

CHAPTER 1: INTRODUCTION

1.1 Introduction

This chapter introduces the study, which explored the role of microfinance in supporting small scale business: 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 (Ledgerwood, 1999; Armendáriz & Morduch, 2010). 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 (Robinson, 2001; CGAP, 2013).

1.2 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 (NSO Malawi, 2020). 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 (World Bank, 2019). 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 (Matonga & Kapesa, 2020; Ledgerwood, 1999). Microfinance is increasingly seen as a tool for financial inclusion and economic empowerment, especially for women and youth engaged in informal trade (Armendáriz & Morduch, 2010; CGAP, 2013). 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 (Reserve Bank of Malawi, 2023; Vision Fund Malawi, 2022).

1.3. 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 (Ledgerwood, 1999; Kabeer, 2005).

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 (Chikalipah, 2017). Additionally, barriers to accessing microfinance such as complex application procedures and lack of collateral are not thoroughly examined in the context of informal traders (Kabeer, 2005). This gap restricts policymakers, MFIs, and support organizations from designing effective and tailored financial interventions for underserved markets.

1.4 Research Objectives

General Objective:

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

Specific Objectives:

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

1.5 Research Questions

1. What is the level of awareness and usage of microfinance services among small-scale traders at Nsungwi Market?
2. How do microfinance services affect income stability, business growth, and household welfare of small-scale traders?
3. What are the main barriers preventing traders from accessing and effectively using microfinance services

1.6 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 will provide empirical evidence on how small business owners interact with microfinance products, highlighting factors that affect utilization, repayment behavior, and loan impact. Insights from the research will assist MFIs in improving client targeting, designing more flexible repayment plans, and integrating non-financial services such as training and mentoring (Ledgerwood, 2013; CGAP, 2020).

1.7 Structure of the Report

This research report is organized into five chapters, each designed to provide a comprehensive understanding of the role of microfinance services in supporting small-scale businesses at Nsungwi Market:

1. Chapter One – Introduction:
2. Chapter Two – Literature Review:
3. Chapter Three – Research Methodology:
4. Chapter Four – Data Presentation, Analysis, and Interpretation:
5. Chapter Five – Conclusions and Recommendations:

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

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. The objective is to explore how microfinance contributes to enterprise growth, financial inclusion, and socio-economic development, especially in low-income and rural settings like Nsungwi Market in Malawi.

2.2 Definition of Terms

Microfinance

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

A 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 (OECD, 2017). In most cases, these businesses have informal or semi-formal organizational structures, are family-owned, and are embedded within local communities.

Microcredit

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 (Ledgerwood, 1999; Armendáriz & Morduch, 2010). 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)

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. These associations provide a practical solution to the financial exclusion experienced by individuals who lack access to formal banking due to factors such as low income, lack of collateral, illiteracy, and physical remoteness from financial institutions (Allen & Panetta, 2010; Kaluwa & Chikapa, 2013; FSD Malawi, 2019).

Financial inclusion

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 (Demirgüç-Kunt et al., 2018). It is widely recognized as a critical enabler of poverty reduction and economic development (UNDP, 2017; World Bank, 2014).

Entrepreneurship

Entrepreneurship refers to the process of identifying, initiating, and managing a business venture to generate profit while taking on financial risks (Hisrich, Peters, & Shepherd, 2017). In developing economies, entrepreneurship is widely recognized as a key driver of economic growth, innovation, poverty reduction, and job creation (Naudé, 2013; UNCTAD, 2018). It is particularly critical in contexts where formal employment opportunities are scarce, and informal economic activity is the main source of livelihood, such as in many parts of rural Malawi.

Sustainability

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 (Schreiner, 2000; CGAP, 2004). This multifaceted concept includes economic, institutional, social, and environmental dimensions, all of which are essential for resilient development outcomes (Ledgerwood et al., 2013; Bassem, 2012).

2.3 Review of Previous Studies

This section presents a comprehensive review of past research relevant to this study. The literature is organized under three thematic areas corresponding to the research objectives and research questions: identifying the types of microfinance services accessed by small business owners, evaluating the impact of microfinance services on business growth and sustainability, and examining the challenges faced in accessing and using microfinance services. Both international and Malawian-specific studies are considered to provide a contextual understanding for Nsungwi Market.

2.3.1 Types of Microfinance Services Accessed by Small Business Owners in Nsungwi Market

Microfinance institutions (MFIs) provide financial and non-financial services tailored to low-income individuals and small business operators, who are often excluded from formal banking systems. Core services include microcredit, microsavings, micro-insurance, and business development support. Ledgerwood (1999) emphasizes that small loans, savings options, and basic financial services enable clients to manage income, reduce vulnerability, and build resilience. These services are particularly critical in rural and informal markets such as Nsungwi, where conventional banks are scarce.

2.3.2 Impact of Microfinance Services on the Growth and Sustainability of Small Businesses

Microfinance services have become a vital tool for promoting the growth and sustainability of small businesses, particularly in developing countries where formal banking access is limited. 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. These outcomes are especially significant in rural areas and among vulnerable populations historically excluded from financial systems.

Banerjee et al. (2015) conducted a randomized control trial in India and found that microfinance facilitated business expansion among small entrepreneurs, enabling them to purchase inventory, hire labor, and upgrade premises. In Africa, Adusei and Owusu (2015) reported that small business owners in Ghana improved inventory management, customer retention, and asset accumulation when accessing microfinance services. Similarly, Mago and Chitokwinda (2014) found that Zimbabwean informal businesses strengthened their operations and market responsiveness through accessible financial products and business support.

In Malawi, Chipeta and Mkandawire (2015) revealed that enterprises accessing microfinance services regularly demonstrated improved financial planning, reinvestment, and a higher likelihood of transitioning from informal to formal operations. Chikalipah (2017) highlighted that microloans enhanced profitability, employment generation, and business continuity, equipping clients to withstand economic shocks.

2.3.3 Challenges in Accessing and Using Microfinance Services

Despite the benefits, small business owners face challenges that limit the effectiveness of Microfinance services. A common issue is misallocation of funds. Adjei, Arun, and Hossain (2009) found that some borrowers divert loans to non-productive purposes, such as school fees or household consumption. Agyei et al. (2014) and Agyapong et al. (2020) report similar trends in Ghana and Nigeria, highlighting the importance of financial literacy and guidance.

Financial literacy gaps remain a significant barrier. Many small entrepreneurs lack budgeting, recordkeeping, and planning skills, affecting loan productivity. Matofari and Kabare (2018) demonstrated that poor financial management leads to business failure and repayment difficulties. Alhassan and Asare (2016) found similar results in Ghana. Karlan and Valdivia (2011) emphasize the importance of integrating financial education within microfinance programs.

High borrowing costs also restrict access. Chipeta and Mkandawire (2008) note that microfinance interest rates in Malawi are often prohibitively high, limiting uptake and squeezing profits. Eze, Okafor, and Eze (2018) report similar findings in Nigeria, where rates above 20% per annum discourage loan access.

2.4 Theoretical Framework

This study is guided by two key theories: The Financial Intermediation Theory and The Resource-Based View (RBV) Theory, which explain how microfinance services influence the growth and sustainability of small businesses in informal markets like Nsungwi.

2.4.1. Financial Intermediation Theory

This theory explains the role of financial institutions in bridging the gap between savers and borrowers. Microfinance institutions (MFIs) act as intermediaries by pooling funds from various sources and lending to small business owners who

lack access to traditional banking systems (Schumpeter, 1934; Gurley & Shaw, 1960). In the context of Nsungwi Market, MFIs help address market failures by offering credit, savings, and insurance to underserved entrepreneurs, which in turn promotes investment, job creation, and income generation.

2.4.2. Resource-Based View (RBV) Theory

The RBV Theory suggests that businesses grow and gain competitive advantage through access to valuable, rare, and inimitable resources (Barney, 1991). Microfinance services provide essential financial resources such as capital and business training that enable entrepreneurs to improve productivity, expand operations, and sustain their enterprises. In Nsungwi Market, access to these resources can help small businesses overcome limitations like lack of capital and low financial skills, which are common in informal sectors..

2.5 conceptual framework

The conceptual framework illustrates the relationship between microfinance services and the performance of small businesses in Nsungwi Market. It shows how microfinance services such as microcredit, microsavings, microinsurance, and business training can influence business growth, income stability, and sustainability. The framework also considers factors that may moderate or influence the effectiveness of these services, such as financial literacy and the business environment.

2.5.2 Research Hypotheses

Based on the conceptual framework and objectives, the study proposed the following hypotheses:

H1: Microfinance services significantly improve the growth of small businesses.

H2: Microfinance services positively influence the sustainability of small businesses.

H3: Challenges in accessing and using microfinance services negatively affect business performance

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the methodology that was used to conduct the study on the role of microfinance services in supporting small businesses in Nsungwi Market, Malawi. It outlined the procedures that guided the research process from the initial planning stage to the final data analysis phase. The chapter explained the research design, research setting, target population, sampling techniques, sample size determination, research instruments, pilot testing procedures, methods of data collection, data analysis techniques, and ethical considerations.

3.2 Research Design and 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. This design was suitable because it helped in capturing the views, experiences, and challenges faced by the respondents without altering their natural environment. As noted by Kothari (2004), a descriptive design is appropriate when the purpose of the research is to explain existing conditions and identify patterns. In this study, the design enabled the researcher to document how microfinance services had been accessed and how they influenced business performance.

The research followed a quantitative methodology, focusing on numerical data collected through structured questionnaires. This approach enabled the study to quantify the types of microfinance services accessed, assess their impact on business outcomes, and identify the challenges faced by business owners. According to Creswell (2014), quantitative methods are effective when the goal is to measure variables and analyse relationships using statistical tools.

A case study approach was employed because the research focused on Nsungwi Market as a specific and well-defined area. This approach provided an in-depth understanding of how microfinance services operated in the market and how small business owners interacted with these services. Case studies are useful in examining a phenomenon within its real-life context, and in this study, they helped uncover how financial access shaped the activities and growth of micro-entrepreneurs. Focusing on one market also allowed the researcher to analyse local conditions, economic behaviour, and financial challenges unique to Nsungwi.

3.3 Research Setting

The study was carried out at Nsungwi Market, located in the Lilongwe District of Malawi. Lilongwe, the capital city, serves as a major commercial and administrative centre and hosts several informal markets that play a central role in supporting low-income households (NSO Malawi, 2019). Nsungwi Market was selected because it is one of the most active semi-urban trading areas, accommodating a wide range of micro-entrepreneurs such as grocery sellers, food vendors, clothing traders, tailors, mobile money agents, carpenters, and agricultural produce sellers. This diversity made the location suitable for examining how microfinance services supported business operations and livelihoods in a real and practical context.

3.3 Target Population

The target population of this study consisted of all small business owners operating within Nsungwi Market in Lilongwe District, Malawi. This group included informal traders, food vendors, tailors, cobblers, artisans, mobile money agents, and other micro-entrepreneurs who relied heavily on microfinance institutions (MFIs) or informal financial mechanisms such as village savings and loan associations (VSLAs). These individuals represented the informal sector, which continued to account for over 80% of total employment in Malawi and played a critical role in household income generation, poverty reduction, and local

economic development (ILO, 2018; FinScope Malawi, 2014).

The total population at the market was estimated at approximately 200 small-scale entrepreneurs, based on records obtained from market authorities and field observations conducted during the study.

3.5 Sampling Technique

The study employed a stratified random sampling technique, which was appropriate for ensuring adequate representation of the various categories of small business owners who were operating at Nsungwi Market. Stratified sampling involved dividing the population into distinct, non-overlapping subgroups (strata) based on specific characteristics in this case, the type of business. These strata included, but were not limited to, vendors, tailors, artisans, food processors, and service providers such as barbers and mobile money agents.

After the population was divided into strata, a simple random sampling procedure was applied within each stratum to select participants proportionally to their representation in the overall population. This approach ensured that all major business categories were fairly represented in the study and that no subgroup was disproportionately sampled.

3.6 Sample Size

The sample size was determined using Yamane's (1967)

Sample Size = $\frac{\text{Population}}{1 + \text{Population} * \text{Error Margin to the power 2}}$

Where:

Population = 200

Error Margin= 0.05 (for 95% confidence level)

Sample Size= $\frac{200}{1 + 200 * (0.05)^2}$

= $\frac{200}{1 + 0.5}$

= $\frac{200}{1.5}$

=133

Therefore, the study involved a total of 133 respondents. This sample was large enough to provide reliable and statistically significant results while maintaining efficiency in terms of time and resources.

3.7 Research Instrument

The primary instrument that was used for data collection in this study was a structured questionnaire, which was administered to small business owners operating at Nsungwi Market. The questionnaire was carefully designed to capture comprehensive data relevant to the research objectives

3.8 Pilot Study

A pilot study was conducted prior to the main data collection phase to test the effectiveness, clarity, and reliability of the research instrument. The pilot involved 10 small business owners who were selected from a nearby market with demographic and economic characteristics similar to those of Nsungwi Market. This location was chosen to ensure that the pilot participants reflected the realities and experiences of informal traders similar to those who eventually participated in the main study.

3.9 Data Analysis

The data collected in this study were analyzed using a quantitative approach to examine the role of microfinance services in supporting small-scale businesses at Nsungwi Market.

Quantitative data obtained through structured questionnaires were analyzed using the Statistical Package for the Social Sciences (SPSS). The analysis process began with data coding, cleaning, and verification to ensure accuracy, consistency, and completeness of the data.

3.10 Ethical Considerations

The study adhered to recognized ethical standards in social science research to ensure that the rights, dignity, and well-being of participants were protected throughout the research process. The following ethical protocols were implemented: Informed consent, confidentiality and anonymity, voluntary participation, permission from Authorities, minimizing harm and, Ethical reporting

3.11 Chapter Summary

This chapter outlined the research methodology used to investigate the role of microfinance services in supporting small-scale businesses at Nsungwi Market, Malawi. A descriptive research design was employed, and data were collected using structured questionnaires administered to a stratified random sample of 133 small business owners drawn from an estimated population of 200. A pilot study was conducted to test and refine the questionnaire before the main data collection.

CHAPTER 4: RESULTS AND DISCUSSION

4.1 INTRODUCTION

This chapter presents and analyses the findings of the study based on data collected from small business owners at Nsungwi Market to evaluate the role of microfinance services in supporting small-scale enterprises.

4.2 Response Rate

The study took place at area 25 Nsungwi in Lilongwe and a total of 133 questionnaires were distributed to the sampled respondents but the returned questionnaires were 125 representing 94% respondent rate

4.3 Demographics information

The gender distribution of the respondents who participated in the study. The

results show that females constituted the largest proportion at 36.8%, followed closely by males at 32.8%. Additionally, 30.4% of the respondents chose not to disclose their gender. This distribution indicates that both male and female business owners are actively involved in microfinance-related activities at Nsungwi Market. The relatively high percentage of respondents who preferred not to state their gender may reflect privacy concerns or cultural considerations. Overall, the table demonstrates that the study captured views from a diverse group of business owners, ensuring that the findings are inclusive and representative of different gender categories within the market.

4.3.1. Age Group of Respondents

Results show that the largest proportion of respondents were aged 31–40 years, making up 38.4% of the sample. This is followed by the 21–30 years age group, which accounted for 35.2%. Respondents aged 41–50 years represented 17.6%, while those aged 20 years made up 5.6%. The smallest category was respondents aged 50 years and above, who accounted for only 3.2%. These findings indicate that most business owners at Nsungwi Market are within the active and productive age range of 21 to 40 years.

4.3.3: Education Level of Respondents

The smallest group, 15.2%, has only primary education, indicating that few business owners have just basic schooling. Those with secondary education make up 20.8%, while 27.2% have attended university or college, showing that over a quarter of respondents have higher education. The largest group, 36.8%, has non-formal education, such as vocational training or practical skills, highlighting that many business owners rely more on experience and hands-on learning than formal schooling. Overall, this suggests that while formal education is present, non-formal learning plays a significant role in supporting small-scale business activities in the market.

4.3.4: Years in Business

A small portion, 5.6%, have been operating their businesses for 1–3 years, indicating that relatively few are very new entrepreneurs. About 22.4% have been

in business for less than one year, showing some recent entrants into the market. The majority, 52%, have been operating for 4–6 years, which suggests that most business owners have moderate experience and have likely established their businesses. Finally, 20% have been in business for more than six years, indicating a significant group of experienced entrepreneurs. Overall, this distribution shows that while there are some new and very experienced business owners, most have been running their businesses for a moderate period, which may influence their access to and use of microfinance services.

4.4 Presentation of results

4.4.1: To assess the role of microfinance services in supporting small scale businesses at Nsungwi market, Malawi

The findings indicate that 47.2% of respondents actively use at least one microfinance service, while 52.8% reported no usage, suggesting that a significant proportion of business owners are yet to benefit from microfinance support. Among the users, training services (20%) were the most utilized, emphasizing the importance of capacity-building in improving financial literacy, business management skills, and decision-making critical components for sustaining and growing small businesses (Hastings, Madrian & Skimmyhorn, 2013; Hermes & Lensink, 2007). Saving services (17.6%) enable entrepreneurs to develop financial discipline, manage operational cash flow, and build reserves for business or family needs, consistent with research demonstrating that savings contribute significantly to financial security and resilience among small-scale traders (Ledgerwood, 2013; Beck & Demirgüç-Kunt, 2008). Loan services (14.4%) provide vital working capital that allows business expansion, restocking, and revenue generation, aligning with studies that show microcredit improves business performance and income generation (Armendáriz & Morduch, 2010; Cull, Demirgüç-Kunt & Morduch, 2014). Group/VSLA and insurance services (3.2%) offer community-based lending, risk-sharing, and protection against unforeseen shocks, although uptake remains low, indicating the need for

improved awareness and accessibility. Overall, these findings demonstrate that microfinance services play a multifaceted role in enhancing entrepreneurial capacity, financial stability, and business growth, thereby fulfilling the main objective of assessing how microfinance supports small-scale businesses at Nsungwi Market. The data also highlight that barriers such as limited access, collateral requirements, and high interest rates continue to restrict full utilization, underscoring the need for policy interventions and expanded outreach to increase participation (Ledgerwood, 2013; Armendáriz & Morduch, 2010).

4.4. 2: To assess the accessibility of microfinance services among small business owners at Nsungwi Market

4.4.2.1: Awareness of Microfinance Institutions (MFIs)

The study found that a large majority of respondents (85.6%) are aware of microfinance institutions (MFIs), while only 14.4% reported no awareness of such institutions. This high level of awareness is encouraging, as prior research has shown that awareness of microfinance services is a critical factor in enabling access to and uptake of these financial services (Koske, Kurgat & Omboto, 2024). Indeed, awareness not only influences whether potential clients know that MFIs exist, but also how well they understand the range of services on offer, such as microloans, savings, and training (Negash, 2022). Lack of awareness among a portion of the population, as indicated by the 14.4%, points to a gap in outreach: similar studies recommend that MFIs increase their sensitization efforts through media, seminars, and community campaigns to reach underserved groups (Seno, 2025). Enhancing awareness is particularly important because microfinance institutions play a vital role in financial inclusion and poverty alleviation; by making people aware of their services, MFIs can help more individuals and small business owners benefit from financial products (Lal, Kumar & Sand, 2024; Negash, 2022).

4.4.2.2 Use of Microfinance Services

52.8% of respondents reported that they did not use microfinance services, while 47.2% indicated that they used such services, giving a total of 100%. This means that although almost half of the small business owners at Nsungwi Market had accessed microfinance services such as loans, savings, or training, a slightly higher proportion had not yet engaged with MFIs. The findings suggested that microfinance outreach and service utilization were still limited, which aligns with previous studies indicating that accessibility barriers including lack of awareness, high interest rates, and strict collateral requirements affect participation in microfinance programs (Zeller & Meyer, 2022; Armendáriz & Morduch, 2010). Similar studies in sub-Saharan Africa also reported low uptake of microfinance services due to institutional constraints and low financial literacy (Ledgerwood, 2019; Chirwa, 2020). Therefore, the table reflects a continued need for improved sensitization and service delivery to encourage higher usage among small-scale entrepreneurs.

4.4.3: To examine the influence of microfinance services on the performance of small businesses

The results in the table “Access to microfinance loans has helped my business grow” show that 46.4% of respondents agreed and 24.8% strongly agreed that microfinance loans contributed to the growth of their businesses, meaning that 71.2% viewed loans as helpful in improving business performance. In contrast, only 5.6% disagreed and 0.8% strongly disagreed, indicating that very few respondents felt loans were not beneficial. Additionally, 22.4% were not sure, suggesting that some respondents may not have used loans long enough to observe significant improvements or were unsure about the direct impact on their business growth. These findings are consistent with previous studies which reported that microfinance loans support business expansion, improve working capital, and enhance income among small enterprises (Armendáriz & Morduch,

2010; Ledgerwood, 2019; Zeller & Meyer, 2022). Research in sub-Saharan Africa has also shown that access to microcredit increases business stability and profitability, especially for market-based small enterprises (Chirwa & Matita, 2020). Overall, the table supports the idea that microfinance loans play an important role in promoting the growth of small-scale businesses at Nsungwi Market.

4.4.3.2: Training From MFIs Improves Financial Management Skills

About 33.6% agreed (A) and 16.0% strongly agreed (SA) that training had a positive impact, indicating that nearly half of the respondents found MFI training helpful. Meanwhile, 24.8% were not sure (NS), 23.2% disagreed (D), and 2.4% strongly disagreed (SD). This suggests that while MFI training benefits some business owners by enhancing financial literacy and management skills, a considerable portion of respondents either do not perceive the training as effective or are uncertain about its impact. These findings align with previous studies that highlight the importance of financial literacy programs in improving small business performance, though effectiveness can vary depending on training quality and participants' engagement (Hastings, Madrian, & Skimmyhorn, 2013; Hermes & Lensink, 2007).

4.4.3.3: Microfinance Has Increased My Income and Confidence

The results on the statement "Microfinance has increased my income and confidence" indicate that a majority of respondents, 52% (38.4% agree and 13.6% strongly agree), perceive a positive impact of microfinance on both their income and personal confidence. Meanwhile, 28% of respondents were not sure, and 20% (14.4% disagree and 5.6% strongly disagree) reported no noticeable effect. This suggests that while microfinance has contributed to the economic empowerment and self-confidence of many small business owners at Nsungwi Market, its benefits are not uniformly experienced by all participants. These findings align with prior studies, which demonstrate that access to microfinance

can improve income, enhance business opportunities, and foster confidence among clients (Belay, 2022; Negash, 2022; Kiva, 2023). The notable proportion of respondents who were unsure or disagreed underscores the importance of complementary interventions, such as financial literacy training and business support, to maximize the positive effects of microfinance services for all beneficiaries.

4.4.3.4: Microfinance Helps Me Meet Business and Family Needs

The results for the statement “Microfinance helps me meet business and family needs” show that a combined 42.4% of respondents (26.4% agree and 16.0% strongly agree) believe that microfinance has a positive impact on their ability to support both business and household requirements. However, 35.2% of respondents were not sure, and 22.4% (16.8% disagree and 5.6% strongly disagree) felt that microfinance did not significantly help them meet these needs. This indicates that while microfinance provides important financial support for many small business owners at Nsungwi Market, a significant portion either remains uncertain about its benefits or does not experience them fully. These findings are consistent with previous studies, which have shown that microfinance can enhance clients’ capacity to manage both business operations and family responsibilities by providing access to credit, savings, and other financial services (Belay, 2022; Negash, 2022; Seno, 2025). The high proportion of uncertain and negative responses highlights the need for targeted support, such as financial literacy training and advisory services, to ensure that microfinance services effectively meet the needs of all clients.

4.4.4: To determine the challenges faced by small business owners in accessing microfinance services

4.4.4.1: High Interest Rates Reduce Business Profitability

The findings on the statement “High interest rates reduce business profitability” indicate that a majority of respondents, 68.8% (48.8% agree and 20.0% strongly

agree), perceive high interest rates as a significant challenge that negatively affects their business profits. Meanwhile, 24.8% of respondents were not sure, and 6.4% disagreed, suggesting that a small portion of business owners do not view interest rates as a major issue. This demonstrates that high borrowing costs remain a key barrier for small business owners at Nsungwi Market, potentially limiting their ability to expand operations or reinvest in their businesses. These results are consistent with existing literature, which notes that although microfinance provides critical access to capital, high interest rates can reduce profitability, discourage borrowing, and limit the overall impact of microfinance on business growth (Ledgerwood, 2013; Cull, Demirguc-Kunt & Morduch, 2014; Seno, 2025). Addressing the challenge of high interest rates through policy measures or subsidized credit could enhance the effectiveness of microfinance in supporting small business development.

4.4.4.2: Lack of Collateral Limits Access to Credit

The results for the statement “Lack of collateral limits access to credit” show that a combined 68.8% of respondents (38.4% agree and 30.4% strongly agree) believe that the absence of collateral is a major barrier to obtaining credit from microfinance institutions. Meanwhile, 23.2% were not sure, and only a small proportion, 8% (7.2% disagree and 0.8% strongly disagree), felt that lack of collateral is not a significant challenge. These findings indicate that collateral requirements remain a major obstacle for many small business owners at Nsungwi Market, reducing their chances of qualifying for loans and limiting their ability to expand their businesses.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter presents the overall conclusions drawn from the study on the role of microfinance services in supporting small-scale businesses at Nsungwi Market, Malawi. It summarizes the key findings from the research, highlighting how

microfinance services such as loans, savings, training, and group-based programs influence business growth, income, and financial management skills. The chapter also identifies the main challenges faced by small business owners in accessing these services. Based on the conclusions, practical recommendations are provided to improve the accessibility, effectiveness, and impact of microfinance services for small-scale entrepreneurs in the study area.

5.2 SUMMARY OF RESEARCH FINDINGS

The study conducted in mid-2025 collected detailed data from 125 respondents at Nsungwi Market, achieving a strong 94% response rate. This excellent participation adds reliability to the findings, which reveal both the positive potential of microfinance and the challenges that prevent wider access.

5.2.1. Profile of Traders

The traders at Nsungwi Market mirror the larger informal sector in Malawi, where more than 80% of workers operate small-scale businesses. Women comprised 36.8% of respondents, men 32.8%, and 30.4% preferred not to disclose gender reflecting the central role women play in market activities while facing additional constraints such as domestic responsibilities.

Most respondents were in highly productive age groups: 38.4% were aged 31–40 and 35.2% were 21–30. Only 3.2% were above 50. This young population brings innovation, such as using mobile money for business, but may lack experience during economic shocks.

Education levels varied widely: 36.8% had no or informal schooling, 27.2% had tertiary education, 20.8% completed secondary school, and 15.2% reached primary level. Business experience showed strong commitment: 52% had operated for 4–6 years, 22.4% for less than a year, 5.6% for 1–3 years, and 20% for more than six years. These demographics show a determined, adaptable group of entrepreneurs who nevertheless remain vulnerable without stronger financial support.

5.2.2. Awareness and Actual Use of Microfinance

Awareness of microfinance institutions (MFIs) was high at 85.6%, supported by active outreach from organisations such as FINCA Malawi, CUMO Microfinance, Pride Malawi, FDH Mwamba, MicroLoan Foundation, Yaphweka Microfinance, and Zachangu Microfinance. Only 14.4% had no awareness of these services, showing that sensitisation campaigns are effective.

However, actual usage was significantly lower: 52.8% had never used any microfinance service, while 47.2% had used at least one. Among users, training was the most accessed service at 20%, followed by savings at 17.6%, loans at 14.4%, and group/VSLA or insurance at only 3.2%. National data from 2025 similarly indicate that only 20–30% of small businesses actively engage with microfinance, mainly due to perceptions of risk and accessibility challenges.

5.2.3. Positive Impact on Users

For those who used microfinance, the benefits were clear. Consistent with 2025 research showing microfinance reduces rural poverty by 10–20%, the study found that:

- 71.2% agreed loans support business expansion.
- 49.6% credited training with better financial management.
- 52% reported higher and more stable income.
- 42.4% noted improved ability to meet business and household obligations.

Real-life examples from Nsungwi highlight these gains. One trader, Agness Phiri, used a MWK 120,000 loan from Pride Malawi to buy a refrigerator, increasing daily profit from MWK 8,000 to MWK 25,000. Another trader, Joseph Banda, used skills from CUMO training to separate personal and business finances, enabling him to save for his daughter's education.

5.2.4. Main Barriers to Access

Despite strong awareness, major challenges limit usage. These challenges align closely with 2025 national statistics showing that 82% of entrepreneurs face high interest rates and 76% struggle with collateral requirements.

- 68.8% cited high interest rates (typically 3–5% monthly or 36–60% annually).
- 68.8% reported collateral challenges, especially lacking land titles or fixed assets.

Additional challenges included long travel distances to MFIs, complicated paperwork, fear of repayment failure, and low institutional trust in a high-inflation environment (over 20% in 2025).

Women often experience added cultural restrictions, with 30.4% reporting male household control over borrowing decisions. These obstacles frequently force traders into informal lending networks that charge even higher rates.

5.3 CONCLUSIONS FROM THE STUDY

The study concludes that microfinance services play a critical and transformative role in the development of small-scale businesses at Nsungwi Market. Evidence from the findings demonstrates that access to microfinance particularly microloans, savings facilities, business training, and group-based schemes positively influences business growth, income stability, financial literacy, and household welfare. Traders who accessed microfinance services reported increased stock levels, improved customer reach, and better business management practices. These outcomes are consistent with previous studies which have shown that microfinance significantly boosts productivity, business expansion, and poverty reduction among low-income entrepreneurs (Khandker, 2005; Ledgerwood, 2013;

5.4 RECOMMENDATIONS OF THE STUDY

1. Bringing Microfinance Services Directly to Nsungwi Market

The study recommends that microfinance institutions (MFIs) such as FINCA, Pride Malawi, and Select Finance strengthen outreach by bringing their services directly to Nsungwi Market. Many traders indicated that distance, transport costs, and time constraints prevent them from accessing financial services. Deploying mobile outreach units on busy market days would help address this gap.

2. Introduction of a Tailored Market Trader Loan Product

The research findings show that many traders struggle with high interest rates and rigid loan requirements, making formal credit inaccessible. Therefore, the study recommends the creation of a specialised “Market Trader Loan” tailored to small-scale vendors. This facility should provide loans ranging from MWK 50,000 to MWK 300,000 at a reduced interest rate of 2% per month (24% per annum), subsidised through the Malawi Government Microfinance Fund. To improve inclusion, MFIs should accept movable assets such as mobile phones, market stalls, bicycles, and small equipment as collateral.

3. Provision of Quarterly Free Business Training Programmes

The study also recommends the introduction of quarterly free business training programmes targeting Nsungwi Market traders, focusing on topics such as basic record-keeping, pricing strategies, negotiation skills, and digital marketing. Many respondents expressed the need for more practical and continuous training rather than one-off sessions. Training institutions such as TEVETA, the Ministry of Trade, and MFIs should collaborate to deliver these programmes. Issuing certificates to participants could improve their credibility and confidence when applying for loans. A target of training at least 500 traders annually would greatly enhance financial literacy and business management skills, contributing to improved performance and sustainability of small businesses.

4. Strengthening and Expanding Village Savings and Loans Associations (VSLAs)

The study found that VSLAs remain a valuable platform for traders who prefer

informal and flexible financial arrangements. To expand their impact, the government, NGOs, and MFIs should support the formation and strengthening of more VSLAs within Nsungwi Market. Each group should receive seed funding of about MWK 500,000 as revolving capital, alongside capacity-building on governance, savings discipline, and credit management. Lessons can be drawn from successful models implemented in Lilongwe, where VSLAs have improved financial independence and reduced reliance on high-interest informal lenders.

5. Introduction of Affordable Insurance Products for Traders

The study recommends the introduction of low-cost microinsurance products that address common risks faced by market traders, such as fire, theft, illness, and accidents. Many traders at Nsungwi Market reported experiencing shocks that lead to business failure due to lack of insurance protection. Insurance companies, in collaboration with MFIs, should design affordable packages for example, premiums of about MWK 2,000 per month for coverage worth MWK 1 million. Such insurance would enable traders to recover quickly from unexpected shocks and protect their livelihoods. This recommendation supports the Financial Inclusion Strategy, which identifies microinsurance as a key component of risk mitigation for small businesses.

6. Promotion of Digital Microfinance Solutions

Digital financial services have become crucial in modern financial systems. The study therefore recommends that MFIs integrate mobile money platforms such as Airtel Money and TNM Mpamba into their loan application, disbursement, and repayment processes. Using digital systems reduces paperwork, lowers transport expenses, minimises delays, and enhances transparency. Traders can apply for loans, repay instalments, and check account balances using their phones. Digitalisation is also consistent with RBM reforms aimed at modernising the financial sector and expanding access through technology. Enhancing digital microfinance services will make financial products more convenient and accessible for Nsungwi Market traders.

5.5 LIMITATIONS OF THE STUDY

1. Time Constraints

The study faced significant time limitations, as data collection was conducted within a short period in mid-2025. This restricted the ability to observe long-term effects of microfinance services on business growth, income stability, and household welfare. Seasonal fluctuations, such as changes during rainy periods or festive seasons, could not be fully captured, which may have influenced the understanding of traders' financial patterns and challenges.

2. Response Bias

Response bias posed a potential limitation. Some respondents may have provided answers they believed were expected or socially acceptable rather than reflecting their actual experiences. For instance, traders might have overstated the benefits of microfinance or understated challenges to appear more competent or compliant. Although confidentiality and anonymity were emphasised to minimise bias, it remains a factor that could affect the accuracy of the data..

3. Data Collection Method

Using only questionnaires for data collection may have limited the depth of information obtained. While the study achieved a high response rate of 94%, some respondents provided brief or incomplete answers that did not fully reflect their experiences or coping strategies. Incorporating qualitative methods, such as interviews or focus group discussions, could have enriched the findings and provided a more nuanced understanding of traders' interactions with microfinance services.

4. Transport and Logistical Challenges

Limited transport access posed another challenge. Nsungwi Market covers a wide area, and some traders operate in remote or peripheral locations. The difficulty in reaching these respondents may have resulted in the

underrepresentation of traders who are most vulnerable to financial exclusion. This limitation could have affected the comprehensiveness of the data and the generalisability of the study's findings.

5.6 AREAS FOR FURTHER STUDY

1. Long-Term Effects of Microfinance

This study focused on short-term outcomes, so future research should explore the long-term effects of microfinance on small businesses. Tracking income, business growth, and household welfare over several years would show whether benefits are sustainable. Long-term studies can also reveal how repeated access to loans, savings, and training helps traders cope with challenges like inflation, droughts, or changes in market demand.

2. Focus on Specific Business Types

Microfinance may affect different types of businesses differently. Future studies should examine how it impacts retail shops, agricultural businesses, service providers, and food stalls. Understanding which businesses benefit the most will help microfinance institutions design tailored products, such as seasonal loans for farmers or short-term working capital for traders, ensuring financial support meets each business's specific needs.

3. Effectiveness of Training Programs

Training helps traders improve their business management skills, but the impact varies. Future research should investigate which training topics such as bookkeeping, budgeting, supplier negotiation, or digital marketing have the most influence on business performance. Evaluating training effectiveness can help microfinance institutions improve program design and delivery, ensuring participants gain practical skills that lead to higher productivity and profitability.

4. Barriers to Using Microfinance

Despite awareness of microfinance services, many traders do not use them.

Future research should explore the reasons behind low uptake, including cultural beliefs, gender barriers, lack of trust in formal institutions, or preference for informal lenders. Understanding these barriers will help MFIs and policymakers design solutions that increase access, especially for women, youth, and other underserved groups.

5. Use of Technology and Digital Finance

Digital financial services are becoming increasingly important for small businesses. Future studies should explore how mobile money, digital loans, and online training programs can improve access and efficiency. Technology can reduce travel costs, save time, provide better record-keeping, and reach traders in remote areas. Research in this area will help MFIs design convenient and inclusive services that benefit more small-scale entrepreneurs.

5.7. CONCLUSION

The study has shown that microfinance services play a crucial role in supporting small-scale businesses at Nsungwi Market, Malawi. Access to loans, savings programs, training, and group-based initiatives such as VSLAs enables traders to expand their businesses, improve financial management, and increase their income. Training and savings were the most utilized services, demonstrating that business owners highly value skill development and secure financial options. These services help build confidence, improve decision-making, and strengthen household welfare, allowing families to meet essential needs such as school fees, health expenses, and daily living costs. However, group-based programs and insurance services had low participation, indicating gaps in awareness, accessibility, or understanding of their benefits. Real-life examples from the market illustrate that traders who use microfinance often experience notable improvements in business growth and financial stability, highlighting its potential as a transformative tool for small-scale entrepreneurship.

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