

Title

**THE ROLE OF MICROFINANCE IN SUPPORTING SMALL SCALE BUSINESSES: A  
CASE STUDY OF NSUNGWI MARKET, MALAWI**

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## ABSTRACT

This study assessed the role of microfinance services in supporting small-scale businesses at Nsungwi Market in Lilongwe, Malawi. A descriptive quantitative research design was adopted, with data collected from 125 small business owners (94% response rate) using structured questionnaires. The study examined awareness and usage of microfinance services (loans, savings, training, VSLAs, and insurance), their impact on income stability, business growth, and household welfare, and the main barriers to access.

Findings revealed high awareness of microfinance institutions (85.6%) but moderate usage (47.2%). Training (20%) and savings (17.6%) were the most utilised services, followed by loans (14.4%). Among users, 71.2% reported that loans supported business growth, 49.6% credited training with improved financial management skills, 52% experienced higher and more stable income, and 42.4% noted better ability to meet business and family needs. Real-life examples include Agness Phiri, who used a MWK 120,000 loan to buy a refrigerator and increased daily profit from MWK 8,000 to MWK 25,000, and Joseph Banda, who improved financial separation through CUMO training.

Major barriers included high interest rates (68.8%) and lack of collateral (68.8%). The study concludes that microfinance plays a transformative role in business expansion, financial stability, and poverty reduction, but accessibility challenges limit wider impact. Recommendations focus on market-based outreach, tailored loan products, free

training programmes, strengthened VSLAs, affordable insurance, and digital solutions.

**KEYWORDS:** Microfinance, Small-scale Businesses, Nsungwi Market, Financial Inclusion, Business Growth, Income Stability, Barriers to Access, VSLAs, Malawi

## INTRODUCTION

This study explored the role of microfinance in supporting small-scale businesses: a case study of Nsungwi Market. Microfinance refers to the provision of financial services including microloans, savings, insurance, and financial education to individuals and small businesses that are typically excluded from the formal banking sector due to a lack of collateral, steady income, or credit history. It has emerged globally as a development tool aimed at improving the livelihoods of low-income populations, fostering entrepreneurship, and promoting financial inclusion, especially in underbanked regions of the Global South.

## BACKGROUND OF THE STUDY

Small businesses are critical to Malawi's informal economy, particularly in rural and peri-urban markets such as Nsungwi, where they provide livelihoods, reduce poverty, and support local trade. These enterprises often operate with minimal capital, limited formal registration, and inadequate access to formal financial services. Traditional banks

generally require collateral, credit history, or business registration criteria that many small-scale entrepreneurs in Malawi cannot meet. As a result, many turn to microfinance institutions (MFIs) that offer accessible alternatives such as group lending, microsavings, mobile banking, and basic financial literacy training. Microfinance is increasingly seen as a tool for financial inclusion and economic empowerment, especially for women and youth engaged in informal trade. In markets like Nsungwi, institutions such as Vision Fund Malawi and FINCA have provided financial access to entrepreneurs otherwise excluded from the formal system, contributing to business growth, asset accumulation, and improved household income.

## **PROBLEM STATEMENT**

Despite the growing recognition of microfinance as a tool for poverty reduction and entrepreneurship support, existing literature presents mixed findings regarding its actual impact on small businesses, especially in informal markets. There is a noticeable gap in empirical studies that examine how microfinance services operate within informal, rural markets in Malawi. Studies conducted in Sub-Saharan Africa often generalize findings, making it difficult to draw conclusions about specific contexts like Nsungwi. Additionally, barriers to accessing microfinance such as complex application procedures and lack of collateral are not thoroughly examined in the context of informal traders. This gap restricts policymakers, MFIs, and support organizations from designing effective and

tailored financial interventions for underserved markets.

## **RESEARCH OBJECTIVES**

### **General Objective**

- To assess the role of microfinance services in supporting small-scale businesses at Nsungwi Market, Malawi.

### **Specific Objectives**

- To determine the level of awareness and usage of microfinance services (loans, savings, training, VSLAs, and insurance) among small-scale traders.
- To assess the impact of microfinance services on income stability, business growth, and household welfare of small-scale traders.
- To identify the main barriers preventing traders from accessing and effectively using microfinance services.

## **RESEARCH QUESTIONS**

- What is the level of awareness and usage of microfinance services among small-scale traders at Nsungwi Market?
- How do microfinance services affect income stability, business growth, and household welfare of small-scale traders?

- What are the main barriers preventing traders from accessing and effectively using microfinance services?

## **SIGNIFICANCE OF THE STUDY**

This study holds significant value for multiple stakeholders, from microfinance institutions to community members, offering practical insights and data-driven recommendations aimed at improving the effectiveness of microfinance in Malawi's rural informal markets.

For Microfinance Institutions (MFIs): The study provides empirical evidence on how small business owners interact with microfinance products, highlighting factors that affect utilization, repayment behavior, and loan impact. Insights will assist MFIs in improving client targeting, designing more flexible repayment plans, and integrating non-financial services such as training and mentoring.

## **LITERATURE REVIEW**

This chapter reviews existing literature on microfinance and its role in supporting small businesses in informal economies, particularly within developing countries. It discusses foundational concepts, theoretical frameworks, and empirical findings to provide a well-rounded scholarly context for the current study.

### **Definition of key terms**

- Microfinance refers to the provision of small financial services such as small loans, savings facilities, training, and insurance to individuals or small businesses that cannot access formal banking services, helping them improve income and reduce poverty.
- Small Business is typically defined as an independently owned and operated enterprise that functions on a limited scale with respect to capital investment, workforce size, annual turnover, and geographical market coverage. In most cases, these businesses have informal or semi-formal organizational structures, are family-owned, and are embedded within local communities.
- Microcredit is one of the foundational components of microfinance, referring specifically to the provision of small loans to individuals, particularly those who are financially excluded and living in poverty. It is primarily aimed at enabling recipients to invest in productive income-generating activities, such as petty trading, small-scale farming, tailoring, food vending.
- Village Savings and Loan Associations (VSLAs) are informal, self-managed financial groups that allow members, typically from rural or low-income communities, to save money collectively and access small loans from a communal fund.
- Financial inclusion refers to the availability and equality of

opportunities for individuals and businesses to access appropriate, affordable, and timely financial products and services such as credit, savings, insurance, and payment systems in a responsible and sustainable manner.

- Entrepreneurship refers to the process of identifying, initiating, and managing a business venture to generate profit while taking on financial risks.
- Sustainability in the context of small businesses and microfinance refers to the ability of enterprises and financial institutions to maintain their operations effectively and continuously over the long term, ensuring economic viability while fulfilling social objectives.

## Review of Previous Studies

Microfinance institutions provide financial and non-financial services tailored to low-income individuals and small business operators. Core services include microcredit, microsavings, micro-insurance, and business development support. Empirical studies confirm that entrepreneurs who receive microloans, savings facilities, and business training are more likely to expand operations, increase profitability, and maintain long-term business continuity. *Banerjee et al. (2015)* found that microfinance facilitated business expansion in India. In Africa, *Adusei and Owusu (2015)* reported improved inventory management and asset accumulation in

Ghana. In Malawi, *Chipeta and Mkandawire (2015)* revealed improved financial planning and a higher likelihood of transitioning from informal to formal operations. *Chikalipah (2017)* highlighted enhanced profitability and business continuity.

Despite the benefits, small business owners face challenges that limit effectiveness. Common issues include misallocation of funds, financial literacy gaps, and high borrowing costs. *Adjei et al. (2009)* found some borrowers divert loans to non-productive purposes. *Chipeta and Mkandawire (2008)* noted that microfinance interest rates in Malawi are often prohibitively high.

## Theoretical Framework

The study is guided by the Financial Intermediation Theory and the Resource-Based View (RBV) Theory. The Financial Intermediation Theory explains the role of financial institutions in bridging the gap between savers and borrowers. The RBV Theory suggests that businesses grow and gain competitive advantage through access to valuable, rare, and inimitable resources such as capital and training provided by microfinance.

## RESEARCH METHODOLOGY

The study adopted a descriptive research design, which allowed the researcher to describe and analyse the situation of small business owners who accessed microfinance services in Nsungwi Market as it existed at

the time of data collection. The research followed a quantitative methodology, focusing on numerical data collected through structured questionnaires. A case study approach was employed because the research focused on Nsungwi Market as a specific and well-defined area.

The study was carried out at Nsungwi Market, located in the Lilongwe District of Malawi. The target population consisted of all small business owners operating within Nsungwi Market. The total population at the market was estimated at approximately 200 small-scale entrepreneurs.

The study employed a stratified random sampling technique. The sample size was determined using Yamane's formula, yielding 133 respondents. In total, 125 fully completed and usable questionnaires were collected.

The primary instrument used for data collection was a structured questionnaire. A pilot study involving 10 small business owners was conducted to test clarity and reliability; minor adjustments were made. Data collection took place in mid-2025. Quantitative data were analysed using SPSS, with descriptive statistics (frequencies, percentages, means) employed. Ethical standards were strictly followed: informed consent, confidentiality, anonymity, voluntary participation, and institutional approval.

## RESULTS AND DISCUSSION

A total of 133 questionnaires were distributed and 125 were fully completed,

giving a response rate of 94%. This high rate indicates strong participation and reduces non-response bias.

The demographic profile showed that 36.8% of respondents were female, 32.8% male, and 30.4% preferred not to disclose gender. Most were aged 31–40 years (38.4%) or 21–30 years (35.2%). Education levels varied: 36.8% had non-formal education, 27.2% tertiary, 20.8% secondary, and 15.2% primary. Business experience showed 52% operating for 4–6 years, 22.4% less than one year, 5.6% 1–3 years, and 20% more than six years. These demographics reflect a young, experienced, and diverse group of entrepreneurs typical of Malawi's informal sector.

Awareness of microfinance institutions was high at 85.6%, while only 14.4% reported no awareness. However, actual usage stood at 47.2%, with 52.8% not using any microfinance service. Among users, training services were most utilised (20%), followed by savings (17.6%), loans (14.4%), and group/VSLA or insurance (3.2%).

Microfinance services showed clear positive impacts. 71.2% of respondents agreed or strongly agreed that access to microfinance loans helped their business grow. 49.6% credited MFI training with improved financial management skills. 52% reported that microfinance increased their income and confidence. 42.4% noted that microfinance helped them meet both business and family needs. Real-life examples confirm these gains: Agness Phiri used a MWK 120,000 loan to purchase a refrigerator and raised daily profit from MWK 8,000 to MWK 25,000; Joseph Banda

used CUMO training to separate personal and business finances, enabling savings for his daughter's education.

Major barriers persisted. 68.8% cited high interest rates (typically 3–5% monthly) as reducing business profitability. 68.8% reported that lack of collateral limits access to credit. Additional challenges included long travel distances, complicated paperwork, fear of repayment failure, and low trust in institutions amid high inflation.

## **SUMMARY OF RESEARCH FINDINGS**

The study established high awareness (85.6%) but moderate usage (47.2%) of microfinance services at Nsungwi Market. Training and savings were the most accessed services. Among users, microfinance significantly supported business growth (71.2%), improved financial skills (49.6%), increased income and confidence (52%), and helped meet business and family needs (42.4%). However, high interest rates and lack of collateral (both 68.8%) remain the primary barriers limiting wider impact.

## **CONCLUSION FROM THE STUDY**

Microfinance services play a critical and transformative role in the development of small-scale businesses at Nsungwi Market. Access to loans, savings, training, and VSLAs positively influences business expansion, income stability, financial literacy, and household welfare. Traders who accessed these services reported increased stock levels, improved customer

reach, and better management practices. These outcomes are consistent with broader evidence that microfinance boosts productivity and reduces poverty. However, barriers such as high interest rates, collateral requirements, and limited outreach restrict full benefits. The study successfully achieved its objectives and demonstrates that microfinance is a powerful tool for entrepreneurship and economic empowerment when made more accessible and affordable.

## **RECOMMENDATIONS OF THE STUDY**

- Bringing Microfinance Services Directly to Nsungwi Market: MFIs should deploy mobile outreach units on busy market days to reduce distance and transport costs.
- Introduction of a Tailored Market Trader Loan Product: Create a specialised “Market Trader Loan” with amounts from MWK 50,000 to MWK 300,000 at 2% monthly interest, accepting movable assets as collateral.
- Provision of Quarterly Free Business Training Programmes: Deliver practical training on record-keeping, pricing, negotiation, and digital marketing, targeting at least 500 traders annually and issuing certificates.
- Strengthening and Expanding Village Savings and Loan Associations (VSLAs): Provide seed funding of MWK 500,000 per group

and capacity-building on governance and credit management.

- Introduction of Affordable Insurance Products for Traders: Offer low-cost microinsurance (e.g., MWK 2,000 monthly premium for MWK 1 million coverage) against fire, theft, illness, and accidents.
- Promotion of Digital Microfinance Solutions: Integrate mobile money platforms (Airtel Money and TNM Mpamba) for loan applications, disbursements, and repayments to reduce paperwork and delays.

#### AREAS FOR FURTHER STUDY

- Long-Term Effects of Microfinance: Track income, business growth, and household welfare over several years to assess sustainability.
- Focus on Specific Business Types: Examine differential impacts on retail, agricultural, service, and food businesses to design tailored products.
- Effectiveness of Training Programs: Investigate which training topics (bookkeeping, budgeting, digital marketing) most influence performance.
- Barriers to Using Microfinance: Explore cultural beliefs, gender barriers, trust issues, and preference for informal lenders.
- Use of Technology and Digital Finance: Study how mobile money and digital loans can improve access

and efficiency for small-scale entrepreneurs.

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