This hypothesis implies that there tends to be a negative relationship between profitability and external borrowing by small firms. In other words, assuming a zero growth, firms with high profitability would generate higher levels of internal liquidity, reducing the need for borrowing. Older firms, it may then be hypothesized, would make less use of external finance and, instead, would rely on retained funds.

The pecking-order theory was deemed to be a fundamental theoretical pillar for this study as it highlights important reasons to why the capital structure can differ between firms possessing distinguishing characteristics.

2.2.7. Social Capital Theory

Social capital is most often understood as the source through which individuals can take advantage of social relations, networks or other structures to obtain certain benefits (Portes, 1998). The conceptualization of social capital dates back to Marx and Durkheim, but in the 1970's Pierre Bourdieu provided one of the most theoretical and instrumental contemporary interpretations of the concept. Economist Glenn Loury's work on the effect of social connections on access to

employment inspired sociologist James S. Coleman to investigate the role of social capital on human capital. In the 1990s Robert Putman advocated for social capital as a means for collective action for mutual benefit, through trust and norms of reciprocity. Putman is also known for his distinction between bonding and bridging social capital, which refers, firstly, to the social connections between a homogeneous group of people and, secondly to the relations beyond and between differing groups (Karlan et al, 2009).

Social capital has also gained steady ground within development literature. Michael Woolcock was the first to provide a unified conceptual framework for the concept of social capital in an economic development perspective (Piazza-Georgi, 2002; Woolcock, 1998). It has however, received much criticism mainly due to the variety of interpretations and thus confusion regarding its applicability (Lin et al, 2001). In a development context it is attacked for being used as a means to avoid inequality issues as power relations are accounted for without looking at the negative consequences of social life. Others disagree with the assumption that actors are social entrepreneurs and actively invest in relationships of trust. Yet others view social capital as embedded social resources, dynamic and negotiated but not easily stored and thus both constrain and enable individual action, as well as reproduce structural inequalities (Clever, 2005).

2.3. Empirical literature

Sibomana and Shukla (2016) assessed the effects of Village Savings and Loan Associations on the growth of Small and medium enterprises in Rwanda. The study adopted a disruptive research design with a combination of both qualitative and quantitative approaches in order to get better analysis of the study. The study revealed that VSLA services (loan, savings and training) positively influenced the SME growth in Kayonza District in the sense that the VSLA services were associated with increased capital base, increased profitability of the business, made business expand its branches, made members business acquire assets, made members business cash flow to improve and above all VSLA savings had made progress from hand to mouth to planning for the future. The study therefore concluded that VSLA contribute to positive SME growth in Kayonza District.

Gichuki, Mulu-Mutuku and Kinuthia (2014) assessed the performance of women owned enterprises accessing credit from Village savings and credit associations in Kenya. The study adopted cross-sectional survey design and a sample of 225 women entrepreneurs who participated

in Village Savings and credit associations from Nakuru town Kenya was used. The results showed that the amount of loans and dividends accessed from Village Savings and credit associations positively influenced the net profits and capital of the women owned enterprises.

Ksoll (2015) assessed the impact of Village Savings and Loan Associations in northern Malawi on household welfare. Using a cluster randomized trial the study investigated the impact of VSLAs in Northern Malawi over a two year period. The study revealed that a positive and significant intention-to treat effects on several outcomes, including the number of meals consumed per day, household expenditure as measured by the USAID Poverty Assessment Tool, and the number of rooms in the dwelling houses. This effect was linked to an increase in savings and credit obtained through the VSLAs, which had increased agricultural investments and income from small businesses. The study concluded that VSLA in rural Malawi has positive effects on household welfare hence supporting its upscaling.

Harelimana (2018) analysed the contribution of Village Savings and Loan Association on welfare improvement in Rwanda. A sample of 80 respondents whose elements were randomly selected from 300 former beneficiaries. The study adopted both qualitative and quantitative research design with inferential statistics being used. The study revealed that VSLA had been positively impacting household welfare through improvement in diet, home assets, and medical insurance access of VSLA members. The study recommends that VSLA be promoted areas of the country to improve financial exclusion.

2.4. Overview of literature and the Conceptual framework

This study adopts the theoretical lens of social capital as postulated by Uphoff (1941) where Social capital is subject to a variety of interpretations, which often confuse the application of the concept. He bases his work on social capital on practical development projects (Krishna & Uphoff, 1999 and Uphoff & Wijayaranta, 2000), and his conceptualization of social capital is commonly employed in contemporary research and practice within fields as diverse as mental health and rural development (Islam, 2006; Pronyk, 2008). Often, the concept refers to the links between people and how individuals take advantage of these links to access certain desirable resources. This mirrors well with the VSLA model as a source of capital for SMEs as it is based on social networks that exist. The conceptual framework presented in figure 2.1 attempts to show the cause-effect that will be used to validate the results.

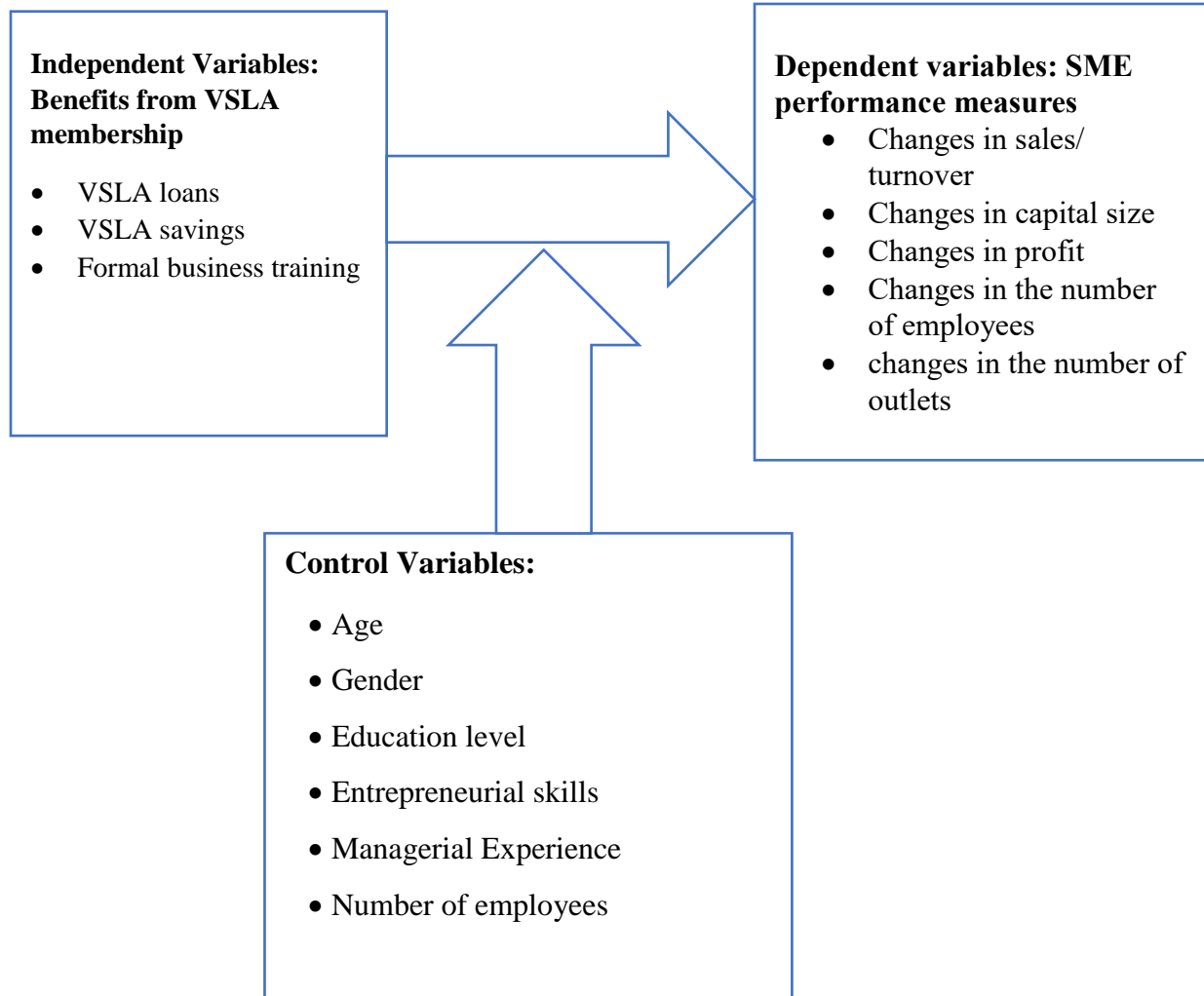


Figure 2.1: Conceptual framework *Source:* Author developed

The conceptual framework shows the interconnections between the dependent variable and the independent variables. This study focused on the linkages between SME performance and the perceived critical success factors. It was set out to investigate whether there was correlation between the factors and SME performance. In this study Independent variable include VSLA credit, VSLA Savings and Formal business training received. Confounding variables include Entrepreneur’s Age, gender, Entrepreneurs’ Education level, Entrepreneur’s Business skills and experience, and number of employees. SMEs performance measures were considered as the dependent variables. In this study performance was assessed by the changes in Sales revenue and capital size.

CHAPTER 3: METHODOLOGY

3.1.Introduction

This chapter presents the methodology that was adopted in the study on the effects of VSLA on the performance of SMEs. The research design was based on the research “onion” model. The chapter also provides the sample size and sampling techniques that were adopted in the study. The chapter finally presents data quality and ethical considerations made.

3.2.Research design

According Cooper and Schindler (2003:146), research design is a plan and structure of investigation so conceived as to obtain answers to the research questions. The plan involves an evaluation aspect that includes identification of data gathering methods, the instruments used and their administration, analysis and organisation of information. Research design gives the logic for answering research questions particularly ‘what’; “how” and ‘why’ type of questions and can generally be classified as qualitative or quantitative. Leedy (1997) states that quantitative research seeks explanations and predictions that can be generalised to other persons and places. The intent is to establish, confirm, or validate relationships, and to develop generalizations that contribute to theory. Quantitative research is based on the measurement of amounts or quantity and is applicable to phenomena that can be expressed in numeric values and can range from simple counts such as the frequencies to more complex test scores (Saunders, Lewis and Thornhill, 2009). Qualitative research, on the other hand, is defined as an enquiry process of understanding a social or human problem, based on building a complex holistic picture, formed with words, reporting detailed views of informants and conducted in a natural setting (Creswell, 2014). Qualitative research is concerned with phenomena aimed at discovering the underlying motives and desires of the participants (Kumar, 1999). Research may also be designed to employ a mixture of both qualitative and quantitative approaches that is mixed-methods design (Saunders et al, 2009). Mixed methods involves integration of qualitative and quantitative research and data in the study. Qualitative data tends to be open-ended without predetermined responses while quantitative data usually includes closed-ended responses such as found on questionnaires (Creswell, 2014). This study therefore employed a mixed-methods approach. In order to present the study professionally, this research was based on the five stages as suggested by Saunders et al (2009) in the “Onion” as one way of

depicting the issues underlying a researcher’s choice of data collection method as shown in figure 3.1.

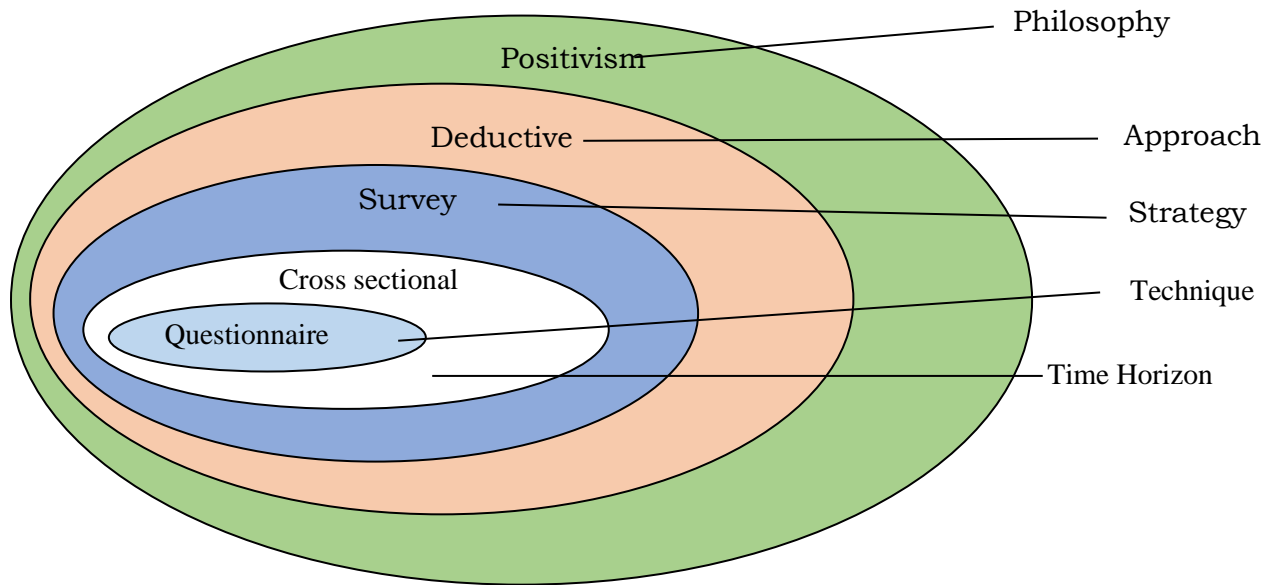


Figure 3.1: The research “Onion” model

3.2.1. Research Philosophy

A research Philosophy is a belief about the way in which data about a phenomenon should be gathered, analysed and used. Three research philosophies underpin the research design in literature. Saunders et al (2009) suggest the following; positivism, interpretivism and realism. Positivist philosophy subscribes to the principles of natural science and involves working with an observable social reality. Positivism is based on the notion that research can be objective, that the researcher is independent and that the results are valid, reliable and replicable. It draws on the notion of reductionism and determinism (Remenyi, 2005). Under the positivist philosophy, there is a general application of outcomes from a research into a law like definition similar to physical science. It is implied in positivism that the researcher must remain independent of the research subjects under study so as not influence the results. Positivist researchers are likely to use a highly structured methodology in order to facilitate replication (Gill and Johnson 2010). Furthermore, the emphasis will be on quantifiable observations that lend themselves to statistical analysis.

As businesses are complex and the environment in which they are being carried out, unpredictable, there may be need to use interpretivist philosophy. Interpretive researchers do not suggest that research can be perfectly objective but they argue that through carefully implementing procedures such as triangulation a large part of bias inherent in individual research can be identified and

controlled. This philosophy recognises the need to understand the subjective reality of those attributes under study thereby getting sense of and understand their motives, action and intentions in a way that is meaningful to the one carrying out the research. In this case, the social construction of the reality behind study must be considered (Saunders et al., 2009). Saunders et al (2009:114) further adds the realist philosophy as an option that can be considered. This is the study of human subjects and the need for an understanding of how people construct their interpretation and meaning out of subjective situations around them. This aims at understanding the broader social forces, structures and processes that influence their views and behaviour. Taking into consideration the arguments raised above the study will adopt positivism and phenomenology philosophies. Unlike positivism philosophy, phenomenology philosophy is concerned with the study of experience from a perspective of the individual and it refers to the way in which humans make sense of the world around them (Saunders et al., 2009).

3.2.2. Research Approach

According to Saunders et al (2009) there are two research approaches that dominate the literature: deductive and inductive approaches. Deductive approach involves a search to explain causal relationships between variables where the emphasis is on collection of quantitative data to test hypothesis of the study. This approach requires independence from the researcher on the study. On the other hand, inductive approach, develops theory from observation of empirical data. Hussey et al (1997) argue that this approach includes inducement of inferences from particular instances. The approach, therefore, involves collection of subjective qualitative data. The rationale behind this is to get a feel of what is going on and better understand the nature of the problem at hand. In this regard, the study collected data from individual experiences which was subjective to the individuals. Theory would therefore follow data other than vice versa with deduction. In this study, both approaches were adopted since personal opinions on the effects of VSLAs on the performance of SMEs were assessed together with the challenges that were qualitative in nature.

3.2.3. Research Strategy

Saunders et al. (2012) point out that there are different research strategies that are used in a research process and these are: case study, experiment research, surveys, grounded theory, ethnography, action research. Creswell (2013) describes a research strategy as a set of goals related to an overarching aim or vision, a plan of action for achieving the objectives and measures for showing when the goals have been attained. Blaikie (2009) contends that research strategy provides a set of

procedures for achieving research objectives. In this study, a survey approach was deemed appropriate to address the research objectives in order to gain better understanding of the context of research as argued by Denscombe (2003).

3.2.4. Research Time Horizon

The study was cross-sectional as suggested by Saunders et al. (2009). Due to time constraints it was impossible to carry out a longitudinal analysis. The study was intended to understand the effect of VSLA membership on performance of SMEs. The study employed matching which is a statistical technique used to evaluate the effect of a treatment by comparing the treated and the non-treated units in an observational study or quasi-experiment (Rubin, 1973; Anderson et al., 1980 & Anderson et al., 1981). In this particular case VSLA membership was considered as the treatment, hence matching was done for every treated units (VSLA members) against at least one non-treated units (Non-VSLA members) with the same observable characteristics (Micro-small and medium enterprise owners) whom the effect of the treatment can be assessed. By matching treated units to similar non-treated units, matching enables a comparison of outcomes among treated and non-treated units to estimate the effect of the treatment reducing bias due to some confounding effects (Rubin, 1973; Anderson et al., 1980 & Anderson et al., 1981).

3.2.5 Research Technique

Data was collected using semi-structured questionnaires which were administered through personal interviews. According to Saunders et al (2009) semi-structured questionnaire is described as a sort of data collection instrument which consists of both open-ended and close-ended set of questions. For the purpose of this study the questionnaire also contained questions with categorical responses some of which were measured on a Likert scale (strongly disagree, disagree, not sure, agree and strongly agree). Focused group discussions and key informant interviews were conducted to triangulate the survey results.

3.3. Research Population and Sampling Frame

Houser (2012) defines a population as the whole set of individuals that the researcher is concerned with. Cooper and Schindler (2003) define a research population as the total collection of the elements about which we wish to make inferences. This study assessed the effect of VSLAs on the performance of SMEs in Lilongwe. The target population were all small and medium enterprises that were operating in Lilongwe district. The sampling frame was divided into two: members and non-members of VSLA, this would constitute SMEs that have been in operation since 2015.

3.4. Sample determination, Sample size and Sampling technique

A sample is a subgroup, subset or part of a larger population (Saunders, et al, 2005). The study used Cochran's formula (1977) to determine the sample size because there were many SMEs whose owners were VSLA members and the population was not known. A sample size of 666 was calculated based on Cochran's formula for calculating sample when population is infinite which is given by:

$$n_0 = \frac{Z^2 pq}{e^2}$$

Where n_0 is the sample size; Z is the selected critical value of the desired confidence level and e is the margin of error or the desired level of precision, the level of precision at 99% confidence level. p is an estimated proportion of attribute that is present in the population and $q = (1 - p)$.

For the purpose of this study $Z = 2.58$ and $e = 0.05$, the level of precision at 99% confidence interval. $p = 0.50$ and $q = (1 - p) = 0.50$. The sample determined was divided into half: 50% for VSLA members and the other proportion for non-members, this was done as a matching technique. A systematic random sampling technique was used to select SMEs amongst VSLA members and non-members.

3.4.1 Data collection instrument

Structured questionnaires were used as the instrument for collecting data. The questionnaires had three sections: Section A, B and C. Section A sought information on social economic characteristics of the respondents. Section B and C sought information relating to VSLA members characteristics and Enterprise information, respectively. A total of 666 structured questionnaires were administered to both VSLA members and non-members. However, out of 666 questionnaires only 596 were filled and returned representing a response rate of 89%. Therefore the findings that are presented in this chapter were obtained from 596 participants of the study.

3.4.2. Pilot Study

Before the questionnaires were disseminated for the final data collection they were pre-tested with 10 randomly selected respondents and necessary adjustments were made to the questionnaires afterwards. The objectives of pre-testing the research instrument were to verify whether the questionnaires were clear to the respondents, establish whether the questionnaires would

effectively meet the study data demands and to identify any problems respondents would encounter in completing the questionnaires that may not have been foreseen when constructing the questionnaire

3.5.Data analysis

The data was analyzed using Stata14 into charts, figures, tables and graphs. This was done for easy interpretation of the results. The analytical techniques that were adopted included the following: Correlation Analysis, and independent sample t-test and regression analysis.

3.5.1. Measurement of Performance of SMEs

Performance of an SME was measured by the sales growth and increase in capital. Growth in sales was measured as a qualitative choice variable derived from a question on the changes in sales and capital in the period of VSLA credit was used.

$$Growth\ in\ sales = \frac{Sales_{p2} - Sales_{p1}}{Sales_{p1}} \quad (1)$$

$$Growth\ in\ capital = \frac{Value\ of\ capital_{p2} - Value\ of\ capital_{p1}}{Value\ of\ capital_{p1}} \quad (2)$$

Where p_1 represents a period without VSLA and p_2 represents a period with VSLA Growth in sales and assets would therefore take a values ranging from -1 to 1 : with three possible options, negative signifying growth (Negative values), no growth (zero values) and positive growth (all positive values).

3.5.2. Independent Sample T-Test

An independent sample t-test was used to test the difference between VSLA members and non-members on key continuous variables: change in sales, change in value of assets.

3.5.3. Assessing the effects of VSLA on performance of SMEs

The effects of VSLA on the performance of SMEs was assessed using the multiple linear regression model given in equation 3.

$$SMEP = f(VSLAM, CA, SA, BT, ABO, GDBO, ELBO, BE, NE, NOB).....(3)$$

Where:

SMEP is dependent variable (*growth in sales or growth in capital*) which is continuous and the following are explanatory variables:

VSLAM is VSLA member

CA is the total credit amount

SA is the total amount of savings

BT is the business training

ABO is the age of business owner

GDBO is the Gender of the business owner

ELBO is the Education Level of the business owner

BE is the business experience, and

NE is the number of employees

Mathematically, the first estimated model which involved growth in sales was:

$$\text{Sales Growth}_i = \beta_0 + \beta_1 \text{VSLAM}_i + \beta_2(\text{CA}) + \beta_3(\text{SA}) + \beta_4(\text{BT}) + \beta_5(\text{ABO}) + \beta_6(\text{GBO}) + \beta_7(\text{ELBO}) + \beta_8(\text{BE}) + \beta_9(\text{NE}) + \varepsilon_i \dots \dots \dots(4)$$

The second estimated model which involved growth in capital was:

$$\text{growth in capital}_i = \beta_0 + \beta_1 \text{VSLAM}_i + \beta_2(\text{CA}) + \beta_3(\text{SA}) + \beta_4(\text{BT}) + \beta_5(\text{ABO}) + \beta_6(\text{GBO}) + \beta_7(\text{ELBO}) + \beta_8(\text{BE}) + \beta_9(\text{NE}) + \varepsilon_i(5)$$

Where:

β_0 is the constant parameter

β_1 is the coefficient of VSLAM

β_2 is the coefficient of CA

β_3 is the coefficient of SA

β_4 is the coefficient of BT

β_5 is the coefficient of ABO

β_6 is the coefficient of GBO

β_7 is the coefficient of ELBO

β_8 is the coefficient of BE

β_9 is coefficient of NE

ε_i is the error term

The underlining assumptions of the model are:

- i. A linear relationship between the dependent variable and the independent variables.
- ii. Multivariate Normality—Multiple regression assumes that the residuals are normally distributed.
- iii. No Multicollinearity—multiple regression assumes that the independent variables are not highly correlated with each other.
- iv. Homoscedasticity—This assumption states that the variance of error terms are similar across the values of the independent variables.

3.5.4. Diagnostic Tests

Test for multicollinearity was conducted using Variance Inflation Factor (VIF).

3.6.Data Quality and Reliability

Reliability is the overall consistency of a measure. Saunders et al (2009) argues that data quality should be exposed to the Cronbach alpha for validity as agreed by Creswell (2014). Cronbach's (alpha) is used as an estimate of the reliability.

In this case, a Cronbach value of 0.61 was found. According to Creswell (2014), a Cronbach alpha coefficient below 0.65 defines the reliability of the data and thereby validity of the tool that was designed, captured and its validity assessed.

3.7.Ethical considerations

In conducting the research adherence to ethical considerations was considered paramount to the successful compilation of findings and results. O'Leary (2005, p72-73) calls for ethical

consideration procedures especially when dealing with human subjects. There was adherence to ethical standards throughout the data collection process.

The first step was to obtain informed consent and then voluntary participation from the participants. Informed consents were sought by providing the participants with sufficient knowledge about the purposes and intentions of the study, as well as the researcher involved in the research study. In this way, participants were free to make informed decisions whether or not to participate in the study. Furthermore, the study guaranteed confidentiality and anonymity to the participants. The study sought to protect the participants by ensuring anonymity. No use of personal names was made throughout the research. When completing the written questionnaire, participants were requested not to indicate their names on the questionnaire. The names of all informants were coded to conceal their identity and to maintain confidentiality. This also applied during the interviews. Participants were assured that both the interview and questionnaire data would remain confidential and, if appropriate remain anonymous. Finally, the issue of confidentiality was emphasized to all the participants and assured the participants that the information would only be used for the author's purposes and not be passed on to third party. In the report, the level of disclosure of the participants corresponds to the agreements made during the interviews. All names of community members given in the report are anonymous.

3.8. Chapter summary

This chapter has presented the methodology that was adopted in the study on the effects of VSLA on the performance of SMEs. The research design was based on the research onions. The chapter also has provided the sample size and sampling techniques that were adopted in the study. The chapter has finally presented data quality and ethical considerations made.

CHAPTER FOUR: PRESENTATION OF RESULTS AND DISCUSSION

4.1. Introduction

This chapter presents and discusses the results of data analyses on the assessment of the effect of VSLA on the performance of SMEs in the city of Lilongwe. The findings are presented in form of descriptive statistics complemented by statistical parameters and frequency tables. The chapter first presents the findings on the social demographic characteristics of the respondents, followed by the characteristics of business enterprises, VSLA membership, the effect of VSLA has been assessed using multiple regression analysis. The chapter has also outlined results of important diagnostic tests that were conducted.

4.2. Socio-demographic Characteristics of Respondents

The study also assessed characteristic of SMEs. The variables that were assessed include: Age, household size, gender and education level.

4.2.1. Age and Household Size of the Respondent

Age of SME owners is important as they tend to affect decision making process for the business. Furthermore, household size also tends to affect the running of business as some members may be involved in the business affairs or may benefit from the proceeds of the business. Table 4.1 presents results on the distribution of respondents' age and household size. Results indicate that the average age was 38 years but ranged from 22 years to 69 years. This entails that the sampled SMEs were owned by mostly the youth and the economically active bracket of the population. Results further indicate that average household had 5 members but ranged from 1 to 10.

Table 4.1: Age and Household Size of a Respondent ($n=596$)

Variable	Observations	Mean	Std. Dev.	Min	Max
	(<i>n</i>)				
Age of Business owner	596	37.77517	8.185237	22	69
Household Size	596	4.755034	1.693405	1	10

4.2.2. Gender of Respondent

Gender of the respondents is very crucial for the determination of the operations of the businesses. Gender of the business owner was, therefore, a very crucial parameter for the study. Figure 4.1 presents results on gender of respondents. Results also indicate that the sample was dominated by female who constituted 64% whilst the 36% represented males. This is an indication that the gender balance was not observed in the administration of questionnaires. Furthermore, it also indicates the progress made about women empowerment in Malawi.

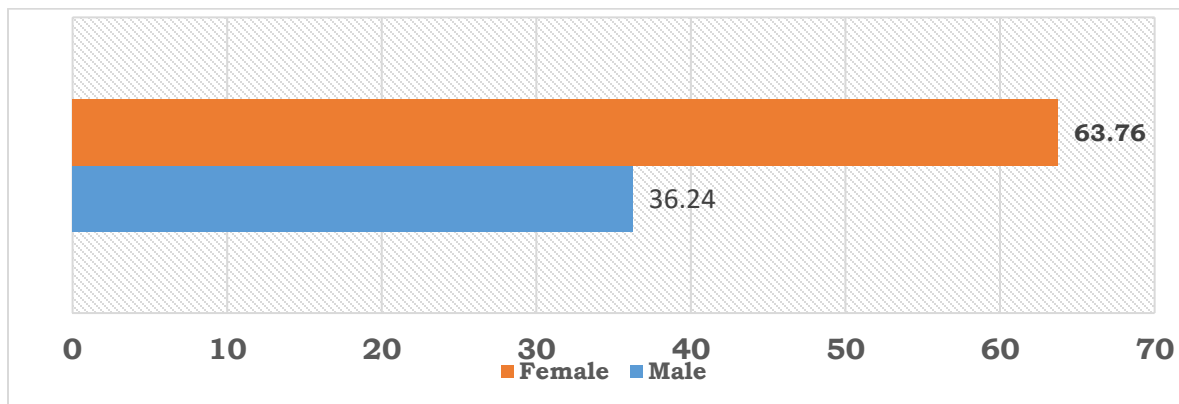


Figure 4.1: Gender of Respondent ($n=596$)

4.2.3. Education Level

Education level of the enterprise owner plays a very important role in business management. It shapes the ability of the business owner to read and write and make sound decisions. Figure 4.2 presents results on education level of the respondents. Results indicate that the respondents were dominated by those with secondary school education, followed by those with primary education representing 72% and 18% respectively. The least represented were those with no education who accounted for 1% of the respondents.

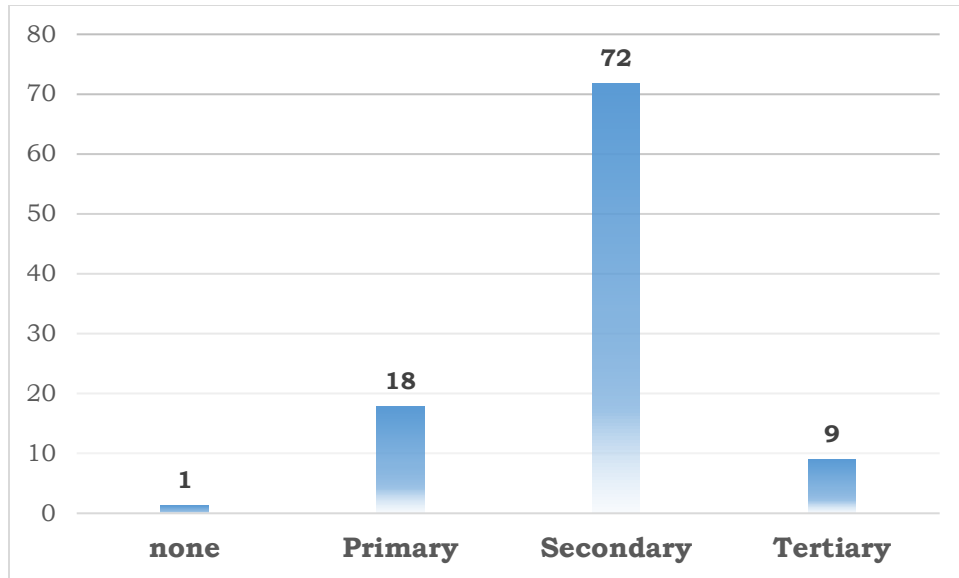


Figure 4.2: Education Level of the Respondent ($n=596$)

4.3. VSLA Characteristics

The study considered the following characteristics of VSLA: Membership, membership years and registration status of the VSLA.

4.3.1. VSLA Membership

This study sought to assess the effect of VSLA on the performance of SMEs. It was therefore imperative to indicate VSLA membership. Figure 4.3 presents results on VSLA membership. Results indicate that the sample was balance represented by 50% VSLA members and 50% non-VSLA members. This was deliberate as the non-VSLA members were considered as non-treated group of the study.

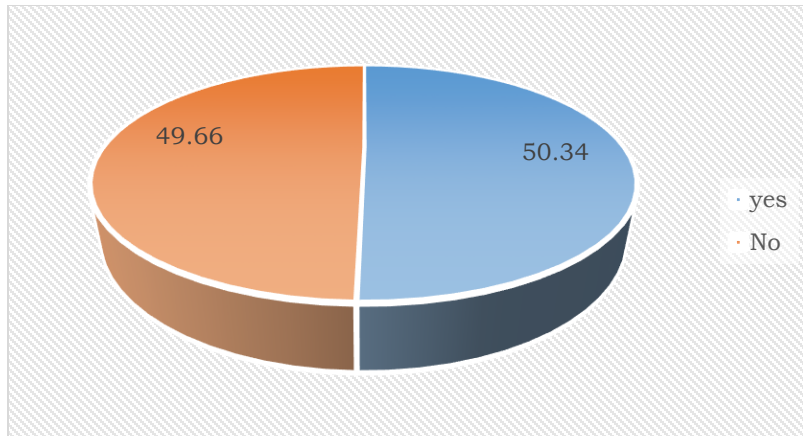


Figure 4.3: VSLA Membership (n=596)

4.3.2. VSLA Membership Years

The study also sought to know the membership years of VSLA members. Figure 4.4 presents results on VSLA membership years. The study established that most (44%) of the VSLA members had been members for about 5 to 7 years, followed by those who have over 7 years membership representing 29%. The rest (27%) were those with 1 to 4 years of membership. This implies that most members had been members for a long time enough to understand the dynamics of the VSLA.

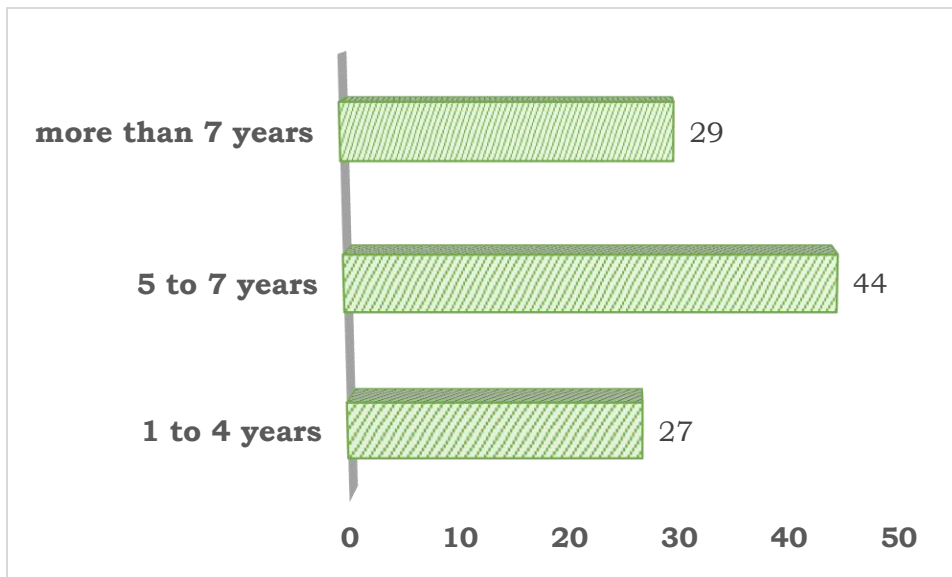


Figure 4.4: VSLA Membership years (n=300)

4.3.3. VSLA Registration

The study also sought to understand the registration status of the VSLAs. Figure 4.5 presents results on the registration status of VSLA. Results indicate that majority of the entrepreneurs, standing at 75%, operate in non-registered VSLA while 28% operate in registered VSLA. This is a worrying revelation for government as the unregistered VSLA belong to the informal sector.

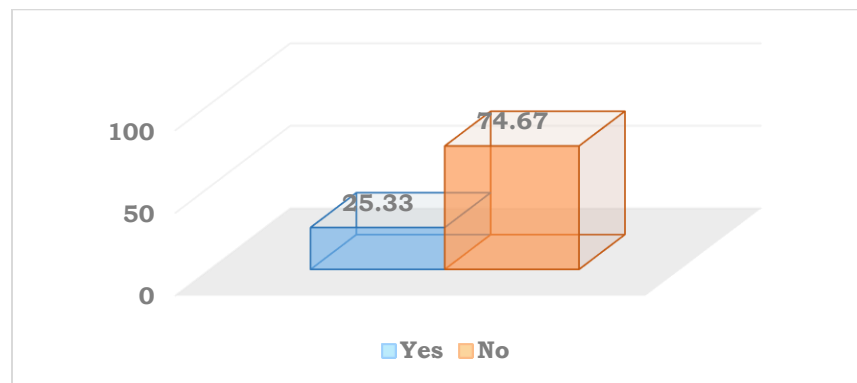


Figure 4.5: VSLA Registration (n=300)

4.4. Perception of VSLA Loan Facility

Accessing loans is considered to be an important factor in increasing the development of SMEs. VSLAs provide loans that have conditions attached for members. It is these characteristics that attract members to join VSLAs. Table 4.2 presents results on perception of VSLA loan facility. Results indicate that a majority of SMEs who are VSLA-members, 92%, perceive that VSLA provide required amount of funding (loan) to the clients. This would imply that VSLA indeed provide required amount of loan to the clients. It is believed that credit augments income levels, increases employment and thereby alleviates poverty. As argued by Sibomana and Shukla (2016), it is believed that access to credit enables poor people to overcome their funding challenges and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production

Furthermore, results indicate that 88% of SMEs who are VSLA members, perceive that VSLAs provide loans to their clients within a short time. This implies that VSLAs provide loans to their members in a timely manner. With regard to collateral, results indicate 72% of SME who are VSLA members, perceive that VSLAs provide loan without collaterals. This was expected as member's savings, as a condition, are used as a collateral.

Furthermore, results indicate that 62% of SME who are VSLA members, perceive that VSLAs provide loans to the clients at a low interest rate. This is due to the fact that VSLAs use the members very own savings to lend out to its members. Hence the interest rates are kept low in order to promote members development. With regard to flexible repayment schedule, results indicate that 63% of SMEs who are VSLA members, perceive that VSLAs provide loans to the clients with flexible repayment schedule. This is due to the fact that members' savings contributions are paid in weekly with an allowance to be flexible in times of need.

Table 4.2: Perception of VSLA Loan Facilities

Variable	Response in percentage (<i>n=300</i>)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
VSLA provides required amount of loan to the clients	2	1	5	19	73
VSLA provides loan to the clients within a short time	1	4	8	37	51
VSLA provides loan without collaterals	7	2	19	28	44
VSLA provides the loan to the clients at a low interest rate	3	7	29	25	37
VSLA provides loans with flexible repayment schedule	1	5	31	32	31

4.5. Perceived effect of VSLA loans services on growth of SME's

This study also assessed the perceived effect of VSLA loan service on growth of SMEs. Table 4.3 presents the results on perceived effect of VSLA loan.

Table 4.3: VSLA Loan Facilities and Business Growth of VSLAs Members

Variable	Response in percentage (<i>n=300</i>)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
VSLA loan has increased Business capital base	2	1	5	26	66
VSLA loan has increased profitability of my business	1	1	7	41	51
VSLA loan has made my business expand its branches	10	15	15	39	21
VSLA loan has made my business acquire assets	9	10	19	32	29
VSLA loan has made my business cash flow to improve	2	5	31	30	31
VSLA loan has made my progress from hand to mouth to planning for the future	9	3	21	32	35

Results indicate that a majority of SME who are VSLA members, ranging from 60% to 92%, perceive that VSLAs loan facility positively affects the growth of SMEs through: increased business capital base, increased profitability of my business, expansion of business branches, Acquire business assets, and improvement in cash flow and progressing in business planning.

4.6. Perception of VSLA savings Facility

Savings are a form of capital formation that help SMEs finance future business activities. Table 4.4 presents results on the perception of VSLA savings.

Table 4.4: VSLA savings facility characteristics for members

Variable	Response in percentage (<i>n=300</i>)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I contribute monthly /weekly to the group savings		1	5	26	68
The savings contribution is manageable.	1	1	7	36	55
I trust my saving group members	3	3	42	27	25
My contributed fund is safe	1	5	21	43	31
We divide the saved funds at an agreed interval	1	2	27	27	43
One has a right to refund once he withdraws from the saving group	9	4	27	32	29

Foremost, results indicate that a majority of SMEs who are VSLA-members (94%), willingly make available their monthly and weekly earnings to the group for saving. This implies that VSLAs have rules and procedures to manage their savings effectively and compel members to honour their contributions.

Furthermore, the results indicate that a majority of SMES who are VSLA members perceive VSLA savings as manageable, savings groups are highly trusted, are safe, divided at the right interval and that they have the right to refund in times of withdrawal from the group. This is as observed from the proportions of 91%, 52%, 74%, 70% and 61%, respectively. This implies that high levels of trust, commitment and flexibility compel members to saving in the grouping.

4.7. Perceived effect of VSLA savings services on growth of SME's

This study also assessed the perceived effect of VSLA savings on growth of SMEs. Table 4.5 presents results on perceived effect of VSLA savings.

Table 4.5: VSLA savings facility and Business growth VSLAs Members

Variable	Response In Percentage (<i>n=300</i>)				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
VSLA Capital formation (savings) has increased capital base increased of business	1	1	5	27	66
VSLA Capital formation (savings) has increased profitability of business	1	1	7	39	52
VSLA Capital formation (savings) has made business expand its branches	7	16	15	36	25
VSLA Capital formation (savings) has made business acquire assets	9	11	20	33	28
VSLA Capital formation (savings) has made cash flow to improve	2	5	32	26	35
VSLA savings has made business progress from hand to mouth to planning for the future	10	3	23	33	31

Results indicate that majority of SMEs who are VSLA members, ranging from 61% to 93%, perceive that VSLAs savings facility positively affects the growth of SMEs through: increased capital base, increased business profitability, branch expansion, acquire business assets, cash flow to improvement and business planning.

4.8. Business characteristics of SMEs

This section assesses general aspects, expectations and challenges that a business faces.

4.8.1. Assessing general business aspects SMEs

There are several aspects of a business that are important. This study sought to assess some of these business aspects. Tables 4.6a and 4.6b presents a summary of general business aspects for SMEs.

Table 4.6a: Business Characteristics of Respondent's SME's

Variable	Mean (<i>n</i>=596)	Standard Deviation	Min	Max
Years doing the business	10	3	1	20
Number of Employees	3	1	0	5
Business experience	10	3	1	20
Value of assets for the business	2, 618,434	3405106	58,000.00	43000000
Start-up Amount	373295	789255	95000	9000000
Loan acquisition over five years	133000000	22900000	0	395000000
Savings made over five years	1589807	3006141	0	39200000

Table 4.6b: Business Characteristics of Respondent's SME's

Variable	Category	Frequency <i>(n=596)</i>	Percentage
Type of business	Agro-trading	128	21
	Retailer Trader	130	22
	Artisian (Carpenter, Builder, Plumber)	68	11
	Services (Barbershop, Saloon, Restaurants)	158	27
	Other	112	19
Business registration	Yes	24	4
	No	570	96
Runs the business	Family Member	72	12
	Myself	286	48
	Non-family member	238	40
Business Location	City Market	46	8
	Township Market	180	30
	Roadside	88	15
	Home/Local Market	282	47
Source of start-up capital	Personal Savings	224	38
	Other Businesses	230	39
	Friends and Family	48	8
	Loan	94	16
Loan Acquisition	yes	332	56
	No	262	44
Source of loan	VSLA	300	85
	MFI (NGO/Private)	24	7
	Commercial Bank	10	3
	Other	20	6
Savings Made	Yes	576	97
	No	18	3
Savings with	VSLA	300	51
	MFI (NGO/Private)	12	2

	Commercial Bank	228	39
	Other	50	8
Business Management training	Yes	84	14
	No	510	86
Training provider	VSLA Initiative	14	18
	Government Initiative	18	22
	Other (Personal initiative)	48	60

Results indicate that the average business experience years (and indeed years doing business) was 10 but ranged from one to 20 years. Number of employees range from none (implying running their own business) to 5 employees with an average of 3 employees. Furthermore, on average, SMEs have a value of business assets of MK2, 618,434 but ranged from MK58, 000 to MK43,000,000.00. The average start-up amount for SMEs in this study was MK373, 295 but ranged from MK95, 000 to MK9, 000,000. Furthermore, for the past five year period, SMEs had acquired loans averaging MK133, 000, 000 but ranged with some not acquiring at all whilst others acquiring a maximum of MK395, 000, 000. With regard to savings, SMEs averaged MK1, 589, 807 with some saving up to MK39, 200, 000 over a period of five years.

With regard to type of business the SMEs in this study were somewhat evenly distributed amongst being into Agro-trading, Retailer Trading, Artisian (Carpenter, Builder, and Plumber) and Services (Barbershop, Saloon, Restaurants) as can be seen from the proportions in table 4.6b. With Regard to registration of their businesses, results indicate that the majority had not registered their businesses representing 96%. This implies that the majority of the SMEs belonged to the informal sector and further that implying that government not only doesn't recognise them but also is unable to collect tax revenue.

With regard to running a business, results indicate that the majority of SMEs are run within the family representing 60% with 40% being run by non-family members. Results further revealed that a majority of SMEs run their business at home/local market representing 47% followed by 30% who run their businesses at a township market. With regard to source of startup capital, results indicate that a majority of SMEs used either personal savings or money from other businesses as a source of start-up capital representing 77% with only 16% having acquired a loan as a source of

capital. With regard to loan acquisition, results indicate that a majority has acquired a loan representing 56% of which 85% had acquired the loan through VSLA whilst the remaining proportion had acquired through commercial banks, Macro-finance institutions and other sources.

Furthermore, with regard to savings, results indicate that 97% of the SMEs had made savings of which 51% had made their savings at their respective VSLA (representing 100% of VSLA members) whilst 39% had made their savings with commercial banks. Business trainings tend to add value to skills that business owners have. Results reveal a worrisome development that a majority of SMEs had not received any business training representing 86%. For the 14% that received training, a majority accessed it through personal initiative representing 60% whilst the rest accessed the training either through a VSLA or government initiative.

4.8.2 Assessing Business Expectations for the Next Five Years

Enterprises that have a vision plan for their future well in advance. This study also assessed and evaluated SMEs future expectations. Table 4.7 presents results of ranked business expectations for SMEs. Results indicate that a majority of SMEs indicated that, in the next five-years, they expect to improve profit margin, open new retail shops, acquire high value personal assets (car, motor cycle etc.), general business growth and own business premises to save on rentals. With regard to ranking, improved profit margin was ranked first followed by opening of new retail shops as their business expectations. The least favoured business expectation was to acquire high value personal assets (car, motor cycle etc.). It is imperative to note that SMEs have a vision and mission which will motivate and compel them to deliver.

Table 4.7: SMEs Ranked Business expectations for the next five years

Variable	Category	Frequency	Percentage	Rank
		<i>(n=596)</i>		
Improved profit margin	Yes	546	92	1
	No	48	8	
Open new retail shops	Yes	312	53	2
	No	282	47	
Acquire high value personal assets (car, motor cycle etc.)	Yes	406	68	5
	No	188	32	
General business growth	Yes	542	92	3
	No	50	8	
Own business premises to save on rentals	Yes	318	54	4
	No	274	46	

4.9. Assessing Challenges Faced by SME

SMEs face various challenges in their businesses. Table 4.8 presents results on ranked challenges. Results reveal that a majority of SMEs consider competitors that offer lower prices as challenges with less than half of them indicating high tax rates, power outages and long distance to formal market as being challenges. With regard to ranking of these challenges, competitors were ranked the most pressing challenge followed by high tax rates with long distance to formal market indicated as being the least pressing challenge. This was expected considering that these SMEs do not operate in a vacuum.

Table 4.8: Ranked Business Challenges

Variable	Category	Frequency	Percentage	Rank
<i>(n=596)</i>				
Competitors offering lower prices	Yes	370	62	1
	No	224	38	
High tax rates	Yes	230	39	2
	No	358	61	
Power outages	Yes	128	22	3
	No	466	78	
Long distance to formal market	Yes	258	44	4
	No	332	56	

4.10. Performance of SMEs

Performance measurement is an important aspect of any business as it provides a clear direction on the path that an organisation is on. There are different measures of performance and for the purpose of this study the following measures were considered: change in number of employees, change in value of business assets and change in sales.

4.10.1. Change in Number of employees

Number of employees is used to classify the size of a business into micro, small and medium. Changes in number of employees may imply that an SME is graduating from a lower level to a higher level or vice versa. Figure 4.6 presents results on change of number of employees. Results indicate that the majority of SMEs were stagnant in number of employees as seen from 58% who experienced no change in number of employees. Only about 35% have at least one more employee added to their team with about 7% of them having at least three members added to their team. This implies that a majority of SMEs remained in the previous scale of classification of SMEs.

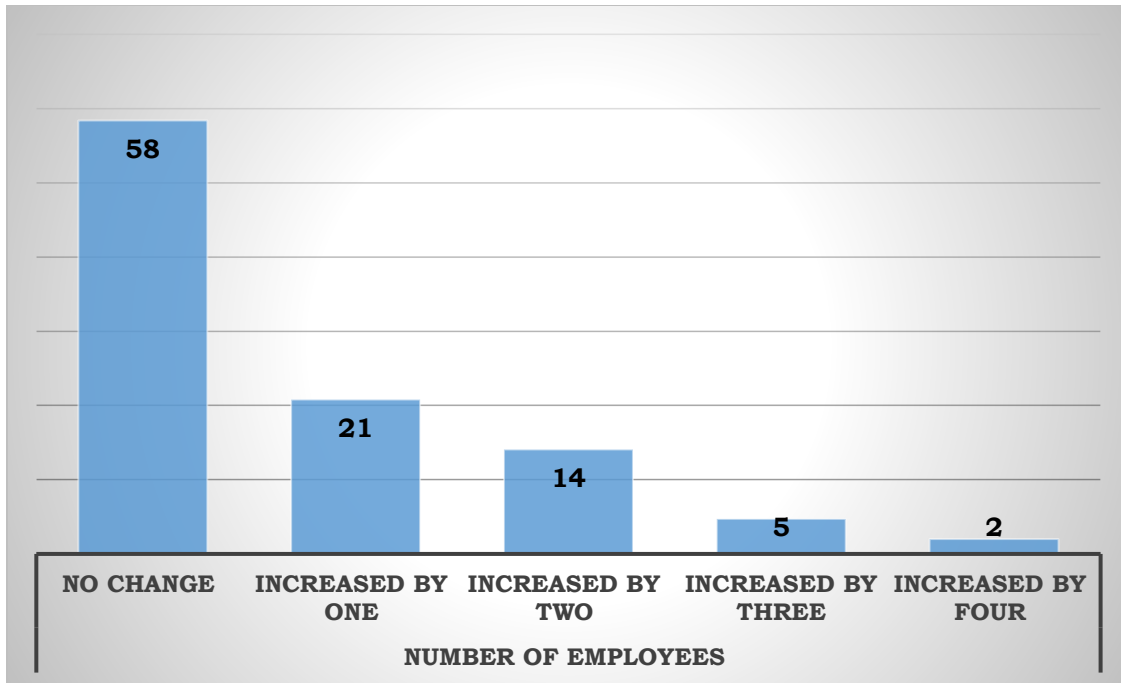


Figure 4.6: Change in Number of Employees ($n=596$)

4.10.2. Change in Value Business Assets

Value of business assets is a good indicator of SMEs progress as it determines the salvage value of a business. Figure 4.7 presents results on change in value of business assets. Results indicate that a majority of SMEs experienced an increase in value of business assets, representing 97% with only 3% having the value of business assets decreasing. Although the majority experienced a positive phenomenon, it is worrying for SMEs that experienced a decline in the value of their assets.

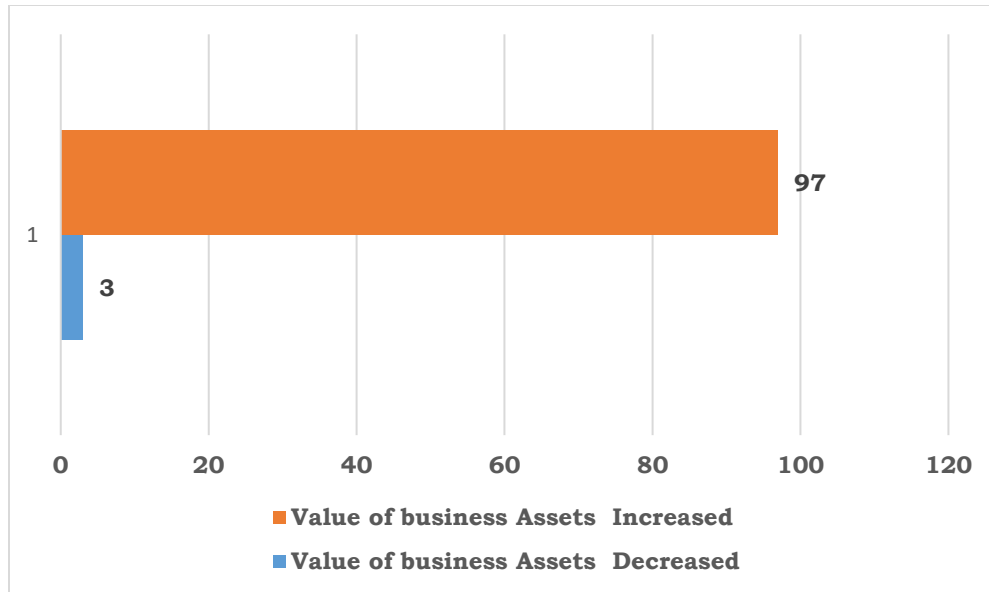


Figure 4.7: Value of Business Assets ($n=596$)

4.10.3. Change in Business Sales

Change in business sales is another equally important measure of performance for SMEs. Volume of sales is a determinant in the market share analysis of business enterprises. SMEs are in pursuit of different objectives and increasing market share is one important business objective. Figure 4.8 presents results on change in business sales. Results indicate that a majority of SMEs experienced an increase in business sales, representing 95% with only 5% having experienced a decrease in business sales. This implies that a majority of SMEs had consolidated their share in the market. Although the majority experienced a positive phenomenon, it is also worrying that some SMEs experienced a decline in the business sales.

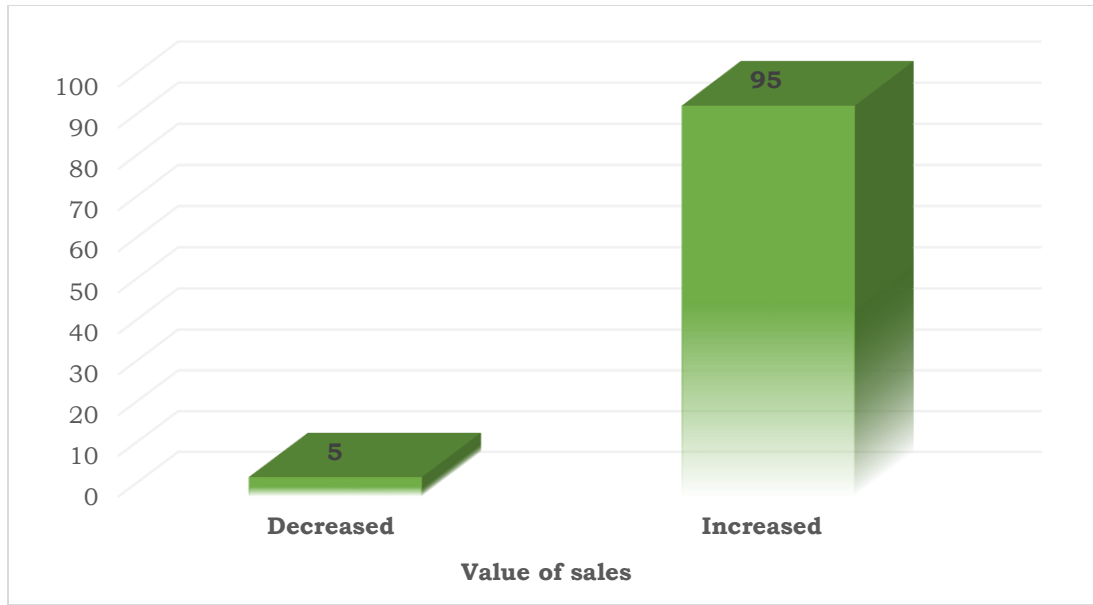


Figure 4.8: Value of Business sales ($n=596$)

4.11. Assessment of the differences in SMEs' performance between VSLA and non-VSLA Members

The study sought to test the statistical significance of the difference in SME's performance between SMEs who are VSLA members and non-VSLA members. T-test of independence was used where equal variance was assumed. For this analysis, there were two periods that were considered: period when VSLAs were not formed in the study (implying no influence) and the current period for the study. The change therefore refers to the difference in variable during VSLA operations and before their operations in the study area. For this analysis the performance variables that were considered were: change in number of employees, change in asset values and change in value of sales.

4.11.1. Assessing the Change in Number of Employees

The change in number of employees is an indicator for SMEs progress made over a time period. It is imperative to note that number of employees is an important variable in categorizing the size of an SME. The null hypothesis for this independent sample t-test was that there is no statistically significant difference in change of number of employees between SMEs who are VSLA members and non-VSLA members. The alternate hypothesis was that there is a significant difference in change of number of employees between SMEs who are VSLA members and non-VSLA

members. Table 4.9 presents results on independent sample t-test. Results indicate that the null hypothesis is rejected at 99% confidence interval as evidenced by a p-value of 0.000. This implies that there is indeed a statistically significant difference in change of number of employees between SMEs who are VSLA members and non-VSLA members. Furthermore, the results indicate that, on average, SMEs who are VSLA members employed at least one more member to help run their business entity compared to SMEs who are non-VSLA members. This can attributed to the SMEs' association with the VSLAs. These findings agree with those of Sibomana and Shukla (2016) who found out that SMEs whose owners were VSLA members were more likely to have increased business operations and therefore needed to employ more people to support such activities.

Table 4.9: Two Sample T-Test for the Change in Number of Employees

<i>Group</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Err.</i>	<i>Std. Dev.</i>	<i>95% Confidence Interval</i>	
<i>Yes</i>	300	0.993333	0.065257	1.130286	0.8649119	1.121755
<i>No</i>	296	0.425676	0.044429	0.764387	0.3382375	0.5131138
<i>Combined</i>	596	0.711409	0.041214	1.006168	0.6304663	0.7923525
<i>Difference</i>		0.567658	0.079144		0.4122223	0.7230931
<i>Diff = mean(yes) - mean(No)</i>					<i>t = 7.1725</i>	
<i>Ho: diff = 0</i>					<i>degrees of freedom = 594</i>	
<i>Ha: diff < 0</i>			<i>Ha: diff != 0</i>		<i>Ha: diff > 0</i>	
<i>Pr(T < t) = 1.0000</i>			<i>Pr(T > t) = 0.0000</i>		<i>Pr(T > t) = 0.0000</i>	

4.11.2. Assessing the Change in value of Business Assets

The change in value of business assets is a very important performance indicator for SMEs which is also measured over time. It is important to also note that value of business assets is in most cases positively correlated with the size of an enterprise. The null hypothesis for this independent sample t-test was that there is no statistically significant difference in change of value of business assets between SMEs who are VSLA members and non-VSLA members. The alternate hypothesis was that there is a significant difference in change of value of business assets between SME's who are VSLA members and non-VSLA members. Table 4.10 presents results on independent sample t-test. Results indicate that the null hypothesis is rejected at 99% confidence interval as evidenced

by a p-value of 0.000. This implies that there is indeed a statistically significant difference in change of value of business assets between SME's who are VSLA members and non-VSLA members. Furthermore, the results indicate that, on average, SMEs who are VSLA members had an increase in value of business assets of MK1,159, 799 more compared to SME's who are non-VSLA members. This can attributed to the SME's association with the VSLA. The findings agree with Sibomana and Shukla (2016) revealed that SMEs whose owners were VSLA members were more likely to increase their value of business assets due to readily available loan facilities only accessible to members.

Table 4.10: Two Sample t-test for the change in value of business assets

<i>Group</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Err.</i>	<i>Std. Dev.</i>	<i>95% Confidence Interval</i>	
<i>Yes</i>	300	2447333	138573	2400162	2174630	2720035
<i>No</i>	296	1287534	113716	1956443	1063737	1511331
<i>Combined</i>	596	1871325	92771.4	2264839	1689126	2053525
<i>Difference</i>		1159799	179502		807261.9	1512335
<i>Diff = mean (yes) - mean (No)</i>					<i>t = 6.4612</i>	
<i>Ho: diff = 0</i>					<i>degrees of freedom = 594</i>	
<i>Ha: diff < 0</i>			<i>Ha: diff != 0</i>		<i>Ha: diff > 0</i>	
<i>Pr(T < t) = 1.0000</i>			<i>Pr(T > t) = 0.0000</i>		<i>Pr(T > t) = 0.0000</i>	

4.11.3. Assessing the Change in Business Sales

The change in business sales is a very important performance indicator for SMEs progress which is measured over time and determines the position in the market. Every enterprise, just like SMEs, strives towards increasing business sales and their value. It is through business sales that an enterprise consolidates its market share. The null hypothesis for this independent sample t-test was that there is no statistically significant difference in change of value of business value of sales between SMEs who are VSLA members and non-VSLA members. The alternate hypothesis is that there is a significant difference in change of value of business sales between SMEs who are VSLA

members and non-VSLA members. Table 4.11 presents results on independent sample t-test. Results indicate that the null hypothesis is rejected at 99% confidence interval as evidenced by a p-value of 0.000. This implies that there is indeed a statistically significant difference in change of value of business sales between SME's who are VSLA members and non-VSLA members. Furthermore, the results indicate that, on average, SMEs who are VSLA members had an increase in value of business sales MK288, 720 more compared to SMEs who are non-VSLA members. This can attributed to the SMEs' association with the VSLA. The findings are consistent with what is in literature as argued by Sibomana and Shukla (2016) that the trainings that VSLA members receive, which may include marketing, put them at a better advantage to increase their business sales compared to non-VSLA members, *ceteris paribus*.

Table 4.11: Two Sample T-Test for the Change in Value of Business Sales

Group	Obs	Mean	Std. Err.	Std. Dev.	95% Confidence Interval	
Yes	300	697741.7	54271.84	940015.9	590938.5	804544.8
No	296	409020.9	42985.5	739550.5	324423.8	493618
Combined	596	554350.2	35143.19	857954.5	485330.4	623369.9
Difference		288720.7	69342.47		152534.5	424907
<i>Diff = mean(yes) - mean(No)</i>				<i>t = 4.1637</i>		
<i>Ho: diff = 0</i>				<i>degrees of freedom = 594</i>		
<i>Ha: diff < 0</i>				<i>Ha: diff != 0</i>		<i>Ha: diff > 0</i>
<i>Pr(T < t) = 1.0000</i>				<i>Pr(T > t) = 0.0000</i>		<i>Pr(T > t) = 0.0000</i>

4.12. Assessing the effect of VSLA on change in value of business assets

The effect of VSLA on change in value of business assets was assessed using multiple linear regression model. A structural variable (Dummy) was used to measure the effect: where 1 represented VSLA membership and 0 represented VSLA non-membership. Table 4.12 presents results on the effect of VSLA on change in value of business assets.

Table 4.12: Regression Results on the effect of VSLA on change in value of business assets

Change in value of business assets	Coefficients	Robust Std Errors	t	P-value	95% Confidence Interval	
VSLA Membership	1037084****	212494.1	4.88	0.000	619732.4	1454436
AGE	-37916.75**	18136.02	-2.09	0.037	-73537.02	-2296.475
GENDER	-24215.06	179413.5	-0.13	0.893	-376594.5	328164.4
Primary	329299.3	312094.9	1.06	0.292	-283674.5	942273.2
Secondary	643780.4**	297117.3	2.17	0.031	60223.39	1227337
Tertiary Education	1058442****	386612.5	2.74	0.006	299110.6	1817773
Business Training	751336.8****	261893.7	2.87	0.004	236961.3	1265712
Total Loan	0.0000122****	5.53E-07	22.05	0.000	0.0000111	0.0000133
Total Savings	467603.1**	208609.6	2.24	0.025	57880.79	877325.5
Business Years	99875.23****	31696.53	3.15	0.002	37621.25	162129.2
No of Employees	288704****	104968.3	2.75	0.006	82539.65	494868.3
Constant	-5606746	3181846	-1.76	0.079	-1.19E+07	642598.4
<i>Linear regression</i>			<i>Number of obs = 592</i>			
			<i>F(11, 580) = 13.16</i>			
			<i>Prob> F = 0.000.</i>			
			<i>R-squared = 0.1997</i>			
			<i>Root MSE=2.0e+06</i>			

*** 1%, **5% and *10% Level Of Significance

Results indicate that, overall, the model is significant at 1% as seen from the F-statistic which is significant. Furthermore, the results also reveal that about 20% of the variations in changes in value of business assets can be jointly explained by the variations in VSLA membership, age, gender, education, business training, total loan, total savings, and business year's and number of employees.

With regard to the effect of VSLA membership on change in value of business assets, results indicate a positive effect. *Ceteris paribus*, SMEs whose owners are VSLA members experienced a change in value of business assets of MK1, 037, 084 more than non-VSLA members. This clearly implies that VSLA membership improved performance of SMEs Lilongwe through a substantial increase in value of business assets. These results seem to agree with those of Sibomana and Shukla (2016) who found out that VSLA members are at a more advantage, compared to non-VSLA

members, to increase the value of their business assets due to the readily available loan facilities, *ceteris paribus*.

With regard to age of an SME owner, the results reveal a negative relationship with value of business assets. This implies that SMEs that are owned by older individuals are more likely to have lower value of business assets. This could be attributed to the fact that entrepreneurial skills diminish with age as the older ones might have lost the energy to be innovative. These findings, however are different from those of Mote (2015) and Staw (2013) who revealed that age was not a major factor which influences the performance of women in SMEs in Nyeri Town. The difference could be attributed to the difference in the methodologies employed in the two studies as they both assessed perceived effect of age.

Education level is an important variable in the performance of SMEs. The study results revealed that higher level education was positively associated with value of business assets compared to no education. For instance SME owners with secondary school education had a value of business assets of MK643, 780.40 more compared to SME owners with no formal education. Furthermore, SME owners with tertiary education had a value of business assets of MK1, 058,442 more compared to SME owners with no formal education. These findings are in total agreement with what is in the literature and confirm the role that education plays in the performance of firms. Rotich et al. (2014) found a positive and significant impact between education level and profit of an SME. They argue that SME's capacity to compete is embedded in incumbents' education, which is related to knowledge, skills, problem-solving ability, discipline, motivation, self-confidence and behaviour of entrepreneurs that allow them to identify market opportunities and gather resources required to set up the business. Furthermore, education itself is a means through which knowledge can be gained and includes all the teaching, formal and informal learning, tutoring and instructing individuals receive in their background years.

Special business trainings tend to complement basic skills for the running of the business. Results reveal that SME owners who went through business trainings were associated with a higher value of business assets by MK751, 336.80 compared to SME owners who had no business training. These findings are consistent with what Sitharam and Hoque (2016) who reported that management competence and training is associated with better performance of SMEs.

The study also finds a small significant and positive effect of SME's loans accrued with the value of business assets. This implies that loan amount increases the value of business assets, *ceteris paribus*. This was expected since loans are used to finance SME's activities that seek to expand business value. The findings are in agreement with Mwihaki (2015) and Moorthy et al. (2012) who revealed that access to credit improved profitability of SMEs.

With regard to total savings, a positive significant relationship was found with value of business assets. *Ceteris paribus*, a unit increase in savings will lead to MK467, 603.10. Savings are the form of capital formation meant to increase value or growth rate of an enterprise. The findings agree with what Sibomana and Shukla (2016) revealed that capital formation in form of savings contribute to positive SME growth and development which is translated into increase in value of business assets.

Business experience of SME owners tends to affect success of any business operation. Results indicate that as SME owners become more experienced they also have the value of business assets increased, *ceteris paribus*: for instance as SME owners add one more year of business experience, the value of their business assets increases by MK 9, 9875.23. This implies that more experienced SME owners are bound to be more successful, *ceteris paribus*. These findings are consistent with what Mwihaki (2015) and Moorthy et al. (2012) who found out that more experienced business persons were associated with more profitability and business success.

Employees are an important resource for any SME. This is not only because they determine the size of the firm, but they are also at the centre of generating value for an organisation. Results indicate a positive significant relationship between the number of employees and the value of business assets. *Ceteris paribus*, when an SME adds one more employee to its team, the value of business assets is expected to increase by MK288, 704.00. The findings are in agreement with Rose, Kumar and Yen (2006) and Gachuhi (2016) who indicated that number of employees positively affect the value of a business as they are usually recruited on the basis of their intrinsic value which they bring to an enterprise whether operational or managerial.

4.13. Assessing the effect of VSLA on change in Business Sales

Another measure of SMEs performance which was considered in this study was business sales. The study also sought to assess the effect of VSLA on this performance measure using a multiple

linear regression model. Just like in the first model, a structural variable (Dummy) was used to measure the effect of VSLA membership: where 1 represented VSLA membership and 0 represented VSLA non-membership. Table 4.13 presents results on the effect of VSLA on change in business sales.

Table 4.13: Regression Results on the effect of VSLA on change in business sales

Change in value of sales	Coefficients	Robust Std Errors	t	P-value	95% Confidence Interval	
VSLA Membership	200640***	67857.7	2.96	0.003	67363.2	333916.7
AGE	-7295.85	5341.319	-1.37	0.172	-17786.53	3194.835
GENDER	-18495.22	75383.23	-0.25	0.806	-166552.6	129562.2
Primary	127202.5	94761.51	1.34	0.18	-58915.08	313320
Secondary	287028.8***	70560.12	4.07	0.000	148444.3	425613.3
Tertiary Education	-41529.33	109974.9	-0.38	0.706	-257526.8	174468.2
Business Training	243425.1**	123217.1	1.98	0.049	1419.051	485431.2
Total Loan	1.05E-06***	2.21E-07	4.74	0.000	1.48E-06	6.14E-07
Total Savings	133902.5***	43227.66	3.1	0.002	49000.64	218804.3
Business Years	15504.48	10175.96	1.52	0.128	-4481.733	35490.69
Number of Employees	186539.4***	42224.05	4.42	0.000	103608.7	269470
Constant	-1677045	643418.6	-2.61	0.009	-2940759	-413330.5
<i>Linear regression</i>		<i>Number of obs = 592</i>				
		<i>F(11, 580) = 9.91</i>				
		<i>Prob>F = 0.000</i>				
		<i>R-squared = 0.1582</i>				
		<i>Root MS = 8.0e+05</i>				

*** 1%, **5% and *10% Level Of Significance

Results indicate that, overall, the model is significant at 1% as seen from the F-statistic which is significant. Furthermore, the results also reveal that about 16% of the variations in business sales can be explained jointly by the variations in VSLA membership, age, gender, education, business training, total loan, total savings, business years and number of employees.

With regard to the effect of VSLA membership on change in business sales, results indicate a positive effect. *Ceteris paribus*, SMEs whose owners are VSLA members experienced a change in business sales of MK200, 640.00 more than non-VSLA members. Just like in the previous model, this implies that VSLA membership improved performance of SMEs through increase in business sales. These results are consistent with Sibomana and Shukla (2016) who indicated that VSLA members were more likely to succeed owing to the readily available loan facilities, *ceteris paribus*.

On education, the study results revealed that higher level education was positively correlated with the value of business sales compared to no education. For instance SME owners with secondary school education had business sales of MK287, 028.80 more compared to SME owners with no formal education. These findings agree with Rotich et al. (2014) who found a positive and significant impact between education level and profit of an SME. They argued that education is a means through which knowledge can be gained and includes all the teaching, formal and informal learning, tutoring and instructing individuals receive in their background years.

On business trainings, results reveal that SME owners who went through business trainings were associated with higher business sales by MK243, 425.10 compared to SME owners who had no business training. These findings are consistent with Sitharam and Hoque (2016) who reported that management competence and training is associated with better performance of SMEs.

The study also finds a small significant and positive effect of SME's loans accrued with the business sales. This implies that loan amount increases business sales *ceteris paribus*. This was expected since loans are used to finance SME's activities that seek to expand business value. The findings are in agreement with Mwihaki (2015) and Moorthy et al. (2012) who revealed that access to credit improved profitability of SMEs.

With regard to total savings, a positive significant relationship was found with business assets. *Ceteris paribus*, a unit increase in savings will lead to MK133, 902.50. Savings are the form of capital formation meant to increase value or support growth of an enterprise. The findings agree with Sibomana and Shukla (2016) who revealed that capital formation in form of savings

contribute to positive SME growth and development which is translated into increase in value of business assets.

Employees are important as they are at the centre of generating value for an organisation. Results indicate a positive significant relationship between the number of employees and the business sales. *Ceteris paribus*, when an SME adds one more employee to its team, business sales are expected to increase by MK186, 539.40. The findings are in agreement with Rose, Kumar, and Yen (2006) and Gachuhi (2016) who indicated that number of employees positively increases business value gained through sales and an increase in market share.

4.14. Diagnostic Test Results

A test for multicollinearity was conducted using a variance inflation factor and correlation matrix as presented in appendices 3 and 4. According Gujarat (2004), the rule of thumb is that the variable whose VIF values are greater than 10 may merit further investigation. Alternatively, tolerance, defined as $1/VIF$, is used by many researchers to check on the degree of collinearity. A tolerance value lower than 0.1 is comparable to a VIF of 10. It means that the variable could be considered as a linear combination of other independent variables. The Variance Inflation Factor in appendix 3 suggested no presence of multicollinearity amongst the regression. VIF is less than 10 and the tolerance is greater than 0.1.

With respect to correlation matrix, Gujarat (2004) suggested as a rule of the thumb that correlations of less than 0.8 imply less worrisome levels of multicollinearity. Results from appendix 4 indicate levels of multicollinearity for the explanatory variables used in the regression analysis. It is imperative to note that both tests do not indicate presence of multicollinearity.

4.15. Chapter Summary

This chapter has presented and discussed study results on the assessment of the effect of VSLA on the performance of SMEs in the city of Lilongwe. The findings were obtained from 596 participants of the study. The findings have been presented in form of descriptive statistics complemented by statistical parameters and frequency tables. The chapter first presented findings on the social demographic characteristics of the respondents followed by characteristics of business enterprises, VSLA membership, the effect of VSLA has been assessed using multiple regression analysis. The chapter has also outlined results of important diagnostic tests that were conducted. The next chapter presents study conclusions and recommendations.

CHAPTER FIVE: STUDY CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter presents a summary of study findings, study conclusions based on the discussions of the findings on the assessment the effect of VSLA on the performance of SMEs in Lilongwe city. The chapter also presents study recommendations, study limitations and finally points out areas for further research.

5.2. Summary of findings

This study assessed the effect of VSLA on the performance of SMEs in Lilongwe city. This study revealed that most VSLAs belong to the informal sector owing to the fact that they are not registered. Furthermore, the study has revealed that VSLA members perceive that loan and savings facility have a positive effect on the growth of their enterprises. With regard to number of employees, the study has revealed that SMEs who are VSLA members experienced a higher increase in number of employees compared to SME whose owners were not members. Furthermore, a higher positive change in the value of business assets and business sales was observed for SMEs whose owners were VSLA members compared to SMEs whose owners were not VSLA members. The assessment of the effect of VSLA on the performance had revealed that SME owners who were VSLA members were associated with higher values of business assets and higher business sales. The study had also affirmed that age, education level, business training, loans, savings, business experience and number of employees were important in affecting performance of SMEs.

5.3. Study Conclusions

Following discussion of the findings it can be concluded that:

- i. VSLA members in the city of Lilongwe perceive that VSLA loans and savings facility have a positive effect on the growth of their enterprises.
- ii. VSLA members experienced a higher change in the number of employees compared to non-VSLA members.

- iii. VSLA members experienced a higher change in the value of business assets compared to non-VSLA members.
- iv. VSLA members experienced a higher change in the business sales compared to non-VSLA members.
- v. Value of business assets and business sales were higher for VSLA members than non-VSLA members.
- vi. Age of the business owner, education level, business training, loans, savings, business experience and number of employees have been found to be statistically significant in influencing performance of SMEs.

5.4. Study Recommendations

Based on the conclusions of the study, the following recommendations are submitted:

- i. Since the study has found a positive correlation between VSLA and SMEs performance, it is imperative to encourage SME owners to join VSLA as a way of improving performance where they boost their capital formation and business value through savings and loans.
- ii. Business training has been found to be important in influencing the performance of SMEs, it is therefore important to encourage and promote SMEs through trainings to sharpen their decision making.
- iii. More youths need to be encouraged to engage in entrepreneurial activities as business performance tends to diminish with age.
- iv. In the absence of VSLAs, access to credit for SMEs ought to be improved as loans tend to increase performance of SMEs.
- v. SMEs need to improve their saving culture in order fulfil future business objectives.

5.5. Study limitations and areas for further research

The study was limited to VSLAs from the city of Lilongwe, therefore caution must be exercised in the application of the study findings. This implies that further studies need to focus on covering other areas of Malawi where VSLAs are also in operation.

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APPENDICES

Appendix One: Study Questionnaire

ASSESSMENT OF THE EFFECT OF VILLAGE SAVINGS AND LOAN ASSOCIATIONS ON THE PERFORMNCE OF SMALL AND MEDIUM ENTERPRISES IN LILONGWE DISTRICT, MALAWI.

STUDY QUESTIONNAIRE

This questionnaire has been developed with the purpose of soliciting information that will be used to assess of the effect of village savings and loan associations on the performance of small and medium enterprises in Lilongwe district, Malawi. The study targets Small and medium enterprises who are either members of the VSLAs or not and have been plying their trade since 2015. This study is for academic purposes and is being conducted in partial fulfilment of the award of a Master of Business Administration at the Polytechnic, University Of Malawi. Participants are assured that information that they shall provide will be used only for the purpose of the study and their identity will remain anonymous. Participants are further informed that their participation in this study is strictly voluntary and they are free to withdraw at any point in time deemed fit.

SECTION A: SOCIO-ECONOMIC CHARACTERISTICS

VARIABLE	RESPONSE
Age	<i>(Tick where necessary)</i>
<i>(Please record actual age)</i>	
Gender	Male <input type="checkbox"/>
	Female <input type="checkbox"/>

Education level	None	<input type="checkbox"/>
	Primary	<input type="checkbox"/>
	Secondary	<input type="checkbox"/>
	Tertiary	<input type="checkbox"/>
Household Size		<input type="checkbox"/>

(How many people live under your loof /same household)

SECTION B: MEMBERSHIP CHARACTERISTICS

A. Are you a member of a VSLA? Yes No

(If not a VSLA member Please skip to section C)

B. For how long have you been a member?

C. Is your VSLA registered? Yes No

D. Indicate your opinion on why you joined VSLAs (*1-strongly disagree 2- disagree 3- nuetral 4-agree 5-Strongly agree*)

Item

Response 1- 2- 3- 4- 5

(Please indicate one number)

VSLA provides required amount of loan to the clients

VSLA provides loan to the clients within a short time

VSLA provides loan without collaterals

VSLA provides the loan to the clients at a low interest rate

VSLA provides loans with flexible repayment schedule

E. Business growth in VSLAs Members. Please indicate your opinion (*1-strongly disagree 2- disagree 3-nuetral 4-agree 5-Strongly agree*)

Item

Response 1- 2- 3- 4- 5

(Please indicate one number)

VSLA loan has increased Business capital base

VSLA loan has increased profitability of my business

VSLA loan has made my business expand its branches

VSLA loan has made my business acquire assets

VSLA loan has made my business cash flow to improve

VSLA loan has made my progress from hand to mouth to
planning for the future

F. Savings in VSLA. Please indicate your opinion (*1-strongly disagree 2- disagree 3-
neutral 4-agree 5-Strongly agree*)

Item

Response 1- 2- 3- 4- 5

(Please indicate one number)

I contribute monthly /weekly to the group savings

The savings contribution is manageable.

I trust my saving group members

My contributed fund is safe

We divide the saved funds at an agreed interval

One has a right to refund once he withdraws from the saving group

G. Savings in VSLA and SME growth. Please indicate your opinion (*1-strongly disagree 2-
disagree 3-neutral 4-agree 5-Strongly agree*)

Item

Response 1- 2- 3- 4- 5

(Please indicate one number)

**VSLA Capital formation (savings) has increased capital base
increased of business**

VSLA Capital formation (savings) has increased profitability
of business

**VSLA Capital formation (savings) has made business expand its
branches**

VSLA Capital formation (savings) has made business acquire
assets

VSLA Capital formation (savings) has made cash flow to
improve

**VSLA savings has made business progress from hand to mouth to
planning for the future**

SECTION C: ENTERPRISE INFROMATION

A. What type of business are you engaged in?

- Agro-trading
- Retail trader
- Artisan (Carpenter, builder, Plumber etc.)
- Services (Barbershop, Saloon, Restaurants)
- Other specify

B. Is your business registered? Yes No

C. For how long have you been in this business?

D. How many employees do you have in the business?

E. How much experience do you have running a business?

- F. Who runs the business on daily basis? Family members only
- Myself
- Other (non-family member)

G. What is the size of your business? (*Please indicate the figures*)

Variable	Number
----------	--------

Number of employees

Asset value

H. Where do you mainly conduct your business?

- City market
- Township market
- Roadside
- Home/Local market

I. Please provide information about your business in the table below:

(Note that period 1 is the period before VSLAs were introduced in the area and period 2 is the current period)

Item	Period 1	Period 2
------	----------	----------

Number of Employees

Value of business assets *(roughly indicate the year of value in Period 1)*

Value of sales *(roughly indicate the year of value in Period 1)*

J. How much was your start-up capital? MK.....

K. What was the source of your start-up capital?

- Personal savings
- Other businesses
- Friends and family
- Loan
- Other specify

L. Have you acquired a loan anywhere? Yes No

(If No Please skip to question O)

M. What was the source of your loan? VSLA
 Micro-Finance Institution (NGO/Private)
 Commercial Bank
 Other specify

N. Please, indicate the total amount of loan acquired in the following periods

Period **2015** **2016** **2017** **2018** **2019**

Loan Amount

O. Have you been saving to expand your business Yes No

(If No Please skip to question R)

P. Where have you been saving money for business expansion?

VSLA
 Micro-Finance Institution (NGO/Private)
 Bank
 Other specify

Q. Please, indicate the total savings in the following periods

Period **2015** **2016** **2017** **2018** **2019**

Amount Saved

R. Have you gone through a business management training? Yes No

(If no, please proceed to T)

S. Who provided the training?

VSLA initiative
 Government Extension worker
 Other Specify

T. What are the expectations of your business for the next two years?

Expectation	Yes	No	Rank (<i>Most important first-1 2 3 4....</i>)
Improved profit margin			
Open new retail shops			
Acquire high value personal assets (car, motor cycle etc.)			
General business growth			
Own business premises to save on rentals			
Other			

U. What are some of the challenges that you meet in your business?

Challenges	Yes	No	Rank (<i>Most important challenging-1 2 3 4....</i>)
Competitors offering lower prices			
High tax rates			
Power outages			
Long distance to formal market			
Other			

V. How do you suggest these can be solved?

.....
.....
.....

END OF STUDY QUESTIONNAIRE

Appendix Two: Letter of introduction

Please address all
correspondence to the
Principal
The Malawi Polytechnic
Private Bag 303
Chichiri
Blantyre 3
MALAWI
Tel: (265) 01 870 411
Fax: (265) 01 870 578
E-Mail:
principal@poly.ac.mw

PRINCIPAL

Professor Grant Kululunga, PhD. Eng., Our Ref.:
MSc. Eng., BSc. Eng., MASCE 14/MGT/B3

Your Ref:

Date: 6th September, 2018

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

LETTER OF INTRODUCTION FOR MR SYMON CHAWINGA

This Introductory letter is provided for Mr. Symon Chawinga who is currently pursuing a Master's degree in Business Administration at the University of Malawi.

I hereby confirm that Mr. Symon Chawinga is indeed a student and currently undertaking a research titled;

“Assessment of the Effect of Village Savings And Loan Associations on the Performance of Small and Medium Enterprises in Lilongwe District, Malawi”

This research is being conducted in partial fulfillment of the award of a degree in Master of Business Administration. The research will be conducted in Lilongwe district and will focus on Traditional authority Tsabango.

In light of this, your assistance with regard to his research work would be is greatly appreciated. Should you need further information do not hesitate to contact the undersigned.

Yours faithfully,



ALICK KAUMBA
Head of Department -Management Studies

Appendix Three: Test for Multicollinearity

Variance inflation factor

Variable	VIF	1/VIF
Secondary	20.59	0.048576
Primary	15.69	0.063716
Tertiary	9.35	0.106977
Employees	1.28	0.778861
Total Savings	1.2	0.832673
VSLA Membership	1.19	0.838738
AGE	1.19	0.839048
Business Years	1.19	0.841898
Gender	1.11	0.901339
Business Training	1.06	0.943591
Total Loan	1.02	0.979795
Mean VIF	4.99	

Appendix four: Correlation Matrix for Regression

Correlation matrix for regression

	VSLA Membership	AGE	GENDER	Education	Training	Total loan	Savings	Business years	Employees
VSLA Membership	1								
AGE	0.1107	1							
GENDER	-0.2074	-0.0492	1						
Education	-0.1332	-0.1179	0.1219	1					
Training	-0.0152	0.0088	0.0473	0.0971	1				
Total loan	0.0575	-0.0338	0.0779	0.0115	-0.0233	1			
Savings	0.0532	0.0916	0.1632	0.1028	-0.0353	-0.0097	1		
Business years	-0.0604	0.3401	0.0054	-0.0169	0.0494	0.0027	0.042	1	
Employees	0.2632	0.1299	0.0671	-0.0324	0.133	-0.0409	0.3386	-0.0514	1