

Chapter 9

LOANS AND CREDIT

9.0 Introduction

In line with the government's commitment to increase household income through provision of credit, the survey collected information on individuals who got a loan or credit from either a formal and informal² institution during the last 12 months as per the date of the survey. This information will help policy makers and implementers to have evidence based knowledge regarding accessibility of micro-finance credit facilities, the extent of information to households about credit facilities and the problems faced in accessing credit.

This chapter highlights the proportion of persons who applied for a loan, the purpose of the loan, source of the loan and finally reasons for not borrowing.

9.1.1 Proportion of persons who received loans

Table 9.1 indicates that about 13 percent of the population in Malawi received a loan over the past 12 months prior to the survey. The highest proportion of loan recipients is in rural areas where 14 percent of got loans, while only 8 percent of urban population got loans. By sex of household head, relatively, the proportion of people who received a loan is higher in male-headed households (14 percent) than in female-headed households (11 percent). In terms of per capita expenditure, the table reveals that the proportion of persons who received loans is lower in the lowest expenditure quintile (8 percent) compared to those in the highest quintile (17 percent).

At regional level, the highest proportions of persons who accessed loans is observed in the central region (16 percent), followed by the northern and then southern region at 14 and 11 percent respectively. A further examination at district level shows that districts with the least proportion of persons who obtained loans include Nkhata Bay, Chikwawa and Balaka with only less than 4 percent of the population receiving loans. On the other hand, districts with the highest proportions of loan beneficiaries are in Nkhotakota, Ntcheu, and Chiradzulu -each recording over 20 percent of the population receiving loans.

² Formal loans include money borrowed from the financial institutions with interest, security, and the conditions for payment well laid down. Informal loans refer to borrowing from friends, relatives, money lenders without any formal agreement describing the terms of payment of the loan.

9.1.2 Reason for obtaining loan

Table 9.1 further reveals that the most common reason why people obtained a loan was to use it as business start-up capital. Almost a third of the loan recipients reported this as the main reason for obtaining a loan. The second major reason reported is that the recipient wanted to use the money as agricultural input in food crops. About a quarter of the loan recipients reported this as the main reason for obtaining a loan. On the other hand, the least reported reason for obtaining a loan was to purchase land. Less than 1 percent of the loan recipients reported this as their main reason for obtaining a loan.

Looking at the most reported reason for obtaining a loan across socio-economic background characteristics, it may be noted that the proportion of persons who obtained loans as business start-up capital, is higher in urban areas (38 percent) compared to rural areas (29 percent). One in every two persons who received a loan in female-headed households reported obtaining the loan as business start-up capital compared to one in every four persons in male-headed households. The table further reveals that there is no particular pattern that has been reported when per capita expenditure quintiles are considered.

Of the three main regions of the country, the southern region has the highest proportion of persons who obtained a loan as a business start-up capital (40 percent) followed by the central region and the northern region each reporting 24 and 20 percent respectively. In terms of district specific, Mulanje has reported the highest proportion of persons who acquired a loan in order to start a business (78 percent) followed by Thyolo (77 percent). On the other hand, Mzimba and Nkhotakota have the least proportion of persons who reported business start-up capital as the main reason for obtaining a loan.

Table 9.1 Proportion of persons who received a loan and percentage distribution of loans by reason for obtaining a loan by background characteristics-Malawi 2005

Background characteristics	Proportion who received loan	Reason for obtaining loan							Total
		Purchase land	Purchase agricultural inputs for food crops	Purchase inputs for tobacco	Purchase inputs for other cash crops	Business start-up capital	Purchase non-farm inputs	Other, specify	
Malawi	13.1	0.5	26.3	20.7	4.3	29.3	16.9	2.0	100
Place of residence									
Urban	8.4	0.9	15.2	1.8	2.7	38.3	37.4	3.6	100
Rural	13.7	0.5	27.2	22.3	4.4	28.5	15.2	1.9	100
Sex of household head									
Male	13.7	0.6	26.8	22.7	4.6	25.1	17.9	2.3	100
Female	10.7	0.0	24.0	10.5	2.8	50.7	11.5	0.5	100
Per capita expenditure quintile									
1 st	8.3	1.5	26.3	16.8	6.8	29.5	19.1	0.0	100
2 nd	13.1	0.3	23.0	23.9	3.6	32.7	14.8	1.7	100
3 rd	12.2	0.0	30.6	21.3	7.1	26.8	14.1	0.0	100
4 th	15.2	0.3	30.6	21.2	3.3	28.8	13.5	2.3	100
5 th	16.9	0.7	22.1	19.4	2.5	28.7	22.3	4.3	100
North									
North	13.6	1.6	18.3	47.8	4.9	20.4	5.9	1.2	100
Chitipa	14.8	0.0	33.3	35.6	1.7	21.8	2.9	4.6	100
Karonga	11.6	10.3	19.2	16.0	0.0	32.7	17.9	3.8	100
Nkhata Bay	3.8	0.0	14.3	64.3	0.0	21.4	0.0	0.0	100
Rumphi	13.4	0.0	21.8	45.1	0.0	29.3	3.8	0.0	100
Mzimba	17.7	0.0	14.0	66.3	8.9	9.8	1.1	0.0	100
Mzuzu City	11.1	0.0	20.8	0.0	0.0	56.2	23.1	0.0	100
Centre									
Centre	15.8	0.5	26.4	23.4	5.1	23.7	18.4	2.5	100
Kasungu	19.6	0.0	10.6	67.1	0.6	10.4	11.4	0.0	100
Nkhotakota	27.3	1.2	14.5	0.0	0.0	6.6	76.5	1.2	100
Ntchisi	14.7	0.0	19.2	46.3	2.8	12.4	13.6	5.6	100
Dowa	19.2	1.0	38.0	12.5	5.7	32.7	8.2	2.0	100
Salima	5.3	0.0	0.0	5.5	0.0	65.5	29.1	0.0	100
Lilongwe Rural	15.8	0.7	30.0	34.3	3.5	19.1	9.6	2.8	100
Lilongwe City	6.8	0.0	35.0	45.0	5.0	8.3	0.0	6.7	100
Mchinji	5.2	0.0	37.6	4.6	12.0	44.2	1.5	0.0	100
Dedza	18.7	0.0	26.4	7.3	9.6	26.5	21.8	8.4	100
Ntcheu	23.8	2.5	28.8	5.0	3.8	21.9	38.1	0.0	100
South									
South	10.5	0.2	28.6	8.4	2.9	40.0	18.2	1.6	100
Mangochi	5.4	0.0	11.8	3.0	1.2	42.6	39.1	2.4	100
Machinga	13.2	0.0	26.8	32.1	0.0	36.4	4.6	0.0	100
Zomba Rural	16.4	0.0	65.7	10.9	0.9	21.0	1.5	0.0	100
Zomba Municipality	8.2	0.0	41.8	23.5	1.1	27.6	6.0	0.0	100
Chiradzulu	24.0	0.0	7.4	0.0	2.5	67.2	23.0	0.0	100
Blantyre Rural	11.6	0.0	49.0	0.0	12.2	22.4	16.3	0.0	100
Blantyre City	9.5	1.0	36.1	0.0	8.6	24.7	28.2	1.4	100
Mwanza	4.8	0.0	7.8	4.6	2.6	59.5	22.2	3.3	100
Thyolo	15.5	0.0	0.0	7.6	0.0	77.2	15.2	0.0	100
Mulanje	7.8	0.0	17.4	0.0	0.0	78.3	4.3	0.0	100
Phalombe	7.7	0.0	6.8	0.0	3.6	68.9	18.0	2.7	100
Chikwawa	3.1	0.0	0.0	0.0	0.0	57.9	31.6	10.5	100
Nsanje	14.9	0.0	4.0	0.0	3.0	46.2	42.2	4.5	100
Balaka	3.6	0.0	5.7	0.0	0.0	45.5	29.3	19.5	100

9.2.1 Sources of loans

Table 9.2 presents the distribution of loans by source. As may be noted from the table, the highest reported source of loan is the Malawi Rural Finance Company (MRFC) as reported by 21 percent of all loan recipients. The second highest source of loan reported is from relatives, reported by nearly one in every four persons of the entire loan recipients. The least reported source of loan is from commercial banks. Only two percent of the population reported commercial banks as the source of loan received. Looking at MRFC as the main source of loan across socio-economic background, table 9.2 shows that the proportion of loan recipients is higher in rural areas (23 percent) relative to urban areas (4 percent). The proportion of loan recipients is higher in male-headed households (22 percent) compared to female-headed households (17 percent). The table further reveals that there are more recipients of loans from MRFC in the higher per capita expenditure quintile (20 percent) compared to those in the lowest expenditure quintile (13 percent). Although MRFC has been reported the most common source of loan in the country, there are major variations across regions. The northern region shows that 46 percent of the loan recipients got their loans from MRFC while less than half of this proportion (21 percent) reported receiving their loan from the same in the central region. The proportion is even lower in the southern region where only 14 percent reported receiving their loan from MRFC. At district level, Nkhatabay has reported the highest proportion of loan recipients from MRFC at 76 percent followed by Salima at 64 percent. On the other hand, Dedza and Blantyre rural have reported the lowest incidences of sourcing their loan from MRFC as only less than 3 percent of all the loan recipients in these districts reported sourcing it from MRFC.

Table 9.2 Percentage distribution of loans by source of loan according to background characteristics-Malawi 2005

Background characteristics	Source of loan											All
	Relative	Neighbor	Grocery/ local merchant	Money lender (katapila)	Employee	Religious institution	MRFC	SACCO	Bank	NGO	Other, specify	
Malawi	20.0	16.3	2.1	8.8	2.5	3.1	21.1	3.4	2.0	17.7	2.9	100
Place of residence												
Urban	8.2	12.0	0.0	4.9	5.7	2.4	4.3	8.9	8.9	39.4	5.3	100
Rural	20.9	16.7	2.3	9.1	2.2	3.2	22.5	2.9	1.5	16.0	2.7	100
Sex of household head												
Male	18.7	17.4	2.1	9.3	2.8	3.1	21.9	3.8	2.2	15.7	2.8	100
Female	26.6	10.9	1.8	6.3	0.7	3.1	17.1	1.0	1.2	28.2	3.1	100
Per capita expenditure quintile												
1 st	19.0	24.5	0.8	14.1	0.9	5.0	13.2	1.5	2.6	15.6	2.7	100
2 nd	21.8	13.9	2.6	8.9	3.2	5.4	24.3	2.9	0.2	15.9	1.1	100
3 rd	26.9	15.9	1.3	9.3	1.7	1.8	19.6	0.3	0.6	21.1	1.6	100
4 th	17.5	16.2	3.7	8.9	2.7	2.5	24.8	3.1	1.1	17.4	2.1	100
5 th	16.5	14.8	1.5	6.0	3.1	1.9	20.4	6.9	4.9	18.2	5.9	100
North	4.2	6.5	0.0	11.1	1.1	2.5	46.0	3.2	3.7	16.8	4.9	100
Chitipa	7.5	17.2	0.0	6.9	9.2	1.7	24.7	0.0	0.0	28.2	4.6	100
Karonga	0.0	4.5	0.0	28.8	0.0	0.0	37.8	5.1	10.3	9.0	4.5	100
Nkhata Bay	9.5	14.3	0.0	0.0	0.0	0.0	76.2	0.0	0.0	0.0	0.0	100
Rumphi	9.8	3.0	0.0	0.0	0.0	0.0	45.9	10.5	11.3	19.5	0.0	100
Mzimba	4.1	3.6	0.0	10.4	0.0	2.5	56.3	2.5	0.0	15.8	5.0	100
Mzuzu City	0.0	13.8	0.0	2.3	0.0	13.1	12.3	3.1	14.6	26.9	13.8	100
Centre	23.1	17.8	2.5	7.7	2.0	2.1	20.5	3.3	1.2	16.9	2.9	100
Kasungu	7.8	9.8	5.0	5.0	3.0	1.4	51.5	4.8	0.0	4.0	7.8	100
Nkhotakota	30.1	30.4	2.1	10.8	0.0	1.8	7.5	8.1	0.0	9.0	0.0	100
Ntchisi	35.0	7.9	5.6	18.1	7.9	0.0	10.2	3.4	0.0	11.9	0.0	100
Dowa	18.4	23.3	4.1	14.3	2.2	6.7	11.0	3.1	3.7	10.0	3.3	100
Salima	0.0	7.3	0.0	5.5	0.0	0.0	63.6	0.0	0.0	0.0	23.6	100
Lilongwe Rural	26.9	28.8	1.6	4.0	2.5	0.4	29.8	4.7	0.0	0.0	1.3	100
Lilongwe City	15.0	19.4	0.0	6.9	6.3	0.0	6.9	5.0	5.6	32.5	2.5	100
Mchinji	11.7	16.7	0.0	20.0	0.0	0.0	31.7	0.0	0.0	8.3	11.7	100
Dedza	9.2	2.8	0.0	2.8	0.0	4.2	2.8	0.0	1.8	75.9	0.4	100
Ntcheu	53.8	16.0	3.7	8.4	0.9	1.3	11.4	0.0	1.5	2.0	1.1	100
South	20.6	17.3	2.2	9.8	3.6	4.7	14.3	3.6	2.6	19.3	2.2	100
Mangochi	32.5	11.2	1.8	6.5	3.0	0.0	28.4	0.0	5.3	4.1	7.1	100
Machinga	30.0	16.4	0.0	1.8	15.7	0.0	29.3	1.8	0.0	5.0	0.0	100
Zomba Rural	6.8	9.5	3.6	5.6	0.0	25.7	15.7	0.0	2.1	29.9	1.2	100
Zomba Munic.	6.5	19.5	0.0	8.1	2.4	0.0	3.3	13.0	0.0	34.1	13.0	100
Chiradzulu	33.3	23.1	0.0	5.7	0.0	0.0	23.1	0.0	0.8	14.0	0.0	100
Blantyre Rural	39.4	30.7	0.0	5.5	2.4	2.4	2.4	0.0	4.7	12.6	0.0	100
Blantyre City	4.8	3.2	0.0	3.2	7.4	2.1	0.0	13.2	12.2	50.3	3.7	100
Mwanza	0.0	0.0	0.0	0.0	0.0	0.0	22.4	0.0	0.0	77.6	0.0	100
Thyolo	15.2	20.1	4.3	19.8	5.9	0.0	3.6	11.9	2.0	13.9	3.3	100
Mulanje	19.6	19.6	0.0	9.2	0.0	2.6	8.5	0.0	3.3	26.1	11.1	100
Phalombe	24.1	24.1	7.6	0.0	0.0	0.0	22.8	0.0	0.0	16.5	5.1	100
Chikwawa	4.3	4.3	0.0	47.8	0.0	5.8	33.3	0.0	0.0	4.3	0.0	100
Nsanje	36.5	26.6	5.9	27.9	0.0	0.0	3.2	0.0	0.0	0.0	0.0	100
Balaka	5.3	47.4	0.0	0.0	0.0	0.0	31.6	0.0	0.0	15.8	0.0	100

9.3 Reasons for not applying for a loan

Other than asking those who obtained loans, the survey also gathered information on those who did not receive loans to find out why they did not receive loans. Table 9.3 shows that about one-third of those who did not apply for any loan reported lack of information on potential lenders as the main factor barring them from borrowing. This highlights the low outreach micro-finance institutions have to both urban and rural populations. Sixteen percent did not apply because the trouble they go through to get a loan is not worth it. Furthermore, the feeling that one would be refused a loan also hampers the ability for one to borrow. This is reflected by about 15 percent of the non-recipients. Looking at the highest reported reason for not applying for a loan across socio-economic background, table 9.3 below shows that more rural population do not have information on sources of loan as reported by 34 percent of the non-recipients.

The proportion reporting the same reason is lower in urban areas as reported by 14 percent of the non-recipients. Across sex of household head, a third of the non-recipients from male-headed households reported lack of information on lenders as the main reason for not obtaining a loan. Not very different from this, 29 percent of non-recipients from female-headed households also reported lack of information as the reason they did not obtain a loan. The proportion that has reported this reason is higher in the lower per capita expenditure quintile (40 percent) and is declining as the quintiles are increasing. The highest quintile has reported only 21 percent of the non-recipients reporting lack of information on sources of loan as the reason for not obtaining a loan. Across the regions of the country, the southern region has the highest proportion of non-loan recipients who reported that they do not know any lender (43 percent) while the central region comes second a 23 percent and finally the northern region at 14 percent. Across districts, Thyolo has the highest proportion of non-loan recipients who did not receive a loan because they do not know any moneylender. This is followed by Zomba rural and Chikwawa, all of which reporting 67 percent. On the other hand, Karonga and Chitipa had the least proportion of non-loan recipients reporting no information on moneylenders as reported by less than 10 percent.

Table 9.3 Percentage distribution of persons who never applied for a loan by reason for not applying for a loan by background characteristics- Malawi 2005

Background characteristics	Reason for no applying								
	No need	Believed would be refused	Too expensive	Too much trouble for what it's worth	Inadequate collateral	Do not like to be in debt	Do not know any lender	Other	All
Malawi	11.6	15.2	9.4	15.6	6.2	8.4	32.2	1.4	100
Place of residence									
Urban	16.7	14.4	19.0	16.7	6.7	6.1	19.0	1.2	100
Rural	10.9	15.3	8.0	15.4	6.1	8.8	34.2	1.4	100
Sex of household head									
Male	12.7	14.5	9.2	15.0	6.2	7.9	33.0	1.5	100
Female	7.4	18.0	10.3	17.7	5.9	10.6	29.2	0.9	100
Per capita expenditure quintile									
1 st	4.6	17.1	7.9	15.1	5.6	8.5	40.0	1.2	100
2 nd	8.0	15.3	9.2	16.2	6.6	7.5	35.9	1.3	100
3 rd	9.2	16.3	8.8	14.4	7.1	9.4	33.5	1.4	100
4 th	13.0	14.4	10.5	17.2	7.1	7.8	28.5	1.4	100
5 th	25.2	12.6	10.9	14.9	4.5	9.0	21.2	1.7	100
Northern Region									
Chitipa	4.9	2.9	6.2	22.5	0.0	53.1	9.6	0.8	100
Karonga	15.5	1.2	1.7	53.4	20.2	0.3	7.7	0.0	100
Nkhata Bay	3.5	27.5	8.6	4.4	0.0	34.3	21.6	0.0	100
Rumphi	19.7	7.4	17.8	13.2	12.8	12.4	16.9	0.0	100
Mzimba	24.3	13.3	12.0	15.9	5.6	12.4	16.6	0.0	100
Mzuzu City	12.5	13.1	20.2	34.8	6.6	2.8	10.0	0.0	100
Central region									
Kasungu	13.2	40.3	5.7	10.6	5.1	4.6	19.5	1.0	100
Nkhotakota	27.8	23.0	7.4	13.8	0.0	4.7	23.3	0.0	100
Ntchisi	15.5	28.8	14.9	13.9	3.4	2.7	20.7	0.0	100
Dowa	15.5	11.6	10.3	10.3	16.6	10.1	23.8	1.9	100
Salima	24.1	38.2	13.9	3.3	0.9	1.9	17.8	0.0	100
Lilongwe Rural	18.8	12.2	9.0	17.1	9.2	10.2	20.1	3.5	100
Lilongwe City	21.6	16.8	4.2	20.9	6.7	6.5	21.4	1.9	100
Mchinji	8.7	16.3	2.3	26.6	0.0	3.5	42.6	0.0	100
Dedza	12.1	11.0	6.8	23.8	3.7	13.4	27.1	2.2	100
Ntcheu	13.8	15.2	22.0	17.1	3.2	1.4	20.5	6.7	100
Southern Region									
Mangochi	9.0	26.4	6.5	13.3	14.1	12.5	16.8	1.4	100
Machinga	3.9	24.3	9.3	9.6	0.9	1.8	49.8	0.5	100
Zomba Rural	1.8	3.6	5.6	13.8	1.8	5.2	67.6	0.7	100
Zomba Municipality	32.5	5.2	5.6	21.0	24.7	3.0	5.8	2.2	100
Chiradzulu	4.1	20.1	5.3	29.0	0.0	8.4	33.2	0.0	100
Blantyre Rural	12.9	14.5	16.9	6.3	12.5	5.0	31.4	0.4	100
Blantyre City	10.0	13.9	36.0	7.6	3.7	7.1	21.1	0.6	100
Mwanza	5.4	11.1	0.5	12.3	14.6	10.8	45.3	0.0	100
Thyolo	3.4	5.3	6.9	11.0	0.0	4.5	69.0	0.0	100
Mulanje	11.6	5.5	21.1	11.0	10.1	4.8	35.9	0.0	100
Phalombe	7.0	8.0	6.0	36.2	3.3	3.0	30.6	6.0	100
Chikwawa	2.0	4.9	0.7	2.4	6.4	16.2	67.0	0.2	100
Nsanje	19.1	20.3	6.5	19.5	0.4	7.6	26.6	0.0	100
Balaka	4.6	8.7	3.9	12.4	3.3	6.0	56.1	5.0	100