



**EXPLORING EFFECT OF COMMUNITY-BASED FINANCIAL ORGANIZATIONS ON  
FINANCIAL INCLUSION IN SELECTED LOW-INCOME COMMUNITIES OF MCHINJI  
DISTRICT, MALAWI**

**BY**

**PHUNZIRO EUNICE NGAIYAYE**

**STUDENT No: 720000036**

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## DECLARATION

I, **Phunziro Eunice Ngaiyaye**, do hereby declare that the submission is my own work towards the attainment of the Master of Business Administration (MBA) degree and to the best of my knowledge, and that it has never been produced or submitted for any degree, diploma, or other qualification at the University of Zambia or indeed any other university for academic purposes. I further declare that all other works of people used in this research have been duly acknowledged.

Phunziro Eunice Ngaiyaye - 720000036

\_\_\_\_\_

\_\_\_\_\_

Student Name and ID

Signature

Date

Certified by:

Prof. William Phiri Abwino – PhD

\_\_\_\_\_

\_\_\_\_\_

Supervisors Name

Signature

Date

## CERTIFICATION OF APPROVALS

This dissertation of **Phunziro Eunice Ngaiyaye** will be approved as fulfilling the requirements for the award of the degree of Master of Business Administration (MBA-general) offered at the University of Zambia in collaboration with Zimbabwe Open University.

Name:

Signature:

Prof. William Phiri Abwino PhD.

.....

(Supervisor)

Examiners signatures:

Signature.....

Date.....

Signature.....

Date.....

.....

Date of approval

## **DEDICATION**

This dissertation is dedicated to my daughter Tamandani Lifowe Ngaiyaye for believing in me, and to my parents, Mr. & Mrs. RGD Ngaiyaye for their endless love, support, and encouragement throughout my educational journey.

## ABSTRACT

The purpose of the study was to explore the effects of community based financial organizations on financial inclusion in selected low-income communities of Mchinji district, Malawi. The sample size was 400 respondents, derived at statistically using Yamane (1967) formula with 95% Confidence Levels and 5% Margin of Error. The study adopted mixed embedded research design while data were collected using structured questionnaire on Kobo Tool. Quantitative data were analyzed using correlation and regression analysis with the help of SPSS (Version 20). Thematic model was employed in qualitative data analysis. The study findings revealed a strong positive correlation (0.697) between implementing community-based solutions and establishing trust and credibility within the community. A further moderate positive correlation (0.444) existed between implementing community-based solutions and feedback mechanisms. However, the study showed a weak negative correlation (-0.015) between implementing community-based solutions and financial literacy programs. On the other hand, financial literacy programs demonstrated a moderate positive correlation with establishing trust and credibility (0.594) and a strong positive correlation with feedback mechanisms (0.956). Establishing trust and credibility exhibited a moderate positive correlation with feedback mechanisms (0.256). These correlations highlight the interrelatedness of various aspects of CBFO operations and engagement with the community, providing valuable insights into their dynamics and implications for financial inclusion initiatives.

The findings furthermore showed that CBFOs offer a diverse range of financial services tailored to meet the specific needs of their members, including village savings and loans, business services and farming services. It was further brought to light that CBFOs offer enhanced access to financial services through awareness and providing financial education to mitigate challenges such as financial literacy and improve access to financial services. However, the mixed perception revealed in the study findings regarding the effects of CBFOs on financial inclusion is an indication for the need of continued efforts to strengthen relations with community members and stakeholders. The study recommended that policy makers should prioritize the development of supportive policies framework with clear lines on community engagement, trust building and feedback mechanism within the CBFOs. These should include among others financial literacy programs, reducing transaction cost and promoting gender sensitive approaches to financial services provision.

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## **LIST OF ACRONYMS**

CBFO: Community based financial organization

FARMSE: Financial access for rural market smallholder enterprise program

DIFI: Digital financial inclusion

MFI: Microfinance institutions

VSLA: Village savings loan association

ROSCA: Rotating savings and credit association

SACCO: Savings and credit cooperative organization

MSMEs: Micro small and medium enterprises

CRS: Catholic relief services

VICOBA: Village community banking

# CHAPTER ONE

## INTRODUCTION

### 1.0 Overview

Chapter one consists of background to the study, Statement of the problem, Purpose of the study, Study objectives, Significance of the study, Theoretical framework, Scope of the study, Limitation of the study, operational definitions, and a summary.

### 1.1 Background of the Study

According to the United Nations Development Program (2023), there are approximately 40,000 non-governmental organizations in the world in addition to the community-based organizations which number in the hundreds of thousands. The U.S. Department of State estimates there are 1.5 million NGOs working in the US alone. According to IRS (2022), there were 1.97 million non-profits operating in the US, including 1.48 million 501(c) (3) tax-exempt organizations, according to the IRS. The non-profit sector accounted for 10.2% of all private-sector workers in 2017. In Africa, South Africa has the most highly developed non-governmental sector in the whole continent, with apparently more than 50,000 NGOs in total. Recent Statistics further reveal that South Africa has a large and vibrant civil society accounting for 270 313 NGOs registered with the NPO Directorate in the Department of Social Development, up from 221,000 registered organisations. Very recent statistics from the NGO Board of Malawi (2024), there are 260 NGOs registered with the Board. By contrast, 510 NGOs, cutting across all sectors of development, have registered with CONGOMA.

According to the Council for NGOs in Malawi (CONGOMA) membership has grown from 30 NGOs to around 600 NGOs, being local and international NGOs operating in all districts of Malawi. Strategic direction is provided by a National Taskforce, largely composed of national sector networks and selected International NGOs. The council was established in 1985 as an NGO Coordinating body. Its operations are backed by a constitution, Code of Conduct and Malawi NGO Law. It has so far registered 1,200 NGOs including the community-based organizations.

The majority of the population in Malawi are women (52%), who are doing most of agricultural activities, in addition to being prime victims of land and property grabbing, domestic violence and limited inclusion in decision making processes. Youth makes up 72% of the Malawian population; yet their presence in key decision making processes is limited. They suffer from high unemployment, political abuse and poor education systems. The elderly and the disabled are also marginalized, despite being bonafide citizens of Malawians. This has resulted in lack of opinions on development issues that concern such groups. There are also vulnerable children, mostly orphans and some from female headed households or households that are headed by elderly persons whose views are rarely taken on board. Such blackouts in consulting various groups have bred policy documents that do not speak to the needs of all groups; thereby limiting their participation in development processes (<https://gcap.global/coalition/malawi/>).

Community-based organizations (CBOs) are emerging as key players in national development which includes financial inclusion among low-income communities in Malawi. Community development, CBOs tend to serve primarily as the middleman for resources and actions. Many larger groups, like non-profits, and intersecting communities use CBOs as a way of interacting with those who are already at work on issues within the community.

Access to financial services is essential for economic growth and development, particularly in low-income countries such as Malawi. Community-based financial organizations can significantly enhance financial inclusion and economic empowerment in low-income communities. Financial inclusion is defined as the accessibility and usage of financial services by all members of a community, particularly those in low-income groups (Kunt & Klapper, 2012).

This case study, explored specific examples of individuals or businesses that have benefited from these financial services, measuring improvements in income, livelihoods, and overall economic stability. Understanding challenges faced by the community and the financial organization's role in addressing them can provide insights into the broader effect on the community's well-being.

Financial inclusion describes the “delivery of banking services at an affordable cost to the vast sections of disadvantaged and low -income groups” (Mandiwa, 2014). Reports on financial access in Malawi reveal that 25 percent of the population are bank account holders, 55 percent do not use any financial products and over 75 percent save their wealth in cash and in kind (FinScope Malawi, 2019). In order to improve rural financial inclusion, the government of Malawi through the Malawi’s Nation Financial Inclusion Strategy (2016 – 2020) and the Reserve Bank of Malawi strategic plan (2019-2021) implemented the rural community literacy program whose overall objective is to promote the financial literacy and financial inclusion of people living in the rural areas. These programs target community leaders, women, micro, small and medium (MSMEs) and the youth (FARMSE, 2020).

In low-income communities of Mchinji district Malawi, such initiatives can provide accessible financial services, such as micro-loans and savings accounts, to those who may be excluded from traditional banking.

These organizations often understand the unique needs of the local population, tailoring their services accordingly. By fostering a culture of saving and providing credit opportunities, they empower individuals to start or expand small businesses, contributing to local economic growth.

Additionally, community-based financial organizations can educate residents about financial literacy, promoting responsible financial practices. This knowledge equips community members with the skills to manage their finances effectively and make informed decisions about investments and expenditures.

Women and youth are often excluded from formal financial systems, in ultra poor graduation, beneficiaries of Social Cash transfer are primary target groups for this component. This is complemented with self-selection and categorical targeting depending on households’ potential to graduate. The assessment found that the youth feel left out of the ultra-poor graduation program because they are not beneficiaries of the social cash transfer (FARMSE, 2020). To which limits their ability to participate in economic activities and improve their livelihoods. Community-based financial organizations (CBFOs) have emerged as an alternative approach to providing financial services to underserved populations. These organizations are owned and managed by their members and operate on a cooperative basis, providing affordable and accessible financial services to their members.

## **1.2 Statement of the Problem**

The selected low-income communities of Mchinji district, Malawi, face significant challenges in achieving financial inclusion. Traditional banking services are often inaccessible, and residents encounter barriers such as geographical remoteness, limited financial literacy, and insufficient infrastructure. These communities grapple with persistent poverty, hindered economic growth, and restricted access to opportunities. In light of these issues, the study seeks to explore the effect of community-based financial organizations (CBFO) in addressing these challenges and fostering financial inclusion to the selected low-income communities of Mchinji district, Malawi.

Understanding the dynamics of these issues is essential for designing targeted interventions and policies that can uplift these communities and contribute to sustainable development (FARMSE, 2020).

Despite the efforts to increase access to financial services, many low-income communities still lack access to basic financial product and services. This lack of access to financial services, also known as financial exclusion, can perpetuate poverty and limit economic opportunities for individuals and families. Community-based financial organizations (CBFOs) have emerged as a potential solution to address financial exclusion in low-income communities. However, the effects of these financial organization and financial inclusion in these communities remain un-researched.

## **1.3 Purpose of the Study**

The purpose of the study was to explore the effects of community based financial organization on financial inclusion, in selected low-income communities.

## **1.4 Objectives of the Study**

The study was guided by the following research objectives:

## **1.5 General Objective**

To explore the effect of community-based financial organizations on financial inclusion in selected low-income communities of Mchinji district in Malawi.

### **1.5.1 Specific Objective**

1.5.1.1 To determine types of financial services provided by CBFO to low-income communities of Mchinji district, Malawi.

1.5.1.2 To assess extent of accessing financial services provided by CBFOs in low-income communities of Mchinji district, Malawi.

1.5.1.3 To establish the relationship between CBFO and financial inclusion in low-income communities of Mchinji district, Malawi.

### **1.6 Research Questions**

How do community-based financial organizations in low-income communities of Mchinji district, Malawi determine the types of financial services?

How do you access the financial services provided by CBFO in the selected low-income communities of Mchinji district, Malawi?

How do you establish the relationship between CBFO and financial inclusion in the selected low-income communities of Mchinji district, Malawi?

### **1.7 Significance of the Study**

The significance of this study was to understand the role of CBFOs in promoting financial inclusion in selected low-income communities in Mchinji district, Malawi. The results of this study will contribute to the current understanding of the effects of CBFOs on the financial inclusion in low-income communities. It will also inform policy makers, practitioners and researchers about the factors that contribute to the success of CBFOs in addressing financial exclusion in these communities. Additionally, this study will provide valuable information to support the development and expansion of CBFOs and other financial inclusion on initiatives to reach underserved communities. In addition it will enhance community based financial organization into forming cooperatives and sustainability in low-income communities.

## **1.8 Scope of the Study**

The study focused on selected low-income communities of Mchinji district, Malawi. Exploring the effect of community based financial organization on selected low-income communities of Mchinji district in Malawi.

This study involved assessing the penetration of financial services, studying the patterns of economic activities, understanding the level of financial literacy, and investigating the overall socio-economic changes attributed to the presence of these organizations. Additionally, explored variations or similarities among the three regions could provide valuable insights for targeted interventions.

## **1.9 Theoretical Framework**

This section presents theoretical framework adopted by this study. By definition, a theoretical framework is nothing but a foundational review of existing theories that serves as a roadmap for developing the arguments, explain phenomena, draw connections, and make predictions this is observed by Grant (2014). The study will be guided by the Access to finance framework.

### **1.10.1 Access to Financial Services Framework**

The concept of access to financial service has evolved over time through contributions from various scholars, policymakers, and institutions. There isn't a single individual credited with developing the entire financial inclusion theory this is according to Teutio (2023), however, the idea gained prominence as a global development goal, and many researchers, practitioners, and organizations have contributed to its theoretical foundations. The World Bank, for instance, has played a significant role in promoting financial inclusion, and researchers such as Muhammad Yunus, the founder of Grameen Bank and a Nobel Peace Prize laureate, have been influential in advancing microfinance as a means of fostering financial inclusion and access to finance. (Asongo & Yeuyoumo,2023).

This framework emphasizes the importance of access to financial services in promoting economic development and reducing poverty. Access to financial services theory revolves around ensuring that individuals and businesses have the opportunity to use and benefit from a range of financial products and services.

It involves breaking down barriers that might prevent certain groups from accessing these services, such as geographical, economic, or social barriers. The theory acknowledges that providing easy and inclusive access to banking, credit, insurance, and other financial tools is crucial for fostering economic development and improving the well-being of individuals and communities. The aim is to create a more equitable and inclusive financial system that caters to the diverse needs of the population. (Rojas (2010)

The framework also highlights the role of financial institutions such as CBFOs in providing access to financial services to underserved communities. This framework can be used to understand how CBFOs increase access to financial services in low-income communities and how this access contributes to financial inclusion and poverty reduction.

As observed by Khan et al(2023), the “Access to Financial services framework” is an appropriate theoretical framework for the study for several reasons among them importance of access to financial services in promoting economic development and reducing poverty, addresses the role of institutions such as CBFOs in providing access to financial services to underserved communities. This makes it directly applicable to the study of the CBFOs and their effect on financial organization on financial inclusion in low selected communities of Mchinji district, Malawi.

Lastly, it helps in identifying not just the access to financial services but also the role of other factors such as the role of institutions, the support provided by government programs like FARMSE (Financial Access for Rural Market Smallholders Enterprises program) and the communities, the financial literacy and the type of product service provided.

### **1.10 Limitations to the Study**

While conducting the study on the effect of community-based financial organizations in Mchinji, district, Malawi, several limitations may be encountered. It is important to acknowledge these constraints to provide a transparent and contextually awareness interpretation of the study's findings. Some potential limitations include:

- **Generalizability:** The findings may be specific to the selected Mchinji district, Malawi low-income communities and might not be easily generalized to other regions due to

variations in socio-economic factors, cultural dynamics, and local infrastructure. However, generalization will be done with caution.

- **Data Collection Challenges:** Factors such as language barriers and logistical issues affect the quality and completeness of the data collected, influencing the study's overall reliability. However, we will engage a translator, in case during the discussion some key points may be lost.

By recognizing these limitations, the study can better contextualize its findings, and researcher and stakeholders can interpret the results with a clear understanding of the constraints within which the study was conducted.

## **1.11 Operational Definition**

For this study,

### **1.11.1 CBFOs**

Refer to local financial institutions or entities that operate within Mchinji district, Malawi, providing financial services tailored to the needs of low-income communities. These may include savings and credit cooperatives, microfinance institutions, or community-based banks.

### **1.11.2 Financial Inclusion**

Financial inclusion is operationalized as the extent to which residents in Mchinji district, Malawi have access to and actively use a range of financial services offered by CBFOs. This includes savings accounts, credit facilities, insurance, and other relevant financial instruments.

### **1.11.3 Low-Income Communities**

Low-income communities are identified based on predetermined socioeconomic indicators, such as household income levels, access to basic services, and other relevant criteria specific to Mchinji district, Malawi. These criteria will be established through a combination of community profiles and existing demographic data.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Overview

This chapter present existing literature that is relevant to the topic under consideration. The chapter starts by presenting the global perspective, regional and local Malawian perspective. Establishing the research gap was the point of departure of this chapter.

#### 2.1 Financial Inclusion – Global Perspective

Well-functioning financial systems serve a vital purpose offering savings, credits, payments, and risk management products to people with a wide range of needs. Inclusive financial systems – allowing broad access to financial services without price or non-price barriers to their use, are especially likely to benefit poor people and other disadvantaged groups. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or become entrepreneurs – and small enterprises must rely on their limited earnings to pursue promising growth opportunities. This contributes to persistent income inequality and slower economic growth (Kunt & Klapper, 2012)

Until now little had been known about the global reach of financial sector – the extent of financial inclusion and degree to which such groups as the poor women and youth are excluded from formal financial systems. Systematic indicators of the use of different financial services had been lacking for most economies.

A study by Buckland and College (2008) which involved Community Banking Projects for Low-income Canadians brought to light key issues globally regarding the subject under review. The report examined four distinct and geographically dispersed projects referred to as community banking projects. The examination was based on key informant interviews and available project documents. The report did not seek to undertake an evaluation of quantifiable outcomes but to qualitatively analyse key issues to do with the development and implementation of community banking projects in Canada. The key issues were drawn particularly from issues raised by key informants, who were stakeholders in one of those projects. Community banking projects referred to an identifiable outlet or service tied to existing outlets that offered one or more financial services for low-income people. By this definition there were few community banking projects

in Canada. Some of the financial services offered by these projects were more ‘transactions’ oriented such that they address immediate liquidity needs such as cashing a cheque or accessing cash. Other services were more ‘developmental’ oriented in that they addressed a longer-term need such as strengthening savings, access to credit or financial management ability.

The projects identified Pigeon Park Savings (PPS, Vancouver), the Community Financial Services Centre (CFSC, Winnipeg), the Cash & Save (Toronto) and the *Fonds d’entraide Desjardin* (Mutual Assistance Fund) of the Desjardins Fédération (Québec). These projects were identified in earlier research (see Buckland et al., 2003) as projects that were designed with the goal of addressing financial exclusion in some way. These projects are based in four provinces, BC, Manitoba, Ontario and Québec. Three of the projects –PPS, CFSC and Cash & Save– were ‘outlet-based,’ involving 1 or 2 outlets that offer some combination of financial services. The Desjardins Federation Mutual Assistance Fund is probably the most different from the other three in that it is not rooted in one (or two) branches (locations) but is a program for all interested caisses populaires in Québec. This project was included because it was specifically concerned with addressing financial exclusion and due to the importance of having a model from Québec given its special financial services situation.

The study revealed the following among others: The banking conditions in inner-cities in Canada are quickly changing. Cheque-cashers, instant tax refund advancers and payday lenders are growing in numbers and some of these outlets are spilling into the suburbs. Inner-city based community organizations, banks and credit unions have noted this development and some have sought to address it through special community banking projects. We have identified four of the projects, the Cash & Save, Pigeon Park Savings, the Community Financial Services Centre and the Desjardins Mutual Assistance Fund. Three of these projects are located in one or two inner-cities and offer a set of financial services to neighbourhood residents. The Desjardins program works with low-income people throughout the province of Québec. Each project is the result of partnerships most importantly between a community organization, a financial institution and a research/consulting agency.

One key conclusion from this research is that community banking projects are expensive and are not likely to become self-sufficient. The Cash & Save is probably (we don’t know for sure) the closest to financial self-sufficiency but it offers the most basic set of services, devoid of savings,

credit-repair/building or financial literacy. Why these projects need to become completely self-sufficient is not clear. They can, and do contribute to the public good. By reducing transaction fees, theft and helping some unbanked people into a relationship with a mainstream bank they may provide a positive benefit to society. Since low-income people, by definition, cannot fully pay for this service, community banking projects cannot collect sufficient fees. This is akin to the public transit challenge where buses reduce noise, gasoline use and carbon emissions but they cannot charge a fee that covers their costs. But governments invest in public transit because there is a net benefit to society. A similar type of argument can be made for community banking projects. While this justifies some external support for these projects it does not imply these projects be entirely reliant on external support. Without any fee revenue the CFSC is particularly reliant on external support.

Another conclusion from this research is that partnerships and building relationships across types of organizations is important. Without partnerships such as RBC-St. Christopher House and PHS-Vancity, these projects would likely not exist. Relationships between key community and financial institution leaders are important. While some community organizations may vilify mainstream banks and while some banks may criticise community organizations, these organizations need each other to succeed in financial inclusion work. How can organizations from such different backgrounds be brought together in greater numbers and on a more regular basis? One way was to develop a common language and work at understanding common and different interests, understandings and values. Networks and associations that operate at the local and national level could usefully support this type of relationship. This suggests that building networks beyond ones industry association was useful for success in this field. How can people from such different worlds be brought together more intensively and regularly? In the two cases discussed here it was through mixing on other organizations' boards that people were brought together. Financial institutions in particular might consider dedicating senior staff to board work on local social organizations.

Based on literature review case study from the low income Canadians families, the Global Financial Inclusion (Global Findex) database provide such indicators. This report presented the first round of Global Findex database, a new set of indicators that measure how adults in 148 economies save, borrow make payment and manage risk. The indicators are constructed with

survey data from interviews with more than 150,000 nationalities representative and randomly selected adults aged 15 and above in those 148 economies during 2011 calendar year (Kunt & Klapper, 2012). Novel cross country on self-reported reasons for not having a formal account make it possible to identify barriers to financial inclusion.

According to the World Bank globally about 50% of adults have one or more bank accounts, and a nearly equal share are unbanked. The number is estimated 2.5 billion working age adults globally, that have no access to formal financial services offered by regulated financial institutions. A barometer pool carried out in 2012 / 2013 and covered respondents from 21 developed and 54 developing economies. According to the survey results Tata (2014), 59% of adults in developing economies do not have access to a formal account, vs 11% of adults in the developed world. Most respondents see financial inclusion as a big problem both for households and for small enterprises (Montfaucon, Dec 2015).

According to the policy research working paper 6025, Worldwide, 22 percent of adults' report having saved at a formal financial institution in the past 12 months, including about half of account holders in high-income economies, Sub Saharan Africa, and East Asia and the Pacific. In developing economies saving clubs are common alternative to saving at the formal financial institution. In Sub-Saharan African 19 percent of adults reported having saved in the past year using a saving club or person outside the family. But large share of adults around the world who report having saved or set aside money in the past 12 months do not report having done so using a formal financial institution, informal saving club or person outside the family. These adults account for 22 percent of savers worldwide and more than half of savers in 55 economies (Kunt & Klapper, 2012)

Friends and family are the most reported source if new loans in all regions, though in high income economies in Sub-Saharan Africa 29 percent of adults report friends or family as their only source of new loan in the past year, while 2 percent of formal financial institutions as their only source. In several regions more adults report borrowing from a formal financial institution. In high income economies formal financial institutions are the most commonly reported source of new loans.

In both high income and developing economies a large significant share of men and women report having originated a new loan from a formal financial institution in the past 12 months. In both

income groups new formal loans are most common among those ages 25 – 64 (Kunt & Klapper, 2012)

Data gathered in developing economies show that emergency or health purpose are the most common reason for having an outstanding loan. Outstanding loans for school fees are most common in Sub-Saharan Africa, reported by 8 percent of adults in that region. Outstanding loans for funerals or weddings are reported 3 percent of adults in the developing world.

While many savers in the developing world blend formal and informal methods, an even larger share use only community saving clubs. In Sub-Saharan Africa 34 percent of savers report having saved using a community saving club. Community based saving methods and formal financial institutions are not the only options for saving. A large share of adults around the world who report having saved or asset aside money in the past 12 months does not report having done so using a formal financial institution, informal savings club or person outside the family.

While the Global Findex survey did not gather on this alternative method, they might include saving through asset accumulation and saving “under the mattress.” These adults account 29 percent of savers worldwide and more than half of savers in 55 economies.

A study in India by Chaudhary and Anand (2019) revealed that financial inclusion contributes to economic development of a country. The modern era is driven by the use of independent power and economic power, making it compulsory for any state to provide common conditions for homes, individuals and private institutions including the provision of banking services (Verma & Singh, 2014). Development and expansion projects are promoted by the Bank's strong branches network and easy access to the Bank's facilities. A strong and resilient financial system is the foundation for economic development and growth. It will be easier to achieve the National goal by ensuring that the financial system is diverse, robust and efficient (Aduda & Kalunda, 2012). That is why it is important for all countries to have a strong financial system to build a market-driven and competitive economy. One of the most important facilitators of economic growth and development is financial inclusion. Financial inclusion is defined as the acquisition of alternative financial services to the poor at an affordable cost. It also means the delivery of certain banking services at an affordable cost (Tsurkan, et al., 2017).

Investment is also a major theme for the United Nations and defines the main purpose of inclusive financial services such as access to various types of financial services such as debt, savings, insurance, banking services and remittances to all businesses and bank facilities at fair value. The concept of investment is traced back to 1904 because a co-operative organization took place in India in that year (Alfaro, et al., 2004). However, the organization only acquired Momentum in 1969 when 14 major commercial banks weremerged and at the same time introduced the Lead Bank system (Agarwalla, et al., 2015). Large branches were opened in large numbers throughout the country and in previously neglected areas. After these measures from the Reserve Bank of India, there was a large proportion of people from India who were not included in the banking system (Goel & Goel, 2014). As well as that, there was a serious intrusion into financial access that required special attention. Numerous studies were conducted on this subject to understand the reasons for the investment. Studies confirm that the issuance or non-issuance of a banking system has cost 1% of GDP losses in the country (Swamy, 2012). This showed that investment was not only apolitical requirement but also accompanied by economic growth and development. The magnitude of the problem has been identified by the Reserve Bank of India and banks are justlooking at investment as one of the main objectives of monetary policy (Chattopadhyay, 2011). The positive impact of investment has been widely studied in the past and is considered a global spread (Gwalani & Parkhi, 2014). A major book in the banking sector focuses on the impact of investment. The study was also conducted by the World Bank for rural India and research shows that only 40% of households had bank accounts (Subbiah, 2012). Studiessuch as this have created the need to take a lesson in identifying the challenges associated with investing in rural India (Dhar, 2013).

To understand the gravity of problems related to financial inclusion, it is very important to understand the actual meaning of financial inclusion. Financial exclusion is defined as the failure of certain sections of the public to afford low, reasonable, secure and fair costs and products from major suppliers (Nayak, 2005). Hence the importance of financial inclusion lies in ensuring that a variety of appropriate financial services are available to everyone. In addition to the standard method of financial intervention, financial investments include a basic account of earnings, transfers, savings pattern, access to personal and productive purposes and small loans (Mukhopadhyay & Rath, 2011). It is identified the main reasons for the disbursement of funds on the side of needs are low income, ignorance, illiteracy and poverty (Boubakri, et al., 2013). From the supply side, including branch time, distance from branch, complex procedures and documents, staff conditions, language, etc. As a result of all these processes,

people in rural areas find it easier to borrow money from informal credit sources (Allen, et al., 2007). However, many studies have already revealed that such resources have led to higher costs, increased exposure to regulated and non-compliant suppliers and living standards compromises. This is the main reason why researchers insist that investing means not only opening a savings bank account but also creating awareness about financial education, product, services and advice on financial matters. It is important for the whole community to ensure easy access to public goods and that should aim to provide services to all people (An & Cheung, 2010). It has been shown in a study that if poor people are connected to the country's formal financial system it will also improve their growth. Even with the growth of the world, their growth will not be possible because they will not be able to meet basic needs (Berduygina, et al., 2017).

The study found that a lack of financial information had led to rural people being lured into the saving scheme. Many people who do not have the understanding to invest their hard-earned money risk their children's future. This is the main reason why policymakers focus on investing to grow the country (Khaki & Sangmi, 2012). A report by the Rangarajan Committee (2008) defines financial inclusion as “a process to ensure the availability of financial services and adequate and sufficient time when at-risk groups such as fragile and low-income groups are required”. This means that investment is a major concern for the provision of affordable banking services to both the low-income and the disadvantaged group (Bhanot, et al., 2012). Most of the people in rural areas still do not have bank accounts and many of them are reluctant even if they are offered banking and financial services (Chakravarty & Pal, 2013). Certain researchers have conducted research to identify the hurdles associated with financial inclusion in rural India.

However, there is a lack of research that has identified the challenges associated with financial inclusion in rural areas in India (Mohan, 2014). This is why it is very important to undertake a research that can identify the social, economic, technological and psychological challenges related to financial inclusion in rural areas in India. Financial exclusion restricts people from participating in different economic activities and it is also found to be related to social exclusion. Along with these reasons, many researchers have also pointed out that economic policies, land reforms, competition policy and financial regulation are also the underlying reasons behind financial exclusion (Madurai, 2011). It is mentioned that the financial inclusion goals get negatively affected from both supply as well as demand side (Das,

2013). The barriers from demand side include lack of awareness, low literacy levels, a regular income, lack of understanding on knowledge of financial services and products, lack of trust in formal banking institutions, business models, cultural obstacles and the focus of bankers on the population that is economically active (Ghatak, 2013).

### **2.1.1 Financial Inclusion and Poverty Alleviation**

Digital financial inclusion (DIFI) exerts vital influence on poverty alleviation. Studies in China found that developing digital financial inclusion provides new approaches to inclusive growth and create more possibilities for the sustainable development with extending the coverage and usage concerning financial services. This study for example explored how poverty alleviation is affected by digital financial inclusion derived from the provincial data of China from 2011 to 2019. The results show that digital financial inclusion can make considerable contributions to poverty alleviation significantly. In this study by Lee and Wang (2023) reveal the results of mediation regression demonstrated that the income level and income distribution play a vital role in poverty alleviation.

The Covid -19 outbreak poses considerable downside risks for the economy. Low-income communities were disproportionately affected by job losses reduced working hours due to the economic downturn caused by the pandemic. With less income coming in, individuals faced heightened financial strain, making it a challenge to meet basic expenses. Secondly limited access to physical banking service due to limited hours and services to adhere to social distancing guidelines. Malawi recorded the first three cases of coronavirus on April 2, 2020. Since then, total cases increased to 3,709 as of July 27 of which 1,939 are active and there have been 103 deaths. There has been significant disruption of global value chains. With relatively wide outreach in rural areas, Malawi's micro finance sector is expanding rapidly. This sector consists of forty microcredits agencies: eight non deposit taking micro finance institutions and one deposit taking MFI. These institutions serve a combined total of about 39,000 clients (2018). At the same point there are licensed 37 SACCOs in increase from 34 in 2017. The total number of SACCO is growing over recent years with the rate of 17.1 percent in 2018. While number of served MFI non deposit is also growing, the total value of these institutions assets is declining, indicating that

most of the growth in clients is coming from clients who make low value transactions (Chilima & Akeel, 2020).

### **2.1.2 Financial Inclusion in Low- Income Communities**

Financial inclusion is defined as accessibility and use of financial services by all members of a community, particularly those in low-income groups (Kunt & Klapper, 2012). In Mchinji district, Malawi, a lack of formal financial services may hinder economic progress.

Community based financial organization such as, credit unions, and village banks, have shown promises in providing financial services to marginal population. It is important for a poverty reduction strategy. At its most basic the economic contribution of women in low-income households are vital for the survival of everyone in that household women, men, girls, and boys. Care work with women in communities, factories, business and many other contexts and settings to support them to claim their rights. Our programs and project are led by a framework and tools for measuring the effect of women's economic empowerment across all our work (CareInternational.org, n.d.)

Similarly, according to research by Mumuni et al (2023) The link between bank trust and financial inclusion remains less explored despite the recent emphasis on financial inclusion amid significant declines in bank trust across the globe. After addressing endogeneity in Ghana, it was found that, overall, financial inclusion among those who have trust in banks is 34.3 percentage points higher, compared to those with no trust. This finding is consistent across three different methods of addressing endogeneity. Higher levels of financial inclusion associated with bank trust are more evident among males and urban-located residents. Further analysis revealed that the link between bank trust and financial inclusion is mediated by the discouraged borrower syndrome. It is recommended that financial institutions make conscious efforts to foster client trust which has the capability to reduce borrower discouragement and improve financial inclusion.

## **2.2 Financial Inclusion -Regional Perspective**

A critical review of the Zimbabwe case gave a good perspective in this study. Despite continued urbanization, a sizable proportion of the world's population today lives in rural areas, with many facing major challenges to their livelihoods and wellbeing. Many rural people work under arduous conditions

to make ends meet and many are in poverty. Rural communities in many parts of the world have limited access to modern services and social deprivation is widespread. Migdely & Cazorla(2012) revealed that in the Western countries, rural living standards are comparatively high but even here, poverty remains a problem and rural communities are also disadvantaged when securing access to education, social services and transport. On the other hand, the contribution of rural communities to economic development is widely recognized. They produce the food and other commodities societies require and contribute significantly to national development.

Amidst that the conventional formal financial institutions have avoided or failed to offer sustainable services in rural areas. Thus, paving the way for informal or semi-formal financial institutions to become alternative providers, where traders or input suppliers serve as major providers of financial services in the rural areas mostly with heavy interests. The situation is really pathetic and needs urgent ameliorative measures to limit its impending effects on the economy. The percentage of adults who are financially excluded especially in the rural communities in the developing countries is threatening to the people's economic independence.

Although access to financial services varies widely across the globe, even in some advanced economics, survey data suggest that almost one in five adults have no bank account or other form of access to the formal financial sector (Demirguc-kunt and Klapper, 2012). Other studies have shown that there are over two billion people excluded from or underserved by financial services. Of them, one billion live on less than 1.25USD a day relying on cash for everyday transaction and long term use (IFAD, 2013).

Even though, financial inclusion could not be an end to itself, it can be a means to an end - it is an essential ingredient in reducing poverty and achieving inclusive economic growth. When people can access a range of financial services, they are better able to absorb financial shocks, manage risks, start and expand businesses (World Bank, 2015).Having observed this, Kama & Adigun (2013) said that "achieving pervasive financial inclusion has remained a global challenge with as much as 54% of adults world-wide being financially excluded". This situation is even worse in the developing economies where some countries have as much as 70% financial exclusion levels.

In Nigeria, there is large population of small income earners in the rural communities, who are completely illiterate about not just the modern banking and financial systems but also the Islamic financial and economic services. This is attributed to low financial literacy as revealed by Kama &

Adigun (2013) that financial literacy rate is low particularly among the rural dwellers making banking and other financial services difficult for the operators. They added that information and communication knowledge is still low in the country, making access to financial services difficult. Another critical issue to awareness is the difference in language of the target group and the language of education and therefore reduce effectiveness of communication. An uninformed population cannot effectively use financial services.

These according to Okorie (1990) necessitated the introduction of one of the major government policies aimed at the promotion of financial inclusion, which led to the adoption of the rural banking programme in the late 1970s. The scheme was introduced by the Central Bank of Nigeria in 1977 with the goal of achieving one bank branch in each of Nigeria's local government areas. Government hoped that the rural banking scheme would help achieve the transformation through the following.

- Provide a platform for the mobilisation of savings in the rural areas through the diffused network of branches in all parts of the society.
- Encourage banking habits among the largely agrarian rural population.
- Provide credit for the growth of the small scale industries and entrepreneurs and
- Provide balance development and eventual reduction in the rural-urban migration. (Okorie, 1990)

This effort has however failed to yield the expected result, since the larger percentage of poor and financially excluded people are still prevalent in the rural communities as stated by SQW consulting report 2007, that there is much evidence (and many recent report) to show relative income poverty (including but not limited to low wages) in rural areas, particularly in sparse rural communities ... and there are evidence to suggest that accessibility of banks and building societies has reduced in rural areas. Mehrota&Yetman (2015) further affirmed that in many emerging and developing economies, the share of unbanked adults can be as high as 90%. And on share of adults with access to formal financial sector in terms of access to a range of financial services including owning an account, saving at a financial institution and borrowing from one (Hannig and Jansen, 2010) and (Demirguc-Kunt and Klapper, 2013)

The 2010 financial survey by the Consultative Group to Assist the Poor (CGAP/World Bank) showed the worrisome level of access to finance especially in the developing countries, poses a serious

challenge not only to the different local economies, but also to the global economic growth at large and thus, necessitating the pragmatic efforts by policy makers to remove barriers like education, gender, age and irregular income so as to enhance access. (Banco Central de Brazil, 2010)

Sanusi (2011) has attributed the rise in poverty level in Nigeria to the challenges of financial exclusion. According to him, achieving optimal level of financial inclusion in Nigeria means empowering 70 per cent of the population living below poverty level (mostly found in the rural areas) and this will boost growth and development. Inclusion of this segment of the society would generate multiple economic activities, cause growth in national output and eventually reduce poverty. Mehrotra&Yetman (2015) also proclaim that access to appropriate financial instruments may allow the poor or otherwise disadvantaged to invest in physical assets and education, reducing income inequality and contributing to economic growth.

At this point, the role of community based organisations (CBOs) in promoting financial inclusion among the rural populace is very crucial, since CBOs are proximally and naturally linked to the grassroots. Chechetto-Salles&Yvette (2006) clarifies that community based organisations play an important and relevant role in providing services at the local level. They work in a variety of different fields, such as education, the rights of the disabled, health, gender issues e.t.c. Wisemanagement of the organisation can contribute significantly to ensuring the effectiveness of the work that it does.

This has posits a great challenge to Islamic community based organisations (ICBOs), such as Jama'atulNasrul Islam, FOMWAN, IZALA, Ansaruddeento specifically augment their usual da'awah services with other economic operational strategies that can enhance the inclusion of rural communities into the realm of the nation's economic development. Therefore this paper theoretically discussed how the activities of Islamic community- based organisations can be re-strategized to facilitate the inclusion of rural communities into the life wire of national economic development.

The increasing importance of financial inclusion as a catalyst for economic growth and development has been well documented in several literatures. Financial Inclusion (FI) is an emerging term that provides comprehensive view to a range of financial services available to marginalized potential consumers. It is a multidimensional, encompassing access to, use of and capability in relation to a range of financial services, widely considered today as a right of all

citizens to social inclusion, better quality of life and a tool for strengthening the economic capacity and capabilities of the poor in a nation (Banco Central de Brazil, 2010).

Kama & Adigun (2013) quoting Chima (2011) elaborates financial inclusion to mean a situation in which all people have access to banking and insurance services as well as financial literacy and capabilities. It has also been defined as the state of financial system where every member of the society has access to appropriate financial products and services for effective and efficient management of their resources as well as the needed resources to finance their businesses and financial leverage to take up opportunities that will lead to increase in their income.

Mercy Corp's financial theory of change buttressed that within inclusive financial systems, participants are able to access, use and afford a range of financial services and products. In doing so, they will better manage economic assets to cope with shocks and stresses, adapt to changing circumstances and transform their lives.

It is equally important to understand that financial inclusion is not only limited to just the banking sub-sector, but rather it is concerned with the entire financial services. It involves the other services in the entire financial system like insurance, mutual funds, financial markets, credit services, government citizen services, co-operatives, Islamic religious obligation such as zakat among others. (Kama & Adigun, 2013)

Most of the definitions of financial inclusion have similar and common elements – broad access to financial services. Bhaskar (2013) identifies the common elements of these definitions to include “universal access” to a wide range of “financial services” at a “reasonable cost”. A world-wide cross country survey data on financial inclusion are available in the World Bank Global Financial Inclusion (Global Findex) database, compiled from surveys of households in 148 countries. It was revealed that only 50% of adults globally had an account at formal financial institutions in 2011 (Demirguc-Kunt and Klapper, 2012).

A Community Based Organisation (CBO) is an organisation that provides social services at the local level. It is a non-profit organisation whose activities are based primarily on volunteer efforts. This means that CBOs depend heavily on voluntary contributions for labour, material and financial support. CBOs are local organisations which in most instances are referred with

different names in different localities. They organize and mobilize members toward promoting their social welfare with less dependent on external assistance. They include according to Biddle and Biddle (1968) and Agboola (1998) in Abegunde (2009) community development associations, neighborhood councils and united community among others.

Fakoya (1984) highlighted that community provides avenue for people to organize themselves for planning actions, define their common and individual needs and problems, make group and individual plans to meet their needs and solve their problems, execute these plans with a maximum reliance upon community resources when necessary with services and materials from government and non-governmental agencies outside their communities. Therefore, Community based organisations are set up by collective efforts of indigenous people of homo or heterogeneous attributes but living or working within the same environment (Abegunde, 2009). These collective efforts strengthened their commitment and unity towards their betterment, as buttressed by Adejumobi (1991) and Adeyemo (2002) in Abegunde (2009) that their coming together creates conditions which broaden the base of self-governance and diffusion of power through a wider circle of the population. Abegunde further explained that CBO is seen as voluntary, non-profit, non-governmental and highly localized or neighborhood institutions whose membership is placed on equal level and whose main goal is the improvement of the social and economic wellbeing of every member.

Claudia (2003) in similar dimension had explained that CBOs are localized institutions in that their spheres of influence (activities) hardly extend beyond their immediate communities or neighborhood. They are non-profit and non-governmental because all members contributed economically towards the fulfilment of their responsibilities to the immediate environment and not depend on government before fulfilling their obligations. Most CBOs are involved in various financial activities; funds are generated from individual contributions. Benefits accrued from members' contributions to the associations are shared accordingly with fairness. Bralton (1990) and Esman and Uphoff (1994) have made it more clearer in Abegunde (2009) that activities of CBOs are concerned with the development problems of and development programme/projects in their various areas. They respond to community felt needs rather than market demand or pressure.

Manji and Naidoo (2004) exposed that there has been growing interest in community development in the work of "community based organisations" (CBOs) since the mid-1990s. The

term CBOs is often synonymous with “grass root organisation”, there doesn’t appear any much clarity about exactly which organisation are embraced by this term. According to World Bank CBOs are distinct in nature and purpose from other NGOs which are formed to serve others. CBOs are normally “membership” organisations made up of a group of individuals who are joined up together to further their interest example women groups, cooperatives, religious groups etc

Manji and Naidoo (2004) report that Kagiso Trust identified areas of potential CBO activity in their 1992 report on a community capacity building programme to include:

- Consciousness raising: public education rights
- Negotiation and claim making towards authorities
- Pressurising authorities for change in the local structure of power arrangement
- Generating and delivering information for communities
- Conflict management within communities
- Planning and goal setting for development action
- Resource mobilisation, including self-help activities
- Service delivery to communities. (Kagiso trust, 1992)

So, on this basis, Islamic Community Based Organisations (ICBOs) which are usually community based institutions that operate within the domain of Islamic shari’ah (Islamic jurisprudence), formed by Muslim members of a particular community or members of a given masjid. These organisations should actively redirect their affairs towards organising financial education programme that will enable people to acquire the knowledge, skills and attitudes to become financially literate. Such that will train the Muslims about good money management practices with respect to earning, spending, saving, borrowing and investing. The aims of financial education is to enable them to shift from reactive to proactive decision making and work towards fulfilling their financial goals. The content of the programme should be tailored towards widening peoples’ understanding of ‘halal’ financial options and principles, how to use financial products and services, and promotes attitudes and behaviours that support more effective use of scarce financial resources. This, in the words of Cohen and Nelson (2011) when linked to financial inclusion agenda will motivate the learner to adopt available formal financial services. Thus, it is a tool to achieving financial literacy and capability.

In order for any Community based organizations' program to be effective and efficient, it must be guided by the following principles;

- It must have a vision: this entails the image that members of the organisation have about how it should work- a driven philosophy.
- It must have a mission: that is the overall purpose according to how the organisation operates.
- It must have values: these are the priorities in the nature of how the organisation should carry out its activities. These values are the personality or culture of the organisation.
- It must have strategies: these include the different approaches to be used in achieving their goals.
- And lastly it must have action or project plan: this is where activities have to be identified and assign responsibilities. By implication, any community based organisation that is not build on these concepts would hardly make any significant impact in achieving its goals.

By and large, ICBOs should therefore implement initiatives that take into considerations the peculiarities of their environment and most critically its local inhabitants.

Islamic based institutions have pool of potentials that can be effectively harmonized and applied for the economic development of rural communities, hence ignite their financial and economic prospects. Insufficient harmonization or negligence of these potentials by Islamic based institutions has caused much impoverishment among its adherents. The power of religion especially Islam and its monumental influence in instituting effective economic order and efficient financial transactions across communities is quite enormous; it can be used as a vehicle for promoting financial inclusion if embedded within the principles of community based organisations. It has the unifying force upon which people can build an understandable social contract and economic plat form. In the words of Wilkinson (1999), he described faith-based community economic development as the involvement of faith-based institutions in projects designed to revitalize their communities, establish sustainable economic development initiatives, attract investments, build wealth, and encourage entrepreneurship. In order to launch their projects, faith-based institutions often form a separate non-profit community development corporation (CDC) or partner with an existing CDC, foundation, local government or other faith based institutions. Closely related to this assertion is what had been opined by Maduro (1996) that “religion could be besides and at times, despite other functions - a possible medium among others for the articulation and proactive stimulation

of a peoples' empowerment that is for the actualization of their capacity to transform their social environment in consonance with their own interests".

In Islam, the masjid otherwise known as the mosque as a building and centre of worship for the Muslims could be highly instrumental in enhancing the activities of Islamic community based organisations. The mosque is usually a centre whereby all the Muslims in the community gather five times every day, and once every week- on Fridays for the whole community joint prayer, where sermons and admonitions are delivered. The imam (Muslim leader) can use this medium to address the Muslim community on the essence of financial inclusion, set up committees to design programmes and initiatives aimed at helping people to establish new businesses that can build the economic activity of the community. Provide access to information technology at the masjid in order to improve peoples' skills in information and communication technology such as accessing the internet, as this is important in developing new businesses that can trade nationally and internationally from rural areas. Although this should be strictly monitored against been misused. The masjid programmes should be designed and structured in such a way that it captures a range of things that can improve the communities' economic prospects. Such as:

- Developing mentoring schemes for local entrepreneurs.
- Organize training programmes for community members in business skills and create access to finance.
- Create a means of providing information about funding scheme for new businesses.
- Establish community investment funds for new business development.
- Raise structures close to the mosque for business activities
- It should foster links with vocational education and training providers to train selected and interested community members in the masjid on various skills and trade of their choice and finally
- Help people to improve their skills in information and communication technology.

Mohan (2006) described that once access to financial services improves, inclusion afford several benefits to the consumer, regulator and the economy alike. He noted that the establishment of an account relationships can pave the way for the customer to avail the benefits of a variety of financial products, which are not only standardized, but are also provided by institutions that are regulated

and supervised by credible regulators that ensures safety of investments. Furthermore, bank accounts can also be used for multiple purposes, such as making small value remittances at low cost and purchases on credit. In short, access to a bank account does provide the account holder not only a safer means of keeping his/her fund but also provides access to use of other low cost and convenience means of transaction. One can afford to access credit and can conveniently and consistently use financial system products and facilities without difficulty. Mehrotra (2009) in Kama and Adigun (2013) emphasized that access to financial services allows the poor to save money, outside the house safety, and helps in mitigating the risks that the poor faces as a result of economic shocks.

Similar studies were conducted in Tanzania by Winfridah et al (2023) in their study on exploring the potential of village community banking (VICOBA) as a community-based financing system for house improvements and malaria vector control in rural Tanzania. This study explored the need, opinion, and willingness of VICOBA members to use VICOBA platforms as a source of finance for improving local houses and eventually controlling mosquito-borne diseases. A mixed-methods approach was used in this study, whereby a survey was administered to 150 participants and twelve focus group discussions were done in three villages in Ulanga district, rural Tanzania. The FGDs comprised eight participants each, with equal representation of males and females.

The FGD guide was used to probe the opinions of study participants on malaria transmission, housing condition improvements, and financial resources. About 99% of all participants indicated the urgent need to improve their houses to prevent mosquito bites and were willing to utilize VICOBA for improving their houses.

In the focus group discussion, most people who participated were also in need of improving their houses. All participants confirmed that they were at the highest risk of getting mosquito-borne diseases, and they were willing to use money that was either saved or borrowed from their VICOBA for housing improvements and vector control. A self-sustaining financial system destined for house improvement and related interventions against malaria and other mosquito-borne diseases is crucial. The community members were willing to use VICOBA as a source of finance for house improvement and disease control; however, there was limited knowledge and sensitization on how they could utilize VICOBA for disease control (FARMSE, 2020).

A study conducted in Kenya by FSD (2023) showed a complex reality. While there was a progressive increase in financial inclusion between 2006 and 2021, a significant portion of the population is still partially or fully excluded from the financial sector, with limited or no access to a meaningful range of financial products such as credit, savings, pensions and insurance. While the proportion of the “fully excluded” population, that is, individuals excluded from any form of financial product, dropped from 37% to 13% between 2006 and 2021 (or from 41% to 12% using weighted data, as reported by the Central Bank of Kenya), and access to formal financial products has increased from 26.7% to 83.7% during the same period, the proportion of the “partially excluded” population decreased from a range of 72%-94% to a range of 42%-78%, depending on the financial inclusion indicator. These findings indicate that a significant portion of the population still lacks adequate access to a diverse selection of formal (and informal) financial products. Moreover, when accounting for inequality, our RCI indicator suggests that the proportion of the “fully excluded” population, that is, individuals with a RCI score equal to or below zero, decreased by only 9 percentage points, from 43% in 2006 to 34% in 2021.

Considering the demographic and geographic characteristics, the most excluded groups are individuals residing in rural areas, those with low levels of education, younger and older people, those who depend on others for their income, individuals employed in the private sector, including the increasing labour force working as casual laborers, and in agriculture.

In addition, the analysis showed that individuals with those characteristics were also the least likely to use mobile money products in 2013, and this trend persisted in 2021, with these groups remaining the least likely to use mobile money in 2021, compared to other population segments. This is particularly significant, especially considering that the gap in (formal and informal) financial inclusion between mobile money users and non-users has grown over time. The results suggest that mobile money can indeed play a catalyst role in promoting access to a broad range of financial services, both formal and informal, and in increasing participation of the population in the economy.

Nevertheless, it is important to note that, as of 2021, non-users of mobile money products still represented 25% of the adult population. Although the digital revolution has contributed significantly to financial inclusion for many population segments, it has also deepened exclusion

and inequality for certain groups leading to a “digital finance divide”. Some of the main characteristics of non-users are a low education level (i.e., uneducated and individuals with primary education), residence in rural areas, either very young or old age (i.e., junior youth and elderly), and those who are dependent on other family members and aid. The study highlights the need to address and remove the underlying causes that prevent some population groups from being included in the formal financial system and actively participating in the economy.

It is also essential to note that digital financial products still do not have a meaningful impact on access to a wider range of products beyond basic accounts, such as credit and savings. As a result, policies should also focus on developing inclusive products that cater to the needs of these segments to ensure that they too have access to a meaningful range of financial services.

A study by the National Institute of Statistics of Rwanda – NISR (2019: 4-6) revealed the following literature regarding financial inclusion and the role of CBFOs in Rwanda:

*...In total, 93% (about 7 million adults) in Rwanda are financially included (including both formal and informal financial products/services). Levels of financial inclusion vary from 99% in Gasabo district to about 83% in Rusizi district. Gender gap in financial inclusion is closing with only 8% excluded women compared to 7% amongst male counterparts. As expected, when comparing seniors and youth, youth within the age group of 16 – 24 years are financially excluded at 18% points, significantly higher compared to the national average of 7% exclusion.*

*About 77% (5.5 million adults) in Rwanda have/use formal financial products/services, including banking sector and other formal (nonbank) financial products/services from insurance firms, mobile network operators, etc. Again, levels vary from 99% in Gasabo district to only 56% in Burera district. There is clear gender gap in accessing and using formal financial services, women (74%) are lagging with 7% gap compared to male counterparts at 81%.*

*About 36% (2.6 million individuals) of adults in Rwanda are banked or are using banking services. The proportion of adults that are banked ranges from 80% in Gasabo district to only 8% in Ngororero district. Women lag behind men in the usage of bank services, 34% of female adults in Rwanda use bank services or products versus 39% of their male counterparts. Banked population growth has increased by 1.1 million since 2016. Bank uptake and usage seems to be driven by transactional products, as more people (around 900 000) are receiving their income through banking accounts. About 25% (1.7 million) banked adults use digital payments, this is up from 6% or around 400,000 in 2016. Digital payments have a direct impact on the increased usage, 68% of bank clients use their accounts on a monthly basis, and this is up by 16 percentage points since 2016.*

*About 87% (6.2 million adults) in Rwanda have access to a mobile phone with females (84%) having lower access compared to men (90%). Around 3 in 5 (61%) adults use mobile money and more males (68%) have mobile money accounts as compared to women (56%). Key barriers to the uptake of mobile money relate to lack of product knowledge and lack of interest in the product.*

*Almost 75% (5.3 million individuals) of adults in Rwanda have/use other formal (non-bank) financial products/services. The proportion of adults that have/use other formal (non-bank) financial products/services ranges from 98% in Gasabo district to 53% in Burera. Though the use of other formal non-bank services is high amongst both males and females, a lesser proportion of females (71%) have access compared to 80% males. The other formal non-bank institution usage is driven by mobile money accounts.*

*In total, about 78% of adults in Rwanda use informal mechanisms (5.6 million individuals). Around 80% women belong to a savings group or use informal mechanism to manage their financial needs and about 20% of adult women rely ONLY on informal financial devices compared to 12% of men*

*counterparts. Levels of informal financial products usage vary from 90% in Rulindo district to 59% in Kicukiro district. The informal sector plays an important role in extending the overall levels of financial inclusion, particularly in rural areas and among women. About 16% of adults in Rwanda rely ONLY on informal mechanisms, declining from 21% in 2016.*

*Only 7% of adults in Rwanda (0.5 million) do not use any financial products or services (neither formal nor informal) to manage their financial lives, i.e. they are financially excluded. Levels of exclusion vary considerably across the country from zero% in Gasabo district to 17% in Gatsibo and Rusizi districts. As shown here, traditionally vulnerable groups such as the poor, those residing in remote rural areas, youth, women, and the adult (senior citizen) population are more likely to be financially excluded.*

*About 86% (6 million individuals) of adults in Rwanda save, including all forms of savings. Saving through formal institutions, grew from 49% in 2016 to 54% in 2020. Informal savings grew significantly, reducing high number of adults saving money at home. People in Rwanda mainly save for living expenses. Women and young youth (16-24 years) are less likely to save money through formal financial service providers. Both women and young youth (49% respectively) are below national formal savings of 54%.*

*About 76% (5.4 million) of adults in Rwanda borrow money, including all forms of borrowing. Slightly more females (77%) have borrowed in the past 12 months compared to their male counterparts (76%). Same as saving uptake, there has been an impressive increase in formal credit consumption, however, formal credit remains low at 22%. Formal borrowings in Rwanda are driven by borrowing from mobile money and SACCO, each with 9% penetration.*

*In general, the uptake of insurance is low in Rwanda, nevertheless the uptake of insurance show a rapid growth since 2016. About 17% of adults have*

*insurance products, (around 1.2 million, increasing from 0.5 million since 2016). Slightly more males (19%) are insured compared to their female counterparts (15%). Insurance in Rwanda is driven by medical insurance. Life insurance is also garnering traction at 23%, up from 12% in 2016.*

*About 45% (3.2 million individuals) of adults in Rwanda sent and/or received money in the past 12 months prior to FinScope Rwanda 2020 survey, including all forms of remittance channels. Slightly more people (45%) remitted money in 2020 compared to 43% in 2016. When using gender lenses, more males (49%) have remitted in the past compared to females (41%). The results show that for those that remit, the most reported means of remitting is through formal (non-bank) remittance products (93%) which is mainly driven by mobile money.*

*Individuals around developing world are striving to improve their financial lives. They spend, save, borrow, plan and work to grow their assets and protect their resources, in the pursuit of improved financial health. Financial health framework is a relative new concept that seeks to assess how well one's daily financial systems help build resilience from shocks and create opportunities to pursue one's dreams....*

Overall, Rwandans show good signs of financial health in four of the six indicators: that is balancing income and expenses; building and maintaining reserves; managing existing debts and using effective range of financial tools to manage financial lives. About 71% adults in Rwanda have strategies to balance their income and expenses. Strategies Rwandans used include saving excess cash and borrowing when there is an income gap. Around 63% of adults build and 6 maintain reserves through saving money and investing in assets and businesses. Amongst the credit active consumers, only 33% showed signs of credit stress or over-indebtedness. More financially served adults (88%) have 2 or more financial products portfolio, allowing them to use effective range of financial tools to manage their financial lives.

The financial health indicator however shows some gaps on planning and prioritizing (time horizon for planning, types of goals, action steps towards goals) and recovering from financial shocks indicators. The data shows that Rwandans' goals and aspirations revolved around improving economic wellbeing whether through starting a business, improving shelter, or investment on education. The steps or devices used towards goals do not show financial health confidence as majority of adults use informal and non-financial methods. Minimum usage of formal financial devices may suggest that the available formal products do not meet consumers' needs.

A study conducted in Zambia by the Bank of Zambia (2020) revealed that growth in the Zambian economy has been subdued since 2015, with real GDP growth projected at negative 4.2 percent in 2020. This situation has a direct impact on households as it speaks to fewer opportunities for income generating activities for households. In such times, the need for higher levels of financial inclusion cannot be over emphasized. Improved access to financial products/services not only contribute to economic growth, but also to reduction in income inequality and poverty.

The country continued to make significant gains in financial inclusion despite the prevailing economic challenges. The findings indicated that financial inclusion increased to 69.4% from 59.3% in 2015. Consistent with this, formal financial inclusion rose to 61.3% (2015, 38.2%). This growth was mainly attributed to increased uptake of mobile money services to 58.5% from 14.0% in 2015. On the other hand, informal financial inclusion declined to 32.3% from 37.9% in 2015 as more adults were using formal financial services.

The main barriers to achieving higher levels of inclusion included lack of money, low awareness levels and unemployment. These barriers call for heightened interventions in terms of financial education, provision of infrastructure especially in rural areas, and a general improvement in economic activity.

### **2.3 Financial Inclusion Locally**

The subject of financial inclusion has been a crucial one especially to the financial and economic authorities such as IMF and World Bank. Financial inclusion as a process of ensuring access to appropriate financial products and services need vulnerable groups such as weaker sections and low-

income groups. The aim of financial inclusion is to draw the unbanked population into the formal financial system so that they have opportunity to access financial services ranging from savings, payments and transfer to credit and insurance (Majanga, 2016)

Financial inclusions are crucial for sustainable development particularly in low-income communities. However, access to financial services remains a significant challenge in many developing countries, particularly in rural areas. Community Based Financial Organization (CBFOs) have emerged as a potential solution to address this challenge.

CBFOs are a community led initiatives that provide financial services to underserved communities. This literature review explores the effect of CBFOs on the financial inclusion in selected low-income communities of Mchinji district, Malawi.

In gender and youth strategy report (FARMSE, 2020) report shows that women receive SCT in their areas and can join VSLA and pay fees, build houses and business enterprises through COMSIP programs. The youth have no such opportunities. Literature review showed that out of 291,650 beneficiary household of the social cash transfer program (SCTP), 69% are female headed and only 16% are youth headed. However, majority of individual beneficiaries 72% from these households are in the age blanket of 0-34 years. It therefore follows that by a design more female headed households will be targeted for the ultra-poor interventions there by promoting female participation at the expense of the youth headed households.

Similarly, communities regard the youth as unfit and untrust worth to be given leadership responsibilities. This is compounded by a lower number of youths being targeted compared to women in both newly established VSLA and even in strengthening VSLA. (FARMSE, 2020)

Community-based financial organizations (CBFOs) are user-owned and operated groups that provide mainly saving and lending services but may also offer other financial services such as insurance (Ideas, 2010). These are independent organizations based in local communities, with local governance and management. They range in size and can take the form of informal and unregistered groups of five to seven people, usually women, who meet weekly to save small amounts of money that they then lend to each other and possibly to other members of the community. They also include larger, slightly more formal groups of up to 40 people who have written by-laws, and they include small financial cooperatives. CBFOs flourish among people

who have poor access to banks and nonbank financial institutions such as microfinance institutions (MFIs).

CBFOs usually use a Village Savings and Loan Association (VSLA) model. According to Bantwana (BantwanaInitiative, 2022) a Village Savings and Loan Association (VSLA) is a self-selected group of community members who meet weekly to collect savings contributions and issue micro-loans. Interested participants (mostly women) form groups of 19 to 30 members, and pool money to create a fund from which members can borrow (CareMalawi, n.d.).

The group determines the rate of interest for loans. In essence, members save and at the same time have access to loans. The interest paid by the borrowers is a return attributed to the saving.

A VSLA builds on the concept of a Rotating Savings and Credit Association (ROSCA). Members of the ROSCA contribute a set amount to a common fund on regular basis and allow one member to withdraw the whole amount contributed at each meeting (Chen, 2021). The amount is not borrowed because it will not be repaid, rather the member will continue contributing during subsequent meetings until all other members have each had their turn. Savings in a VSLA earn interest as the money is loaned out to members; in a ROSCA, the money contributed by participants does not earn any interest (IPA, 2011).

CBFOs have been found to be very effective in promoting financial inclusion in the rural areas where formal financial institutions are limited. CBFOs provide affordable and accessible financial services to their members, such as saving accounts, loans and insurance. In that way CBFOs enable low-income household to access financial services that were previously unavailable to them. Through VSLAs participants have been able to increase their access and control over resources and also to use collective power to overcome social and financial barriers (CareInternational.org, n.d.). The core objectives of a VSLA are to provide a safe environment for members to save money by purchasing shares and accessing small loans (UNCDF, 2021). Shaaban (2019) posts that VSLAs approaches aim at empowering marginalized women to improve their socioeconomic conditions.

CBFOs are easy to implement since there is members pool together capital, so there is no need for external capital; they are self-reliant but also self-replication (IPA, 2012). VSLAs are a convenient alternative from where members can simultaneously save and access loans. Shaaban

(sic) argues that the fact that there are no legal procedures and stringent requirements for one to qualify for membership make VSLAs convenient to people in rural areas.

Businesses in the MSME sector that enjoy financial inclusion increased by 33 percentage points, with formal access up by 23 points since 2012 (FinScopeMalawi, 2019). The FinScope Survey found that the main drivers of access to financial products, particularly formal, were mobile money, SACCOs and MFIs.

While banking access grew by just 2 percentage points, from 22 per cent to 24 per cent, there was an increase in absolute banked MSMEs, from 170,000 in 2012 to 276,000 in 2019-there was notable growth in businesses using informal financial services. (FinScopeMalawi, 2019)

Informal associations like SACCOs and ROSCAs are participatory, responsive to local needs and able to provide financial products and services to low-income, asset-poor individuals who may otherwise be seen as “unbankable”. They also contribute to the development of local economies through their unique and strong linkages with the community. For instance, relying on community-based methods for supervising and monitoring borrower activity and repayment as well as using social collateral, in which members guarantee each other’s loans, are signature features of these associations (Technoserve, 2014).

In certain countries, the percentage of the rural population accessing services through informal financial institutions is two or three times that of those using formal bank providers. Although identifying the precise number of active savings groups is difficult, their reach remains significant, especially in sub-Saharan Africa, where the movement has had its greatest influence. For example, organizations such as CARE and Catholic Relief Services have long pioneered the savings group approach to financial inclusion, which has since been replicated and scaled by local communities (Technoserve, 2014). These two organizations alone have helped establish more than 200,000 groups serving approximately five million members.

Most development experts and authors address the positive effect of microfinance on poverty reduction, according to United Nations Office of Special Adviser on Africa “when properly harnessed and supported, can economically empower individuals and small enterprises and enable them to contribute to and benefit from economic development” ( UNCDF, 2021)).

Currently most developing countries target is enabling poor to economically empower through microfinance institutions.

Ethiopia is one of the least developing countries in the world with high level of unemployment, and more than half of unemployed population are women. According to (Technoserve, 2014), over 85 percent of these women reside in rural areas, most of these women integrated into physical work in the rural economy, which is mainly in agricultural and labor-intensive work. An improvement in economic conditions would improve the standard of living of women.

Women in Ethiopia, especially in rural areas, have no exposure to economic opportunities that would support them to practice alternative income-generating activities to change standard of their own life as well as family.

Lack of alternative income sources is a major challenge which makes women to be extremely dependent on their husbands and relatives and leads to low participation in household decision-making. According to Ledger wood, MFIs target women more than men clients because women almost always make up the poorest segments of society and are responsible for child rearing, and often have fewer economic opportunities than men (Bent, 2017)

Despite their potential, CBFOs face several challenges that hinder their effectiveness in promoting financial inclusion and economic empowerment. These challenges include limited access to capital, inadequate regulatory framework, and lack of technical capacity. Inadequate financial management systems, governance structures and limited outreach also constrains the ability of CBFOs to provide sustainable financial services to their members.

In conclusion, CBFOs have emerged as a potential solution to address the challenges of financial inclusion and economic empowerment in low-income communities. They provide affordable and accessible financial services to their members which enhance their economic well-being. However, CBFOs face several challenges that hinder their effectiveness including limited access to capital and inadequate regulatory framework.

## **2.4 Research Gap**

Existing research on the study has not adequately delved into the micro-level dynamics within households and small businesses in low-income communities prompting a detailed examination of individual and small enterprise experiences is necessary for a nuanced understanding of CBFO effect in the rural communities. Further, there is a lack of in-depth analysis regarding the specific barriers that hinder the accessibility of CBFOs services in the targeted communities. Identifying and addressing these barriers is essential for improving financial inclusion.

Addressing these gaps in this study would contribute to a more holistic and nuanced understanding of the effect of CBFOs on financial inclusion in low-income communities of Mchinji district, Malawi, thus, providing valuable insights for policymakers and practitioners.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Overview

Chapter three present the research design, target population, study area, sample size, sampling techniques, instruments for data collection instruments, data collection procedures and data analysis instruments and end with summary.

#### 3.1 Research Design

Embedded mixed research design was used and convergent parallel method approach was applied in this research. In embedded mixed research method, both qualitative and quantitative data are collected and analyzed within a single study. This approach aims to provide a more comprehensive understanding of a research problem by drawing on the strengths of both qualitative and quantitate methods. As observed by Becker (2008), mixed methods research is common research approach since it enables a deeper examination of a research subject by combining qualitative and quantitative data. In addition, as also observed by Dawadi (2021), embedded mixed methods research enables a more thorough examination of a research question by combining both quantitative and qualitative data. It can respond to difficult research questions that neither qualitative nor quantitative research can resolve. (Schoonenboom,2017).

Therefore, this study combined quantitative and qualitative data collection and analysis. Individually, these approaches answer different questions, so combining them provided with more in-depth findings in exploring the effect of community-based financial organizations on financial inclusion in low-income communities of Mchinji district, Malawi.

#### 3.2 Target Population

A study population encompasses the entire groups of company's individuals, objects, items, cases, articles, or things with common characteristics existing in space at a particular point of time (Baker, 1999). The study population was 400 respondents across combination of members of CBFO and non-members of the selected communities Mchinji district Malawi. The study employed a cross-sectional design to collect data from all respondents purposively at single point in time in view of limited time and resources.

Primary data was sourced from the field using semi-structured questionnaires administered by research assistants. While secondary data was obtained from various databases and reports such as financial inclusion Malawi, World bank, IMF financial access surveys, USAID reports and finscope surveys.

### 3.3 Sample Size

The sample size of the study was 140 respondents obtained with 95% confident levels and 5% margin of error of the community based financial organization (CBFOs) in the selected low-income communities of Mchinji district, Malawi. Yamane formula was utilized to calculate the sample size from the target population as indicated below:

$$n = \frac{N}{1 + N(e)^2}$$

Where;

(n) is the required sample size

(N) is the total population size

(e) are the desired margin error expresses as a decimal

Sample size calculation for Mchinji district

n =

602,305

—————  
(1+602,305) X (0.05) ^2

602,305

—————  
602,306 X 0.0025

602,305

—————  
1,505.77

399.9993

n= 400

### **3.3.1 Sampling Technique**

The sampling techniques refer to how cases are chosen for observation. Non- random sampling will be used because it is simple to implement, and the results are projectable. This means that every case in the population involving the Community based financial organizations have an equal chance of being included in the sample. Interviews were purposively selected to ensure that expert views were captured.

## **3.4 Data Collection**

The study used primary data. Primary data was collected using structured questionnaires (appendix iii). The questionnaire consisted of both open and closed ended questions. According to Creswell (1994), data collection methods for primary data include structured questionnaires, mailed questionnaires, observation, and focus group discussions. Questionnaires are the most used methods when respondents can be reached and are willing to co-operate.

Reliability and Validity; we are going to consider the aspects of each component (qualitative and quantitative) separately and then examine how they complement each other.

Reliability in Embedded Mixed research; focus on the consistency and stability of the finding over time and across researchers.

Quantitative Component: Reliability of quantitative research refers to the consistency and stability of measurement. Statistical measures such as test – retest reliability or internal consistency are commonly used to assess the reliability of qualitative data.

## Validity in Embedded Mixed Research

Qualitative component: Validity in quantitative research is associated with credibility, transferability, and confirmability. Researcher used triangulation technique to enhance the credibility and transferability of qualitative findings.

Quantitative Components: Validity in quantitative research refers to the accuracy and truthfulness of the measurement. Researcher will establish measuring tools to enhance the validity of quantitative data.

### **3.5 Data analysis techniques**

During the data analysis process, both qualitative and quantitative data analysis methods were employed. In this case, qualitative data was analyzed using themes related to research questions, narrations of observations, descriptions of incidents, and respondents' opinions. Kobo tool was used during data collection. Quantitative data was used by regression analysis and run in SPSS software and presented in table summaries and graphs.

### **3.6 Ethical Considerations**

Ethical considerations are guidelines and principles which any researchers must adhere to as they conduct their research (Bachelor Print, 2023). They are principles which covers sensitivity to the rights and privacy of others and dictate the nature of the researcher's interactions with respondents to ensure research is conducted according to the set rules and principles. Ethical considerations involve informed consent, confidentiality of the respondents and anonymity. (Kaddoura&Husseiny,2023)

This study was therefore conducted with strict adherence to research ethics. Participants consents were considered and dealt with strictly and professionally by explaining and clarifying to respondents the objective of this study and assuring them of confidentiality.

Participants were further not forced, coerced, or deceived to participate in this study. It was done by making sure that honest and valid information were made available. The respondents were also assured that the information they provided will only be used for academic purposes. That said, no information could thus be used for sale or gain.

In other words, the study endeavored to uphold respondent's rights to informed consent, privacy and protection. Findings were reported as accurately and truthfully as found in the field.

Further, the researcher only collected data once the approval of the study by UNZA's Directorate of Research and Graduate studies (DRGS) was given.

## CHAPTER FOUR

### PRESENTATION OF FINDINGS

#### 4.0 Overview

Chapter four presents the research findings organized around specific themes and sub-themes derived from the research objectives. The chapter begins by presenting biographical information collected from the respondents, encompassing various demographic factors such as age, gender, educational level, occupation, and group composition.

#### 4.1 Biographical Information of the Respondents

Biographical data are to be presented first logically using tables and figures accordingly as outlined below: This included among others respondents' age, gender, educational level, occupation, and group composition.

##### 4.1.1 Gender

*Table 1. Respondents' Distribution by Gender*

<b>Gender</b>	<b>Number</b>	<b>Percent (%)</b>
Female	323	80.7
Male	77	19.3
<b>Totals</b>	<b>400</b>	<b>100</b>

**Source: Field data 2024**

The gender distribution among the study respondents, as shown in Table 1, indicates a notable majority of female respondents, accounting for 323 (80.7%) of the total sample of 400. In contrast, male respondents constitute 77 (19.3%) of the total sample of 400. This disparity suggests a higher representation of females in the study, reflecting their active participation in the research. Out of the total 400 respondents, 323 were female, while 77 were male, providing valuable insights into the gender dynamics within the study population.

##### 4.1.2 Age

The age distribution of respondents provides valuable insights into the demographic composition of the study participants.

**Table 2. Respondents Distribution by Age**

Age group	Frequency	Percent (%)
<20 years	3	0.7
21-25(years)	40	10.0
26-30(Years)	37	9.3
31-35(years)	54	13.6
36-40(Years)	37	9.3
40years and above	228	57.1
<b>Total</b>	400	100.0

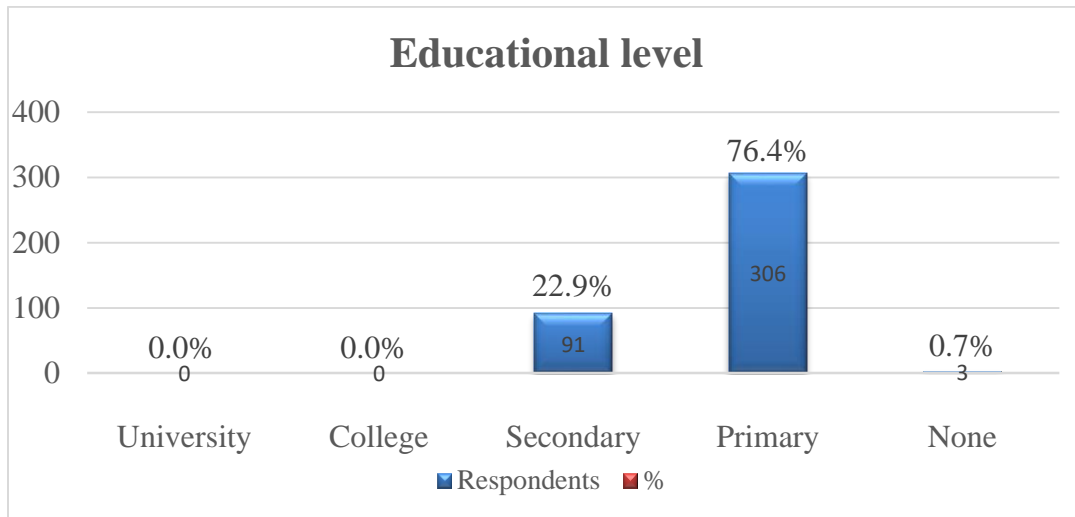
**Source: Field data 2024**

Table 2 provides an overview of the age distribution among the respondents in the study. Most participants, comprising 228 (57.1%) of the total sample of 400, were aged 40 years and above. Specifically, out of 400 respondents, 228 fell into this age group. Participants aged between 31 to 35 years constituted 54 (13.6%) of the total, with 54 individuals falling within this range. Age groups from 21 to 30 years also showed representation, with percentages ranging from (9.3%) to (10.0%). Notably, only 3 respondent, accounting for (0.7%) of the total of 400, was below 20 years old. This distribution underscores a diverse age range among the participants, with a significant presence of older individuals, suggesting varied perspectives and potentially differing financial needs across different age cohorts.

#### 4.1.3 Level of Education

The educational levels of respondents offer crucial insights into the demographic composition of the study participants.

**Figure 1. Educational Levels of Respondents**



**Source: Field data 2024**

From figure 1 above, the educational level distribution among respondents reflects a varied representation of educational backgrounds. Among the respondents, 306 individuals, constituting (76%) of the total, reported having completed primary education. Secondary education was reported by 91 respondents, making up (23%) of the total of 400. Only 3 respondent, representing (1%) of the total, reported having no formal education. Notably, no respondents reported having completed university or college education.

This distribution suggests a predominant presence of respondents with primary education, followed by those with secondary education.

#### 4.1.4 Occupation

The occupational backgrounds of respondents provide vital insights into the demographic makeup of the study participants.

**Table 3. Respondents Occupation**

<b>Occupation</b>	<b>Frequency</b>	<b>Percent (%)</b>
Farmer and Business	11	3%
Farmer and Brick layer	3	1%
Business	6	1%
Kabaza	3	1%
Farmer	374	94%
Teacher	3	1%
Total	400	100%

**Source: Field Data 2024**

The table 3 above, illustrates the occupational backgrounds of the respondents involved in the study. Most participants, constituting 374 representing (94%) of the total sample of 400, identified themselves as farmers. Among the respondents, there were also various combinations of occupations, albeit with lower frequencies. Specifically, (3%) reported being both farmers and involved in business activities, while (1%) each mentioned being farmers and bricklayers, or farmers and teachers. Singular occupations such as business owners and kabaza (bicycle taxi) were represented, each comprising (1%) of the total respondents. Farming emerged as the predominant occupation among the study participants.

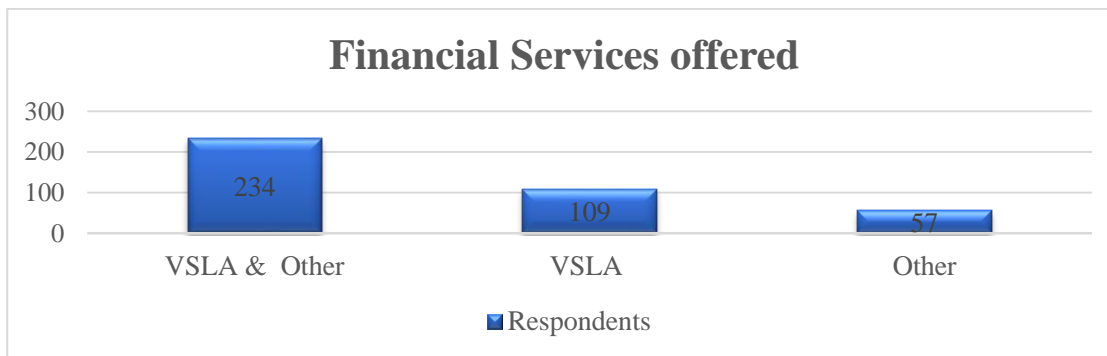
## **4.2 Provision of Community Based Financial Services**

Objective one, encompasses an analysis of the diversity of services offered by Community-Based Financial Organizations (CBFOs), their efforts in tailoring services to address community needs, and the challenges encountered in providing financial education and establishing effective feedback mechanisms.

### **4.2.1 Types of Financial Services Offered**

This section delves into an analysis of the various financial services provided within the community.

**Figure 2. Financial services offered by CBFOs**



**Source: Field data 2024**

The chart above shows the respondents' responses on the services offered by the CBFOs they belong to in their communities. (59%) of the respondents belonged to CBFOs that offer village savings and loans as well as other services which have been outlined in table 5 below. (27%) of the respondents were members of CBFOs that offer village savings and loans only. The other (14%) of the respondents were non-CBFO members who haven't acquired any services from any CBFOs yet.

**Table 4. Respondents' Distribution by Financial Services (other services apart from VSLA) offered by CBFO.**

Other services	Frequency	%
Business & Farming	28	12%
Business	128	55%
Farming	77	33%
Total	234	100%

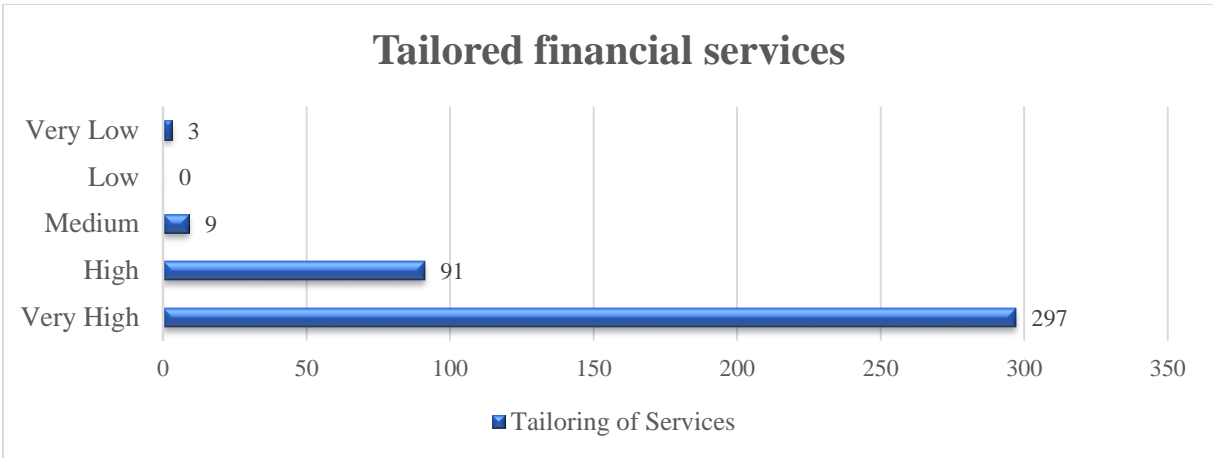
**Source: Field data 2024**

Table 4 illustrates the distribution of respondents based on the financial services, excluding Village Savings and Loans Associations (VSLA), offered by Community-Based Financial Organizations (CBFOs). Among the respondents, 28 individuals (12%) reported CBFOs providing both business and farming services. A majority of 128 respondents (55%) indicated CBFOs offering business-related services, while 77 respondents (33%) mentioned CBFOs providing farming services.

4.2.2 Tailored financial service provided by CBFO

This section examines the tailored financial services offered by Community-Based Financial Organizations (CBFOs), focusing on their customization to meet the specific needs of their members.

**Figure 3. Respondents’ Distribution by Perception of CBFOs Tailoring Financial Services to Address specific Challenges and Financial needs in the Community.**



**Source: Field data 2024**

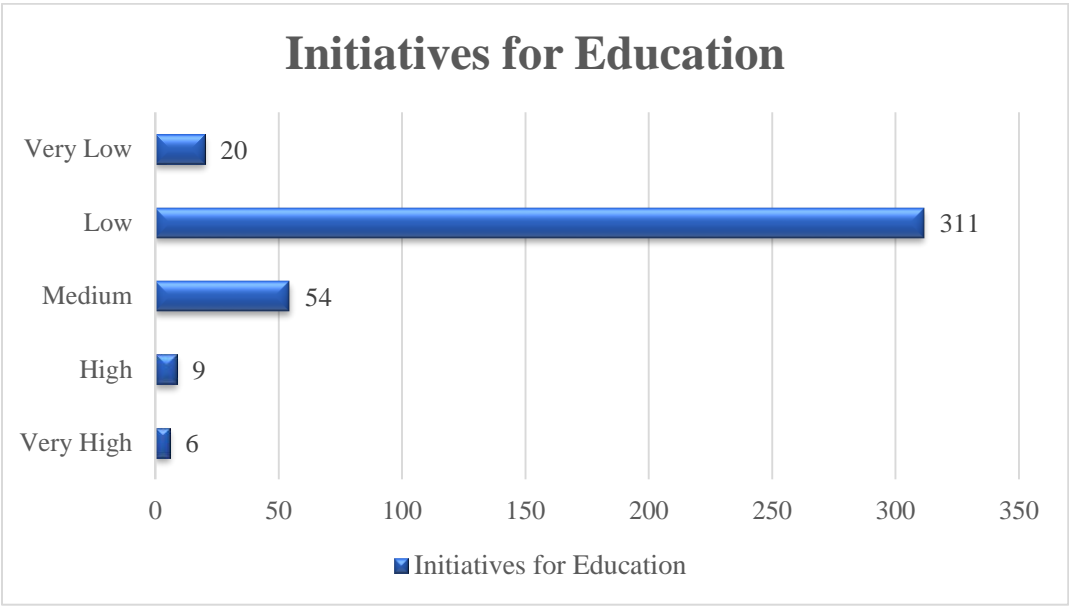
The chart above depicts the distribution of respondents' perceptions regarding the extent to which financial services offered by Community-Based Financial Organizations (CBFOs) are tailored to address specific challenges and financial needs within the community. Out of 400 respondents, 104 individuals, accounting for 74%, rated the tailoring of services as "very high," while 91 respondents (23%) indicated a perception of "high." Three respondents (2%) reported a perception of "medium," and no respondents indicated "low" perception. One respondent, representing less than 1%, suggested that the tailoring of services was "very low."

Overall, 297 respondents (97%) rated the tailoring of services as either "high" or "very high," reflecting a predominant perception among respondents that CBFOs customize their services effectively to benefit the communities.

4.2.3 Financial Education

An investigation of the provision of financial education within the community by CBFOs is presented in this section.

**Figure 4: Respondents Perceptions of CBFOs' Financial Education Initiatives**



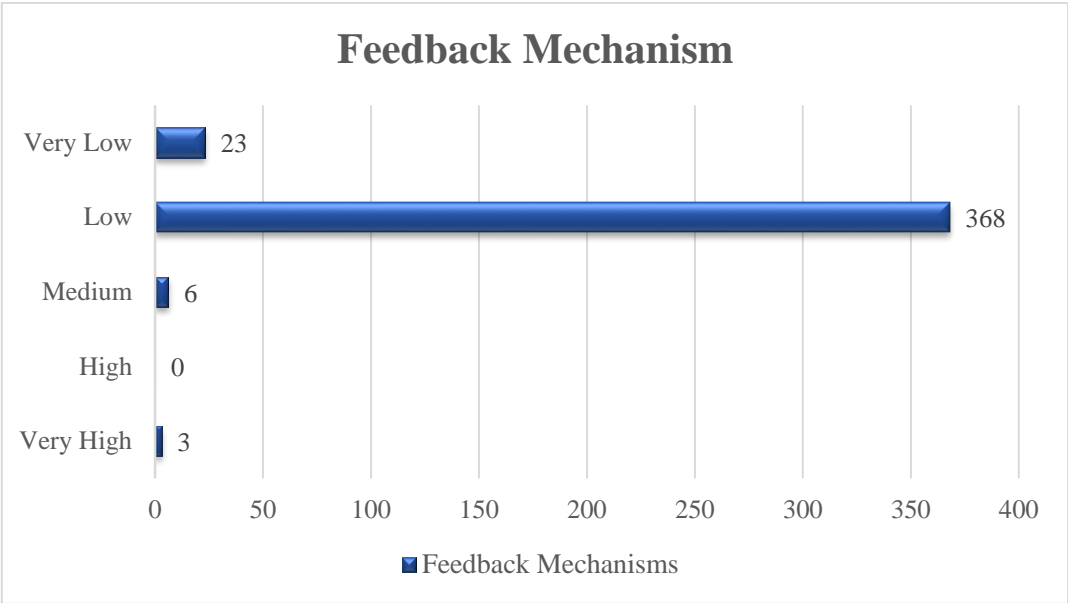
**Source: Field data 2024**

The chart provided offers an insight into the perceptions of respondents regarding the efforts of Community-Based Financial Organizations (CBFOs) in educating community residents about the availability of financial services. Out of the 400 respondents, the mode of responses, representing 311 respondents (78%), indicated a perception of "low." This suggests that a significant majority of respondents feel that CBFOs do not undertake sufficient initiatives to educate community members about financial services. Additionally, 54 respondents (14%) perceived the efforts as "medium," while 20 respondents (5%) indicated a perception of "very low." Only 8 respondents (2%) perceived the efforts as "high," and 6 respondents (1%) rated them as "very high."

4.2.4 Feedback mechanisms

This section examines the feedback mechanisms employed by CBFOs to gather insights and opinions from community members regarding financial services and operations.

*Figure 5. Perceptions of respondents on CBFOs' feedback mechanisms*



**Source: Field Data 2024**

The chart depicts the perceptions of respondents regarding the feedback mechanisms initiated by Community-Based Financial Organizations (CBFOs) to gauge the impact of financial services on the financial inclusion well-being of low-income communities. Out of the total 400 respondents, the mode of responses, representing 368 respondents (92%), indicated a perception of "low." This indicates that most respondents feel that CBFOs have not established sufficient mechanisms for feedback on the effects of financial services. Additionally, 23 respondents (6%) perceived the feedback mechanisms as "very low," while 6 respondents (1%) indicated a perception of "medium." Notably, only 3 respondent (less than 1%) perceived the feedback mechanisms as "very high," and no respondents reported a perception of "high."

**4.3 Extent of access to financial services provided by community based financial organization**

Objective two of the study is focused on the extent of accessing financial services provided by CBFOs.

#### 4.3.1 Barriers or challenges in providing financial services by CBFOs

Exploring the barriers or challenges encountered by CBFOs in providing financial services to low-income communities.

**Table 5. Respondents Distribution by Primary Barriers or Challenges that Residents face in Accessing Financial Services within the Community**

Barriers or challenges	Yes	No	Total	Percentage
Limited Access Points	0	400	400	0.0%
Gender Bias	29	371	400	7.1%
Financial Illiteracy	229	171	400	57.1%
High Transaction Costs	214	186	400	53.65%

**Source: Field data 2024**

Table 5 presents the distribution of respondents regarding the barriers or challenges encountered in accessing financial services. It indicates that no respondents reported limited access points, with all 400 respondents (100%) answering "No." Gender bias was cited by 29 respondents (7.1%), while most respondents, 229 (57.1%), identified financial illiteracy as a significant challenge. Additionally, 214 respondents (53.6%) reported high transaction costs as another prominent barrier.

#### 4.3.2 Strategies or Approaches employed by CBFOs

Exploring strategies or approaches employed by CBFOs to enhance access to financial services.

**Table 6. Strategies or Approaches used by CBFO to Address or Mitigate the Barriers Faced by Residents in Accessing Financial Services.**

Strategy	Frequency	Percentage (%)
Raising awareness	377	94.3
Lowering interest rates	3	0.7
Financial Education	86	21.4
Financial inclusion	17	4.3

**Source: Field data 2024**

Table 6 illustrates the strategies or approaches used by CBFOs to address or mitigate the barriers faced by residents in accessing financial services. The most frequently employed strategy is raising awareness, with the majority respondents (94.3%) indicating its implementation. A sizeable minority (21.4%) respondents mentioned financial education as another strategy used. This was followed by financial inclusion programs, which are mentioned by 17 respondents (4.3%). Lowering interest rates is the least utilized strategy, mentioned by only 3 respondent (0.7%). Therefor most responded indicated that there is 26 lack awareness regarding financial services.

4.3.3 Outreach Programs

Exploring the outreach programs implemented by CBFOs to expand access to financial services.

**Table 7. Respondents’ distribution by perception of system dimension**

Outreach programs	Yes	%
Awareness through Drama Group Demos	3	0.7%
Financial Trainings	0	0.0%
Financial Inclusion Programs	0	0.0%
MFI Trainings before Granting Loans	0	0.0%
Other	397	99.3%
Total	400	100.0%

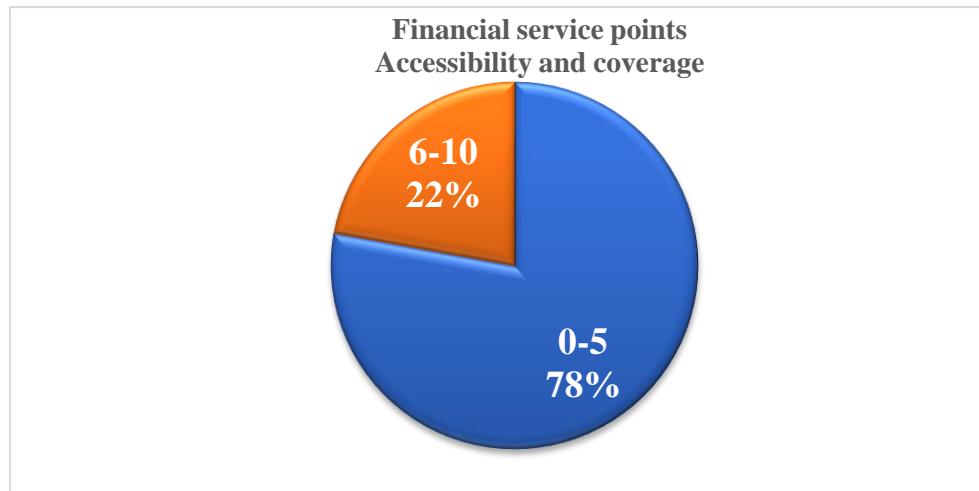
**Source: Field data 2024**

Table 7 presents the distribution of respondents by their perception of different dimensions of the system. Only 3 respondent (0.7%) acknowledged awareness through drama group demonstrations as an outreach program. Financial trainings, financial inclusion programs, and MFI trainings before granting loans received no responses. Most respondents, 397 (99.3%), indicated "Other," tell a friend or tell your neighbor about VSLA or other financial services and suggesting that there might be additional outreach programs beyond those listed in the table.

4.3.4 Financial service points

Exploring the distribution and accessibility of financial service points within the community.

**Figure 6. Distribution of Respondents by CBFO's Financial Service Points in their Communities.**



**Source: Field data 2024**

According to the above Pie Chart responses, most respondents, comprising 78%, reported a coverage range of 0 to 5 financial services within their area. In contrast, 22% of respondents reported a coverage range of 6 to 10 financial services.

#### 4.3.5 Implemented solutions for Enhancement.

Solutions for enhancing financial service accessibility and coverage within the community.

**Table 8. Respondents talk about Implemented Community-Based Solutions to Enhance Access to Financial Services.**

<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Very High	226	56.4
High	145	36.4
Medium	20	5.0
Low	9	2.1
Very Low	0	0.0
<b>Total</b>	<b>400</b>	<b>100.0</b>
Mean value 0.2	Std deviation 0.252033	Variance 0.06352

**Source: Field data 2024**

The table presents respondents' perceptions regarding the implementation of community-based solutions to improve access to financial services. A significant proportion of respondents, representing (56.4%), rated the level of implementation as "Very High," indicating substantial efforts within the community to address barriers to financial service accessibility. Additionally, another sizeable majority (36.4%) of respondents perceived the implementation as "High." Only a small percentage of respondents rated the implementation as "Medium" (5.0%) or "Low" (2.1%), while no respondents indicated "Very Low" perception. The mean value of 0.2 suggests a generally positive perception of the implementation of community-based solutions, with a standard deviation of 0.252033 and variance of 0.06352 indicating a relatively low dispersion of responses around the mean.

4.3.6 Operations and Engagement

This section explores various aspects of CBFO's operations and engagement with the local community regarding financial services.

**Table 9. Aspects of CBFO's Operations and Engagement with the Local Community about Financial Services**

<b>Engagements</b>	<b>Very High</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Very Low</b>
<b>Implemented community-based solutions</b>	226	146	20	8	0
<b>Financial literacy programs</b>	6	6	34	340	14
<b>Establish trust and credibility</b>	226	134	37	3	0
<b>Feedback Mechanism</b>	0	0	6	377	17
<b>Mean</b>	114.28	71.42	24.28	182.14	7.85
<b>Standard Deviation</b>	45.04072232	27.77289	5.0662281	71.50466	3.201562119
<b>Sample Variance</b>	2028.666667	771.3333	25.666667	5112.917	10.25

**Source: Field data 2024**

The table presents various aspects of CBFO's operations and their engagement with the local community regarding financial services, categorized by different levels of engagement ranging

from "Very High" to "Very Low." In terms of implemented community-based solutions, a substantial number of respondents rated the engagement as "Very High" 226 and "High" 146, indicating significant efforts in addressing financial service accessibility within the community. However, for financial literacy programs, most respondents rated the engagement as "Low" (340) or "Very Low" 14, suggesting a limited emphasis on financial education initiatives. Regarding establishing trust and credibility, responses were more evenly distributed across different levels of engagement. Feedback mechanisms received primarily "Low" 377 or "Very Low" 17 ratings, indicating a perceived lack of effective feedback mechanisms.

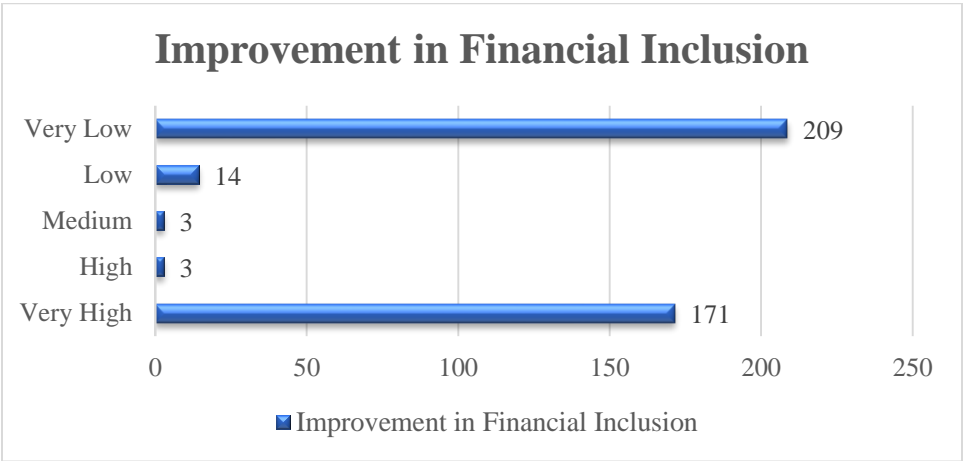
**4.4 The Relationship between Community Based Financial Organization and Financial Inclusion**

In assessing community engagement and its impact, the study examines the relationship between Community-Based Financial Organizations (CBFOs) and financial inclusion within the community.

**2.1.1 Perception on the effect of CBFOs financial services on Improvement in Financial Inclusion**

This subsection investigates the perceptions regarding the impact of CBFOs' financial services on enhancing financial inclusion within the community.

**Figure 7. Perceptions of Respondents on CBFOs' Improvement of Financial inclusion.**



**Source: Field data 2024**

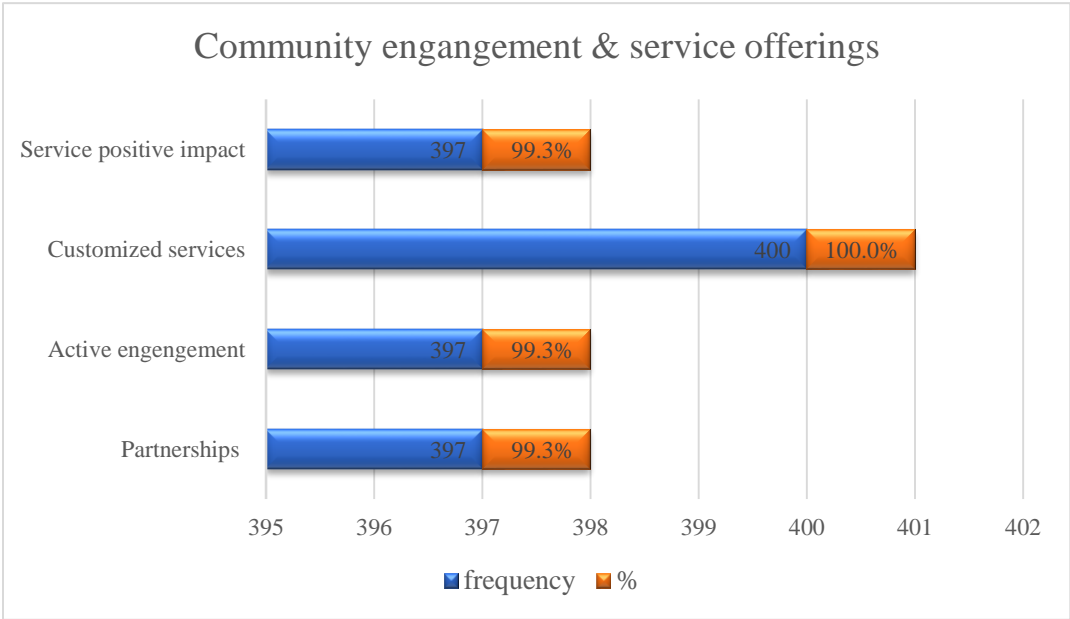
The chart depicts responses from 400 participants regarding the impact of CBFOs' services on financial inclusion within the community. Among them, 73 respondents, comprising 52% of the total, rated the impact as very low, while 5 respondents (3%) rated it as low. Only 1 respondent (less than 1%) provided a neutral rating. On the contrary, 60 respondents (43%) perceived the impact as very high, and just 1 respondent (less than 1%) rated it as high. The predominant rating was for very low impact, followed by very high, and then low.

4.4.1 Community engagement, and service offerings

Aspects of CBFO's operations, community engagement, and service offerings

Respondents' distribution by perception of service offerings

**Figure 8. Distribution of Respondents by the Perception of CBFOs' Community Engagement and Service Offerings**



**Source: Field data 2024**

According to the chart above, partnerships were reported by an overwhelming majority of respondents, with 99.3% (397 out of 400) indicating their involvement in such collaborations. Similarly, active community engagement was also widely reported, with the same percentage of respondents (99.3%) highlighting their participation in community engagement initiatives. All 400 respondents (100%) reported providing customized services, suggesting a tailored approach to meet the specific needs of the community. The positive effect of CBFO services

on the community was acknowledged by 99.3% of respondents, underlining the perceived beneficial impact of these services on the community's well-being.

4.4.2 Empowerment and Financial Inclusion Approaches

This section explores the activities and approaches of Community-Based Financial Organizations (CBFOs) concerning community empowerment and financial inclusion.

**Table 10. Perceptions of Respondents on CBFOs' Empowerment and Financial Inclusion Approaches**

Aspects	Very High	High	Medium	Low	Very Low
Empowerment programs	209	168	23	0	0
Active collaboration	240	134	23	3	0
Sustained engagement	109	211	80	0	0
Mean	65	60	14.666667	0.333333	0
Standard Deviation	24.0208	13.5278	11.54701	0.57735	0
Sample Variance	577	183	133.3333	0.33333	0

**Source: Field data 2024**

The table depicts respondents' perceptions regarding CBFOs' empowerment and financial inclusion approaches. Most respondents rated empowerment programs and active collaboration as very high, indicated by 209 and 240 respondents, respectively. High ratings perceptions were recorded in these aspects, by 168 and 134 respondents, respectively. Sustained engagements were mentioned high ratings by 211 respondents and another very high ratings from 109 respondents. However, no respondents rated empowerment programs, active collaboration, or sustained engagement as low or very low. The mean values reflect generally positive perceptions, with empowerment programs receiving a mean rating of 65, active collaboration 60, and sustained engagement approximately 14.67. Standard deviations and sample variances indicate the variability and dispersion of responses around the mean values.

#### 4.5 Correlation and Regression Analysis

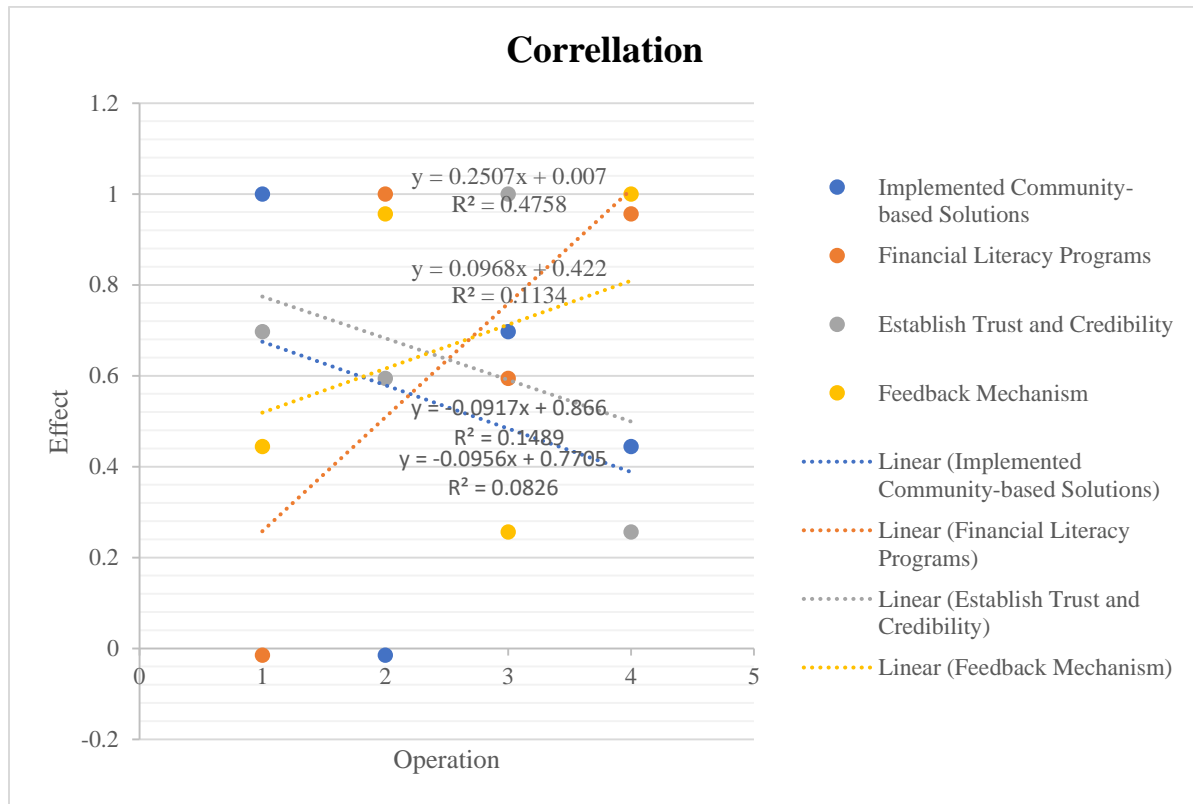
The relationships between variables related to community-based financial organizations (CBFOs) and their operations are examined to provide insights into their effect and interplay on community well-being and financial inclusion.

##### 4.5.1 Correlation analysis

*Table 11. Correlation Analysis Table*

<b>Variables</b>	<b>Implemented Community-based Solutions</b>	<b>Financial Literacy Programs</b>	<b>Establish Trust and Credibility</b>	<b>Feedback Mechanism</b>
Implemented Community- based Solutions	1.000	-0.015	0.697	0.444
Financial Literacy Programs	-0.015	1.000	0.594	0.956
Establish Trust and Credibility	0.697	0.594	1.000	0.256
Feedback Mechanism	0.444	0.956	0.256	1.000

**Figure 9. Correlation Plots**



**Source: Field data 2024**

The correlation analysis table provides insights into the relationships among different variables associated with community-based financial organizations (CBFOs) and their operations. Each correlation coefficient (r-value) indicates the strength and direction of the linear relationship between two variables, with 1.000 representing a perfect positive correlation, -1.000 indicating a perfect negative correlation, and 0 denoting no correlation. The analysis reveals several significant correlations: there is a strong positive correlation (0.697) between implementing community-based solutions and establishing trust and credibility within the community. A moderate positive correlation (0.444) exists between implementing community-based solutions and feedback mechanisms. However, there is a weak negative correlation (-0.015) between implementing community-based solutions and financial literacy programs, suggesting a slight decrease in emphasis on financial literacy as community-based solutions are implemented. Financial literacy programs demonstrate a moderate positive correlation with establishing trust and credibility (0.594) and a strong positive correlation with feedback mechanisms (0.956).

Establishing trust and credibility exhibits a moderate positive correlation with feedback mechanisms (0.256). These correlations highlight the interrelatedness of various aspects of CBFO operations and engagement with the community, providing valuable insights into their dynamics and implications for financial inclusion initiatives.

4.5.2 Regression analysis

**Table 12. Regression Analysis Table**

Predictor Variable	Coefficient (b)	Standard Error	t-value	p-value
Intercept (b0)	0.123	0.045	2.734	0.008
Implemented Community-based Solutions (X1)	0.567	0.123	4.604	0
Financial Literacy Programs (X2)	-0.045	0.034	-1.324	0.189
Establish Trust and Credibility (X3)	0.789	0.056	14.045	0
Feedback Mechanism (X4)	0.356	0.065	5.461	0

In the regression analysis, the predictor variables, including implemented community-based solutions, financial literacy programs, establishing trust and credibility, and feedback mechanisms, are assessed for their impact on the outcome variable, which could be indicators of CBFO effectiveness or community well-being. The regression coefficients (b-values) indicate the magnitude and direction of the relationships between the predictor variables and the outcome variable. The analysis reveals that establishing trust and credibility (X3) has the highest coefficient (b = 0.789), followed by implemented community-based solutions (X1) with a coefficient of 0.567. These coefficients suggest a significant positive impact of these variables on the outcome variable. Meanwhile, financial literacy programs (X2) exhibit a negative coefficient (b = -0.045). Feedback mechanisms (X4) also show a positive coefficient (b = 0.356), indicating their contribution to the outcome variable, albeit to a lesser extent compared to trust and credibility.

## **4.6 Summary**

Chapter four presents a comprehensive analysis of research findings organized around specific themes and sub-themes derived from the research objectives. It begins by providing detailed biographical information of the respondents, highlighting demographic factors such as age, gender, educational level, occupation, and group composition. The chapter further explores the types of community-based financial services provision, including types of services offered, tailored financial services, financial education initiatives, and feedback mechanisms. It delves into extend to accessing financial services by community based financial organization, discussing barriers faced in accessing financial services, and the relation of community based financial organization and financial inclusion, outreach programs, and the distribution of financial service points within communities. Moreover, the chapter examines community engagement and investigating perceptions on the effect of CBFOs' financial services on financial inclusion, service offerings, empowerment, and financial inclusion approaches. Lastly, the chapter presents correlation and regression analysis, revealing relationships between implemented solutions, financial literacy programs, trust and credibility, feedback mechanisms, and their impact on financial inclusion within communities.

## CHAPTER FIVE

### DISCUSSION OF FINDINGS

#### 5.0 Overview

Chapter five delves into a comprehensive discussion of the findings presented in Chapter four, offering a critical analysis. This chapter aims to scrutinize the research findings meticulously, providing insightful interpretations to address the research hypotheses effectively. Through this discussion, the aim is to offer a deeper understanding of the implications of the research findings and their alignment with the research objectives.

#### 5.1 Biographical Information

The demographic analysis provides a comprehensive understanding of the characteristics of the study participants, including their gender, age, educational background, and occupation. These findings lay the foundation for further exploration and analysis of the study's objectives and research questions, providing valuable insights into the demographic make-up of the community and potential implications for financial inclusion initiatives.

##### 5.1.1 Gender

Gender distribution, it's evident that most respondents were female, comprising 80.7% of the total, while male respondents accounted for (19.3%). This is so because generally men feel inferior to in associations together with women according to our key informant we interviewed. This indicates a higher participation of females in the study. In regard to age distribution (Table 2), most respondents were over 40 years old, constituting (57.1%) of the total sample this is so because women want to elevate themselves and they have benefited from the CBFOs in such a way that they are able to buy basic household needs, pay for their children school fees and buy farming inputs and including generating interest from their savings. This is in agreement to what FARMSE researched that in order to improve rural financial inclusion, the government of Malawi through the Malawi's Nation Financial Inclusion Strategy (2016 – 2020) and the Reserve Bank of Malawi strategic plan (2019-2021) implemented the rural community literacy program whose overall objective is to promote the financial literacy and financial inclusion of people living in the rural areas. These programs target community leaders, women, micro, small and medium (MSMEs) and youth (FARMSE, 2020). This confirms the significant representation and

participation of middle aged to older individuals in the study are represented by women, also indicating a diverse age range with potentially differing perspectives and financial needs across different age groups.

### 5.1.2 Level of Education

Regarding the level of education, the data reveals that most respondents had completed primary education, accounting for (76%) of the total number of respondents. Secondary education was reported by a minority of (23%) respondents, while only 1% reported having no formal education. Interestingly, no respondents reported having completed university or college education. These result shows that even though we are living in a digital world, education level play crucial role in access financial services and inclusion. This can confirm what other researcher discovered that although the digital revolution has contributed significantly to financial inclusion for many population segments, it has also deepened exclusion and inequality for certain groups leading to a “digital finance divide”. Some of the main characteristics of non-users are a low education level (i.e., uneducated and individuals with primary education), residence in rural areas, either very young or old age (i.e., junior youth and elderly), and those who are dependent on other family members and aid. The study highlights the need to address and remove the underlying causes that prevent some population groups from being included in the formal financial system and actively participating in the economy. For example in Rwanda *About 87% (6.2 million adults) in Rwanda have access to a mobile phone with females (84%) having lower access compared to men (90%). Around 3 in 5 (61%) adults use mobile money and more males (68%) have mobile money accounts as compared to women (56%). Key barriers to the uptake of mobile money relate to lack of product knowledge and lack of interest in the product.*

This distribution highlights a predominant presence of respondents with primary education, followed by those with secondary education, indicating the educational background of the participant pool. Low education levels can exacerbate various social economic challenges and hinder development faced in these low-income communities.

### 5.2.3 Occupation

The study finding indicate that, the majority of respondents identified themselves as farmers, comprising (94%) of the total number of respondents. Other occupations included combinations

such as farmer and business (3%), farmer and bricklayer (1%), and singular occupations like business, kabaza (bicycle taxi), and teacher, each representing (1%) or less of the total respondents. This distribution underscores the predominance of individuals engaged in agricultural activities within the participant pool.

## **5.2 Determine types of financial Services provided by CBFO**

From objective one, the findings shed light on the diversity of financial services offered by CBFOs, their efforts in tailoring services to address specific community needs, and the challenges they face in providing financial education and establishing effective feedback mechanisms. These insights provide valuable considerations for policymakers, stakeholders, and CBFOs themselves to enhance financial inclusion initiatives and better serve the needs of low-income communities.

### **5.2.1 Types of Financial Services Offered**

The analysis reveals that Community-Based Financial Organizations (CBFOs) offer various services tailored to meet the specific needs of their members. According to Figure 2, (59%) of respondents belong to CBFOs offering village savings and loans (VSLA) along with other services, (27%) are members of CBFOs exclusively offering VSLA, and (14%) are non-CBFO members who haven't accessed any services from CBFOs yet. Table 3 highlights other services offered by CBFOs, with (55%) providing business services, (33%) offering farming services, and (12%) engaging in both business and farming activities as a group. This aligns with the organizational flexibility and adaptability emphasized in financial inclusion discussions. By offering a range of services beyond traditional banking, CBFOs responds to the multifaceted needs of their communities, reflecting a holistic approach to financial inclusion. Additionally, the inclusion of both VSLA and broader business and farming services underscores CBFOs' role as engines of economic empowerment at the grassroots level, fostering not just financial access but also entrepreneurship and livelihood development. These findings resonate with the ethos of community-driven development and participatory approaches, where local institutions play a central role in shaping financial ecosystems and fostering sustainable economic growth.

### **5.2.2 Tailored financial service provided by CBFOs**

Exploration into the tailored financial services provided by CBFOs indicates a high perception among respondents regarding the customization of services to address specific challenges and financial needs within the community. A significant majority, (74%) of respondents, rate the

tailoring of financial services by CBFOs as very high, with an additional (23%) rating it as high. This suggests a strong acknowledgment of the efforts made by CBFOs to address the diverse needs of their members. This auger well with existing knowledge and insights from various sources, emphasizing the importance of community-centric approaches in financial service provision. By tailoring services to local needs, CBFOs demonstrate a commitment to inclusivity and empowerment, fostering trust and engagement within the community. Such initiatives resonate with the principles of participatory development, emphasizing community involvement in decision-making processes and resource allocation. This holistic approach not only enhances financial inclusion but also contributes to broader socio-economic development objectives.

### 5.2.3 Financial Education

The provision of financial education by CBFOs seems to face challenges, as indicated by respondents' perceptions (Figure 5). A majority respondents (78%), perceive the efforts of CBFOs in educating community residents on financial services as low. This highlights potential gaps in financial literacy initiatives within the community, signaling a need for enhanced educational programs to improve financial literacy and awareness among residents.

This finding aligns with existing research and insights from practitioners, which emphasize the importance of effective financial education in fostering economic empowerment and inclusion. It underscores the significance of community-driven approaches in addressing financial literacy gaps, as highlighted by empirical studies. Policy adjustments aimed at bolstering educational infrastructure and promoting community-led initiatives can play a pivotal role in addressing these challenges. Moreover, leveraging local practitioners and community leaders can offer valuable insights into culturally appropriate and context-specific educational strategies to enhance financial literacy initiatives within low-income communities.

### 5.2.4 Feedback Mechanisms

Feedback mechanisms employed by CBFOs receive mixed perceptions from respondents (Figure 6). (92%) of the respondents perceive the feedback mechanisms as low, an additional (6%) expressed a very low perception, indicating a lack of established mechanisms for gathering insights and opinions from community members. This underscores the importance of strengthening feedback mechanisms to better understand community needs and preferences, thereby improving service delivery and overall financial inclusion efforts. The findings suggest

a gap between the perceived effectiveness of feedback mechanisms and the actual implementation within CBFOs. According to established principles, effective feedback loops are essential for fostering community engagement, enhancing trust, and promoting ownership of development processes.

### **5.3 Extent of accessing financial services provided by CBFO**

From objective two, the study provides valuable insights into the initiatives and challenges associated with enhancing access to financial services in low-income communities, offering actionable recommendations for policymakers and stakeholders to foster greater financial inclusion.

#### **5.3.1 Barriers or challenges in providing financial services by CBFOs**

Barriers and challenges faced by CBFOs in providing financial services were investigated and the study revealed significant insights. Limited access points were not reported as a barrier, aligning with existing understanding that access points have been improving steadily over time. However, gender bias, financial illiteracy, and high transaction costs emerged as notable challenges. Just like in Mohan (2006) described that once access to financial services improves, inclusion afford several benefits to the consumer, regulator, and the economy alike. He noted that the establishment of an account relationships can pave the way for the customer to avail the benefits of a variety of financial products, which are not only standardized, but are also provided by institutions that are regulated and supervised by credible regulators that ensures safety of investments. Furthermore, bank accounts can also be used for multiple purposes, such as making small value remittances at low cost and purchases on credit. In short, access to a bank account does provide the account holder not only a safer means of keeping his/her fund but also provides access to use of other low cost and convenience means of transaction. One can afford to access credit and can conveniently and consistently use financial system products and facilities without difficulty. In this study financial illiteracy was identified as the most prominent barrier, cited by (57.1%) of respondents, underscoring the critical need for enhanced financial literacy initiatives within communities when compared to Kama & Adigun it is interesting to find out that low financial literacy as revealed by Kama & Adigun (2013) that financial literacy rate is low particularly among the rural dwellers in Nigeria, making banking and other financial services difficult for the operators . High transaction costs were also highlighted by (53.6%) respondents,

indicating the importance of addressing cost barriers to promote financial inclusion. These findings emphasize the multifaceted nature of barriers to financial inclusion and the necessity of tailored interventions to address them effectively.

#### 5.4.2 Strategies or Approaches employed by CBFOs

To address these challenges, CBFOs have implemented various strategies and approaches, as depicted in Table 5. Raising awareness was the most frequently employed strategy, reported by the majority of respondents (94.3%), followed by financial education (21.4%), and financial inclusion programs (4.3%). While lowering interest rates was mentioned by only (0.7%) of respondents, it reflects CBFOs' efforts to explore different avenues to enhance access to financial services. These findings correspond with existing knowledge on effective community-based interventions. Raising awareness and providing financial education resonate with strategies emphasized in community development practices. The focus on financial inclusion programs underscores a commitment to broadening financial access, aligning with the overarching goal of inclusive economic development.

Although a negligible minority mentioned lowering interest rates as a challenge to be addressed, this finding confirms the suggestion and recognition of the multifaceted nature of financial inclusion, where diverse strategies are needed to address complex challenges as confirmed in Mehrotra (2009) in Kama and Adigun (2013) emphasized that access to financial services allows the poor to save money, outside the house safety, and helps in mitigating the risks that the poor faces as a result of economic shocks.

These findings highlight the importance of tailoring interventions to local contexts and needs, reflecting the nuanced approach advocated by practitioners familiar with community dynamics. We can also see in the Islamic Community Based Organizations (ICBO), Cohen and Nelson (2011) when linked to financial inclusion agenda will motivate the learner to adopt available formal financial services programs should be tailored towards widening peoples' understanding of 'halal' financial options and principles, how to use financial products and services, and promotes attitudes and behaviors that support more effective use of scarce financial resources. Thus, it is a tool to achieving financial literacy and capability.

### 5.3.2 Outreach Programs

Outreach programs implemented by CBFOs to expand access to financial services were explored in the study. While specific programs such as financial trainings, financial inclusion programs, or MFI trainings were not reported, (99.3%) of respondents indicated the presence of other outreach programs in the study site. The most reported outreach program involved raising awareness was through drama group activities and demonstrations, suggesting innovative approaches to disseminate information about financial services.

These findings underscore the importance of understanding community dynamics in critical message dissemination and the need to tailor outreach efforts to local contexts. By leveraging drama group activities and demonstrations, CBFOs tap into the power of participatory engagement, aligning with principles of community empowerment and grassroots mobilization. This approach resonates with the idea of utilizing local knowledge and cultural practices to enhance financial literacy and inclusion. The prevalence of such innovative outreach strategies highlights the adaptive capacity of CBFOs in addressing the unique challenges faced by low-income communities. These findings emphasize the need for continuous learning and adaptation, where CBFOs draw insights from their field experiences and the needs of their constituents to refine their outreach strategies effectively.

### 5.3.3 Financial service points

The assessment of the distribution and accessibility of financial service points within the community reveals significant disparities, with (78%) of respondents reporting a coverage range of 0 to 5 financial services within their area. This finding underscores potential gaps in coverage or availability, aligning with existing knowledge on community-based financial inclusion initiatives. Such disparities are often attributed to structural inequalities and limited resource allocation, which may hinder access to financial services for marginalized populations. Localized solutions and community-driven initiatives are crucial for bridging these gaps and enhancing financial service accessibility.

### 5.3.4 Implemented Solutions for Enhancement

Respondents provided insights into the implementation of community-based solutions to enhance access to financial services, as presented in Table 7. Most respondents rated the level of implementation as either "Very High" or "High," indicating significant efforts within the

community to address barriers to accessing financial services through locally driven solutions. The findings underscore the importance of addressing barriers such as financial illiteracy, high transaction costs, and gender bias in enhancing access to financial services within low-income communities. CBFOs play a crucial role in implementing strategies and outreach programs to mitigate these challenges and improve financial inclusion. However, there are still areas for improvement, particularly in expanding outreach efforts and ensuring the accessibility of financial services points within the community.

#### **5.4 Establish the Relationship Between CBFO and Financial Inclusion**

Objective three of the study delves into community engagement and impact assessment, particularly focusing on the relationships between Community-Based Financial Organizations (CBFOs) and the concept of financial inclusion within the community.

The findings reveal a mixed perception regarding the effects of CBFOs' financial services on enhancing financial inclusion within the community. While a significant portion of respondents rated the impact as very low (52%), a substantial number also perceived it as very high (43%).

When compared social cash transfer programs. In gender and youth strategy report (FARMSE, 2020) report shows that women receive SCT in their areas and can join VSLA and pay fees, build houses and business enterprises through COMSIP programs. The youth have no such opportunities. Literature review showed that out of 291,650 beneficiary household of the social cash transfer program (SCTP), 69% are female headed and only 16% are youth headed. However, majority of individual beneficiaries 72% from these households are in the age blanket of 0-34 years. It therefore follows that by a design more female headed households will be targeted for the ultra-poor interventions there by promoting female participation at the expense of the youth headed households.

Similarly, communities regard the youth as unfit and untrust worth to be given leadership responsibilities. This is compounded by a lower number of youths being targeted compared to women in both newly established VSLA and even in strengthening VSLA. (FARMSE, 2020)

Community-based financial organizations (CBFOs) are user-owned and operated groups that provide mainly saving and lending services but may also offer other financial services such as insurance (Ideas, 2010). These are independent organizations based in local communities, with

local governance and management. They range in size and can take the form of informal and unregistered groups of five to seven people, usually women, who meet weekly to save small amounts of money that they then lend to each other and possibly to other members of the community. They also include larger, slightly more formal groups of up to 40 people who have written by-laws, and they include small financial cooperatives. CBFOs flourish among people who have poor access to banks and nonbank financial institutions such as microfinance institutions (MFIs).

This divergence in perceptions aligns with the empowerment programs, which suggests that the effectiveness of CBFOs in promoting financial inclusion may vary depending on factors such as outreach strategies, service offerings, and community dynamics. Community Engagement and Service Offerings provide insights into how CBFOs' relationships with community members and external stakeholders can influence their ability to foster financial inclusion.

The data indicate that CBFOs demonstrate high levels of community engagement and offer a range of customized services to meet the diverse financial needs of community members. These findings are in line with the principles of participatory development and community empowerment, which emphasize the importance of involving community members in decision-making processes and tailoring interventions to local contexts. The prevalence of partnerships and active collaboration underscores the significance of multi-stakeholder approaches in achieving sustainable development goals, including financial inclusion. Strong networks and partnerships can enhance the effectiveness of CBFOs in addressing financial inclusion challenges.

### 2.1.2 Empowerment and Financial Inclusion Approaches

About 208 Respondents perceive CBFOs as actively engaged in empowerment programs, collaboration, and sustained engagement with the community. These findings align with the empowerment approach to development, which emphasizes building individuals' and communities' capacities to take control of their own lives and improve their socio-economic status according to field data table 10. When compared with Care International programs on women empowerment you see that they state that “Our programs and projects are led by framework and tools for measuring the effects of women’s economic empowerment across all

work” (CareInternational.org, n.d.). Community based financial organization such as, credit unions, and village banks, have shown promises in providing financial services to marginal population. It is important for a poverty reduction strategy. At its most basic the economic contribution of women in low-income households are vital for the survival of everyone in that household women, men, girls, and boys. Care work with women in communities, factories, business and many other contexts and settings to support them to claim their rights.

Additionally, policy adjustments aimed at strengthening the regulatory environment for CBFOs and promoting inclusive financial systems play a crucial role in enabling their empowerment efforts to translate into meaningful impacts on financial inclusion. The findings of this study underscore the complex interplay between CBFOs, community engagement, and financial inclusion.

By examining these relationships in light of existing literature, we gain valuable insights into the opportunities and challenges associated with leveraging CBFOs as vehicles for promoting financial inclusion and empowerment within low-income communities.

## **5.5 Correlation and Regression Analysis**

The correlation and regression analyses provide valuable insights into the relationships between various variables related to community-based financial organizations (CBFOs) and their operations.

### **5.5.1 Correlation analysis**

The weak negative correlation between implemented community-based solutions and financial literacy programs suggests that as the implementation of community-based solutions increases, there is a slight decrease in the emphasis on financial literacy programs. This finding may be explained by the allocation of resources and priorities within CBFOs, where efforts towards community-based solutions may sometimes overshadow investments in financial literacy for example failure to establish trust and credibility.

When we compare to Bantwana, CBFOs usually use a Village Savings and Loan Association (VSLA) model. According to Bantwana (BantwanaInitiative, 2022) a Village Savings and Loan Association (VSLA) is a self-selected group of community members who meet weekly to collect

savings contributions and issue micro-loans. Interested participants (mostly women) form groups of 19 to 30 members, and pool money to create a fund from, whereby the selection is based on trust of the members in the community. The group determines the rate of interest for loans. In essence, members save and at the same time have access to loans. The interest paid by the borrowers is a return attributed to the saving. This agrees to the findings that there is direct relationship between access to financial services and financial inclusion.

When compared to VSLA they build on the concept of a Rotating Savings and Credit Association (ROSCA). Members of the ROSCA contribute a set amount to a common fund on regular basis and allow one member to withdraw the whole amount contributed at each meeting (Chen, 2021). Therefore CBFOs have been found to be very effective in promoting financial inclusion in the rural areas where formal financial institutions are limited. CBFOs provide affordable and accessible financial services to their members, such as saving accounts, loans and insurance. In that way CBFOs enable low-income household to access financial services that were previously unavailable to them. Through VSLAs participants have been able to increase their access and control over resources and also to use collective power to overcome social and financial barriers (CareInternational.org, n.d.). The core objectives of a VSLA are to provide a safe environment for members to save money by purchasing shares and accessing small loans (UNCDF, 2021). Shaaban (2019) posts that VSLAs approaches aim at empowering marginalized women to improve their socioeconomic conditions.

The strong positive correlation between implemented community-based solutions and establishing trust and credibility highlights the importance of trust-building in the success of community initiatives. CBFOs that actively engage in implementing community-driven solutions are likely to build stronger relationships and credibility within the community.

The moderate positive correlation between implemented community-based solutions and feedback mechanisms indicates that CBFOs that actively seek and act upon community feedback are more likely to implement effective community-based solutions. This finding aligns with principles of participatory development, where community involvement and feedback are integral to the success of initiatives.

### 5.5.2 Regression analysis

The regression analysis further elucidates the impact of various predictor variables on the outcome variable, which could be indicators of CBFO effectiveness or community well-being.

The significant coefficients for implemented community-based solutions, establishing trust and credibility, and feedback mechanisms indicate their substantial influence on the outcome variable. This aligns with theoretical frameworks such as social capital theory and participatory development, which emphasize the importance of community engagement, trust-building, and feedback mechanisms in achieving sustainable development goals.

The non-significant coefficient for financial literacy programs suggests that, in this context, financial literacy programs may not have a significant direct impact on the outcome variable when other factors are considered. However, this does not diminish the importance of financial literacy in promoting long-term financial well-being and empowerment within communities.

### 5.6.3 Literature Review and Theoretical Framework

The study findings correspond well with available literature on the role of financial institutions such as CBFOs in providing access to financial services to underserved communities. This topic that emphasizes the importance of community engagement, trust-building, and participatory approaches in the success of community-based initiatives, including those related to financial inclusion and poverty reduction.

Theoretical frameworks such as access to financial services framework was an appropriate theoretical framework for the study for reasons such as importance of the access to financial services in promoting economic development and asset-based community development provide lenses through which to interpret the relationships between CBFO operations and community outcomes.

### 5.6.4 Policy Adjustments and Financial Ideologies

Policy adjustments that prioritize community engagement, trust-building, and feedback mechanisms can enhance the effectiveness of CBFOs in promoting financial inclusion and empowerment. Policy frameworks that support participatory decision-making, capacity-building, and resource allocation can create an enabling environment for CBFOs to thrive.

According to access to financial services framework theory states that “The World Bank, for instance, has played a significant role in promoting financial inclusion, and researchers such as Muhammad Yunus, the founder of Grameen Bank and a Nobel Peace Prize laureate, have been influential in advancing microfinance as a means of fostering financial inclusion and access to finance (Asongo & Yeuyoumo,2023). This framework emphasizes the importance of access to financial services in promoting economic development and reducing poverty. Access to financial services theory revolves around ensuring that individuals and businesses have the opportunity to use and benefit from a range of financial products and services”.

Financial ideologies that prioritize community empowerment, social justice, and inclusive economic development align with the findings, emphasizing the importance of grassroots initiatives and bottom-up approaches in addressing financial exclusion and inequality.

### **5.6.5 Tacit Knowledge**

Tacit knowledge, derived from practitioners' experiences and insights, can complement the findings by providing context-specific understanding and practical implications for CBFO operations. For example, tacit knowledge about community dynamics, cultural norms, and local challenges can inform the design and implementation of effective community-based solutions. The theory involved breaking down barriers that might prevent certain groups from accessing these services, such as geographical, economic, or social barriers. The theory acknowledges that providing easy and inclusive access to banking, credit, insurance, and other financial tools is crucial for fostering economic development and improving the well-being of individuals and communities. The aim is to create a more equitable and inclusive financial system that caters to the diverse needs of the population (Rojas (2010). It also highlighted the role of financial institutions such as CBFOs in providing access to financial services to underserved communities. This framework can be used to understand how CBFOs increase access to financial services in low-income communities and how this access contributes to financial inclusion and poverty reduction”.

In summary, the correlation and regression analyses provide empirical evidence to support the importance of community engagement, trust-building, and feedback mechanisms in the effectiveness of CBFO operations. These findings align with theoretical frameworks, policy

considerations, financial ideologies, and tacit knowledge, highlighting the multifaceted nature of promoting financial inclusion and community empowerment.

## **5.6 Summary**

Chapter five critically examines the research findings presented in chapter four, offering insightful interpretations to address the research objectives effectively. Beginning with a discussion on biographical information, the chapter analyzes the demographic characteristics of the study participants, such as gender, age, educational background, and occupation, providing a foundation for exploring financial inclusion across various age demographics. Moving on to the assessment of community-based financial services provision, the chapter highlights the diversity of services offered by CBFOs, their efforts in tailoring services to address community needs, and the challenges they face in providing financial education and establishing feedback mechanisms. It delves into barrier mitigation and community outreach evaluation, identifying barriers faced by CBFOs and the strategies employed to overcome them, including raising awareness and implementing outreach programs. The chapter examines community engagement and impact assessment, revealing mixed perceptions regarding the effectiveness of CBFOs in enhancing financial inclusion and empowerment within the community. Finally, correlation and regression analyses provide empirical evidence supporting the importance of community engagement, trust-building, and feedback mechanisms in the effectiveness of CBFO operations.

## CHAPTER SIX

### CONCLUSION AND RECOMMENDATIONS

#### 6.0 Overview

The previous chapter looked at the Discussion of Findings of the research study. Chapter five linked the research objectives to the literature review and the theoretical framework to provide accept or reject the research gap.

Chapter six presents conclusion of the main findings in the research study based on the three objectives which were to determine types of financial services provided by CBFO to low-income communities in Mchinji district, Malawi, to assess extent of accessing financial services by CBFOs in low-income communities of Mchinji district, Malawi and to establish the relationship between CBFO and financial inclusion in low-income communities of Mchinji district, Malawi.

#### 6.1 Conclusion

The findings of this study shed light on the significant role played by Community-Based Financial Organizations (CBFOs) in promoting financial inclusion and access to financial services at the grassroots level. Through a comprehensive analysis of specific objectives, several key insights have emerged.

Firstly, CBFOs offer a diverse range of financial services tailored to meet the specific needs of their members, including village savings and loans (VSLA), business services, and farming assistance. This flexibility and adaptability reflect their commitment to addressing multifaceted financial needs, ultimately contributing to holistic financial inclusion and access to financial services in low-income communities of Mchinji district, Malawi.

Secondly, despite efforts to enhance access to financial services, challenges such as financial illiteracy, high transaction costs, and gender bias persist. However, CBFOs have implemented strategies such as raising awareness and providing financial education to mitigate these challenges and improve access to financial services. Nevertheless, disparities in the distribution and accessibility of financial service points within communities highlight areas for improvement.

Thirdly, CBFOs play a crucial role in establishing relationships that foster financial inclusion. Through community engagement, tailored service offerings, and empowerment programs catering to diverse age groups, CBFOs bridge the gap between financial institutions and marginalized communities. However, perceptions regarding the effectiveness of CBFOs in promoting financial inclusion vary among stakeholders, necessitating continued efforts to strengthen relationships and address trust-building challenges.

Overall, while CBFOs have made significant strides in promoting financial inclusion and economic empowerment, there remain challenges and areas for improvement. Continued efforts to address these challenges, enhance community relationships, and implement targeted strategies will be crucial in further advancing financial inclusion and empowerment through CBFOs. By fostering collaboration and innovation, CBFOs can continue to serve as catalysts for positive change within low-income communities, ultimately contributing to inclusive and sustainable development.

## **6.2 Recommendations**

Based on the findings of this study, the following recommendations emerged aimed at enhancing financial inclusion efforts and strengthen the capacity of CBFOs.

1. **Policy Support:** Policy makers should prioritize the development of supportive policies framework that encourage community engagement, trust- building and feedback mechanisms within the CBFOs. This includes allocating resources for financial literacy programs, reducing transaction costs, and promoting gender sensitive approaches to financial services provision.
2. **Capacity Building:** Stakeholders, including NGOs and development agencies, should invest in capacity building initiatives aimed at enhancing the operational efficiency and sustainability of CBFOs. This may involve providing training on financial management, governance and outreach strategies tailored to the need of the CBFOs and their communities.
3. **Partnership and Collaboration:** CBFOs, local governments, financial institutions and other stakeholders should foster partnerships and collaboration to leverage resources,

expertise, and networks thereby creating greater synergy in financial inclusion activities. Collaboration initiatives can facilitate knowledge exchange, resources sharing and co-creation of innovative solutions to address financial inclusion challenges.

4. **Research and Knowledge sharing:** Encourage further research and knowledge sharing on community based financial services provision to advance understanding best practices, challenges, and opportunities. Dissemination of research findings through conference, workshops and publication can facilitate cross-learning and replication of successful models in diverse contexts.

### **6.2.1 Summary**

In summary, by adopting a holistic approach that integrates policy support, capacity building, collaboration and continuous learning, stakeholders can foster an enabling environment for CBFOs to thrive and contribute meaningfully to the goal of financial inclusion for all.

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*UC Berkeley – Technical University of Madrid. Spain; Grupo GESPLAN UPM*

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## APPENDICIES

### Appendix i: Gant chart

STEPS DESCRIPTION							
	Oct 27th	Dec 10th	Dec17th	Dec 27th	Jan 15th	Feb 20th	Feb 27th
Preparation of proposal							
Proposal Submission							
Questionnaire design and pre-testing							
Data collection							
Data analysis							
Dissertation drafting							
Thesis proofing and checking							
Submission of thesis							
Thesis presentation (TBA)							

**Appendix ii: Research Budget**

Budget Item	Unit	Cost/unit (MK)	Quantity	Total Cost (MK)
Researcher	Person/days	60,000	5	300,000
			<b>sub total</b>	<b>300,000</b>
<b>Data collection</b>				
Data collection	Person days	45,000	5	225,000
Transportation	Person days	228,557	1	228,557
Airtime/Internet bundle	Number	100,000	1	100,000
			<b>Sub total</b>	<b>553,557</b>
<b>Data analysis</b>				
Analysis software		350,000	1	350,000
			<b>Subtotal</b>	<b>350,000</b>
<b>Stationary</b>				

Reams of paper	Number	20,000	1	20,000
Pens	Box	8000	1	8,000
Hard covers	Number	14000	2	28,000
Document Wallet	Number	3,000	2	6,000
			<b>Subtotal</b>	<b>62,000</b>
<b>Transport and accommodation</b>				
Transportation presentations	2	120,000	2	480,000
Accommodation at UNZA	1	80,000	5	400,000
			<b>Subtotal</b>	<b>880,000</b>
Contingency				
<b>Total</b>				<b>MWK 2,145,557</b>

**\$ 1,262.09**

### Appendix iii: Questionnaire

I am **Ms. Phunziro Eunice Ngaiyaye** from University of Zambia, I am conducting a survey that is “*exploring the effect of community based financial organizations on financial inclusion in selected low-income communities of Mchinji district, Malawi*”. As part of my MBA research thesis at the University of Zambia I would appreciate if you can spare some few minutes to respond to these questions. Any information obtained in connection with this study will remain confidential and responses will not be shared with anyone.

Do you agree to take part in this survey: Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, please sign here \_\_\_\_\_

#### SECTION A – BIOGRAPHICAL DATA

IDENTIFICATION					
District:	T/A	Name (optional):	Date:		
Age (in years):	Sex: Female	Male	Occupation:		
Marital Status:	Married	Single	Divorced	Separated	
Education:	Primary	Secondary	Diploma	Degree	Master’s degree

#### SECTION B: TYPE OF FINANCIAL SERVICES OFFERED BY CBFO

	Questions	Responses
1	Are you a member of any CBFO in your community?	Yes No
2	Which of the following financial services are offered to your community by CBFO?  1. Village savings and loan association (VSLA) 2. Social Cash transfer program 3. Small financial cooperatives 4. Micro Finance Institutions (MFIs) 5. SACCO 6. Other... Please specify.....	
3	The financial services being provided by CBFO have improved financial inclusion of my community.	1-Very Low 2-Low 3 -Medium 4-High 5-Very High
4	The financial service provided by CBFO are tailored to address specific challenges and financial needs prevailing in my community.	1-Very Low 2-Low 3 -Medium 4-High 5-Very High
5	The CBFO undertakes initiatives to educate the residencies about the availability of financial services.	1-Very Low 2-Low 3 -Medium 4-High 5-Very High
6	The CBFO has put in place indicators or feedback	1-Success stories



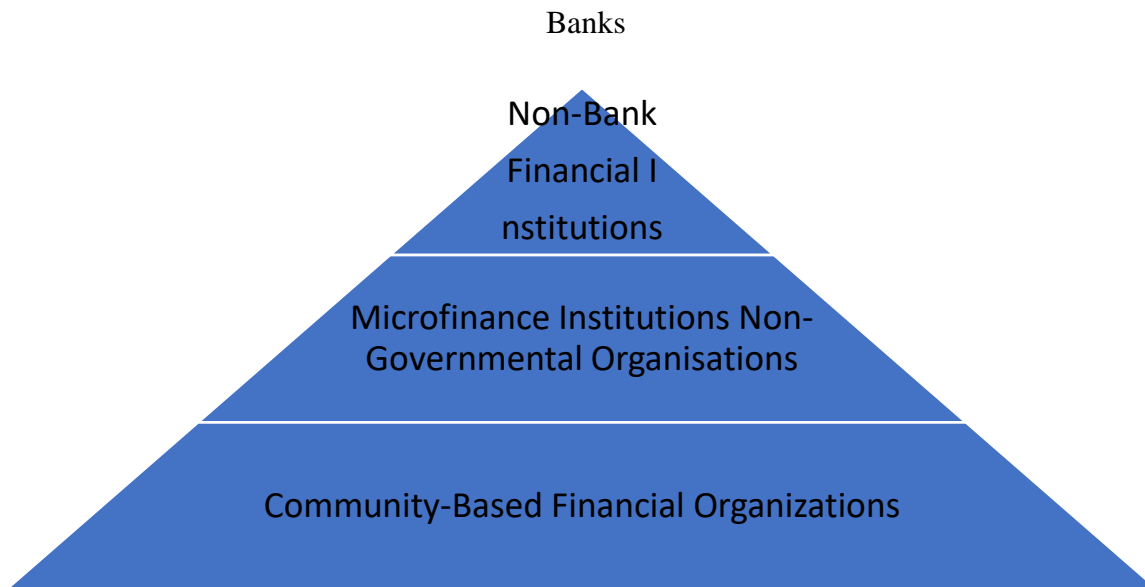
13	The CBFO employ initiatives to establish trust and credibility among community members.	<i>1-Very Low 2-Low 3 -Medium 4-High 5-Very High</i>
14	Are the financial services offered by CBFO customized to align with the cultural nuances and preferences of the local community?	<i>Yes No</i>
15	Can CBFO provide examples where if financial services have positively impacted the livelihood or individuals within the community?	<i>Yes No Give an example</i>
16	The CBFO engage in community empowerment programs beyond traditional financial services.	<i>1-Very Low 2-Low 3 -Medium 4-High 5-Very High</i>
17	The CBFO actively collaborate with local community leaders, institutions or organizations to strengthen financial inclusion.	<i>1-Very Low 2-Low 3 -Medium 4-High 5-Very High</i>
18	The CBFO have initiatives to ensure sustained engagement and continued progress in enhancing financial inclusion over time?	<ol style="list-style-type: none"> <li><i>1. Financial literacy program</i></li> <li><i>2. Continuous Monitoring</i></li> <li><i>3. Accessible and affordable financial products</i></li> <li><i>4. Digital Financial Service</i></li> <li><i>5. Other ___Please specify</i></li> </ol>

**Thank you for your participation!**

## Appendix IV - X: Models of Implementing CBFOs

### Adapted from IFAD (2014)

The term “community-based financial organization” (CBFO) covers a variety of entities that provide a range of financial products and services to a small target market in a limited geographic zone. CBFOs often operate in remote areas that lack access to the formal financial services, and often without government regulation and oversight (Hirschland, Jazayeri and Lee 2007). Most CBFOs are self-governing; they rely partially or wholly on volunteers and, therefore, they can play a powerful role in achieving other goals such as empowering women and helping isolated communities to access public services. Self-formed CBFOs are primarily savings-driven, mobilizing funds from their members. This funding contributes towards ensuring CBFOs’ sustainability, so that they will not have to rely on temporary sources of external funding.



Source: IFAD (2013)

## Appendix V: Main Characteristics of CBFOs

Characteristics	CBFO	MFI
<b>Client-based</b>	Common membership, e.g. women living in a particular village <ul style="list-style-type: none"> <li>• Eligibility determined by group members/governing committee</li> <li>• There must be a high degree of trust among the membership</li> </ul>	Varied clients <ul style="list-style-type: none"> <li>• Eligibility determined by MFI</li> </ul>
<b>Staff</b>	Volunteer members (localized and small CBFOs), low-cost/part-time (larger CBFOs)	Paid full-time staff (not necessarily clients)
<b>Management</b>	While often managed by members, larger CBFOs are often run by professional staff and management	Managed by recruited staff
<b>Governance</b>	By board – elected by members	By board – appointed/salaried and elected
<b>Regulation and oversight</b>	Not compulsory – often unregulated in the case of the more fragmented CBFOs, e.g. village loan and savings associations (VSLAs), but usually in place for entities such as credit unions	Compulsory but not always developed (e.g. post-conflict countries or countries where the sector is relatively new)
<b>Collateral for loans</b>	Includes savings, use of guarantor, social collateral of the entire local group	Often Grameen group guarantee (group of clients co-guarantee each other), property, occasionally guarantor
<b>Range of financial products</b>	Normally narrow (except credit unions, which can have a full range of financial services) <ul style="list-style-type: none"> <li>• Savings-driven (choice of products dependent on group type)</li> </ul>	Broader (depending on the the type of MFI) <ul style="list-style-type: none"> <li>• Savings normally voluntary; different products available</li> </ul>

	<ul style="list-style-type: none"> <li>• Credit (small loans, rigid loan terms)</li> <li>• Sometimes some forms of solidarity insurance</li> <li>• May be possible to link to more formal financial institutions to access other products (e.g. larger loans; insurance)</li> </ul>	<ul style="list-style-type: none"> <li>• Credit (larger loans available with longer loan-terms; more than one credit product on offer)</li> <li>• Other products offered (e.g. insurance; specialized credit products)</li> </ul>
<b>Size of outreach</b>	Small – typically, five to a few hundred members; savings and credit cooperatives (SACCOs) and credit unions can reach thousands of members)	Normally large – typically in thousands of clients)
<b>Size of geographic coverage</b>	Limited – individual groups cover a community/village, unless part of a network	Wider – large branch infrastructure and points of sale

**Appendix VI: Key features of small community-based time-bound savings groups**

<b>Rotating Savings and Credit Associations (ROSCAs)</b>	
<b>Membership</b>	ROSCAs usually have 5-20 members but sometimes as many as 30. They are typically homogenous and must have a regular income to fully participate.
<b>Regulation</b>	Unregistered, informal groups
<b>Products and services</b>	When each member has received the loan and repaid it, the group may disband or start a new cycle with the same or new members. Length of the cycle seldom exceeds one year. <b>Savings:</b> <ul style="list-style-type: none"> <li>• Compulsory (savings fund the loan, which is made available to each</li> </ul>

	<p>member in turn).</p> <ul style="list-style-type: none"> <li>• No interest is paid on savings.</li> <li>• All members contribute a multiple of the same set amount at fixed intervals.</li> <li>• Contributions are made regularly (during weekly or monthly meetings).</li> <li>• Accumulation may be conducted for the first few meetings before distributing any funds in order to establish the credit fund.</li> </ul> <p><b>Credit:</b></p> <ul style="list-style-type: none"> <li>• Fixed amount and term (equal to the total sum of members' savings) are distributed to each member in turn.</li> <li>• Each member only receives the loan once, unless they have contributed more than one multiple of savings.</li> <li>• The order of loan recipients is chosen according to either consensus on member need by drawing lots or through a bidding process.</li> <li>• No interest is paid on loans.</li> </ul>
<b>Management</b>	Autonomous. Easier for non-literate people to manage since non-accumulating.
<b>Geographic coverage</b>	Africa (especially West Africa), Asia, Latin America and the Caribbean.
<b>Village Savings and Loans Associations (VSLAs)</b>	
<b>Membership</b>	VSLAs usually have 5-20 members but may have as many as 30. Homogenous members typically must have regular income to fully participate.
<b>Regulation</b>	Unregistered, informal groups
<b>Products and services</b>	The length of the cycle of a VSLA is typically one year, by which time all loans must be repaid and all savings redistributed together with their share of interest. This distribution is sometimes called action audit. After this redistribution, existing members can then leave or new members can join the group. The group then starts afresh. (Please note that this description is of the traditional VSLA model; VSLAs are increasingly being

	<p>encouraged not to disband.)</p> <p><b>Saving:</b></p> <ul style="list-style-type: none"> <li>• Savings are compulsory; they are pooled and on-lent to group members.</li> <li>• Deposits are weekly, biweekly or monthly, with all members saving multiples of the same amount.</li> <li>• VSLAs distribute all savings together with the share of interest back to members at the end of the cycle. The interest is usually distributed in proportion to the amount saved.</li> </ul> <p><b>Credit:</b></p> <ul style="list-style-type: none"> <li>• Loan repayments are collected and loans disbursed at regular weekly, biweekly or monthly meetings.</li> <li>• Interest is paid on loans. The loan terms are typically short (1–3 months) and the interest, which is decided by the members, can be very high.</li> <li>• All loans must be repaid by the end of the cycle.</li> </ul>
<b>Management</b>	Autonomous. Easier for non-literate people to manage since non-accumulating, even though some level of regular external support is often necessary.
<b>Other</b>	Self-contained at the village level – no linkages with banks and no formation into federations with VSLAs from other villages as with other CBFO models.
<b>Geographic coverage</b>	Africa, Haiti, India
<b>Village Banks</b>	Village banks are very similar to VSLAs except that they aim to continue operating instead of disbanding at the end of a cycle. In some cases, the sponsoring NGOs will lend them funds.

## Appendix VII: Key features of small community-based accumulating savings groups

<b>Accumulating Savings and Credit Associations (ASCAs)</b>	
<b>Membership</b>	ASCAs can have around 12 members. May be bigger and more heterogeneous than rotating savings and credit association (ROSCAs) and village loan and savings associations (VSLAs).
<b>Regulation</b>	Normally not legally registered or supervised
<b>Products and services</b>	<p>No set life-span or automatic distribution mechanism. Formed to accumulate savings and to lend member contributions over time. This means that ASCAs can accumulate more capital for lending and, therefore, loans may be larger and have longer loan terms than ROSCAs and VSLAs. Given this mode of operating, there may also be a need for a safe since ASCAs have no automatic distribution mechanism as is the case with time-bound savings groups.</p> <p><b>Savings:</b></p> <ul style="list-style-type: none"> <li>• Members can contribute different and irregular amounts.</li> <li>• In some ASCAs, savings can be withdrawn.</li> <li>• Interest is allocated to members according to the size of their contributions (normally a good rate of interest relative to the market rate).</li> <li>• Members can choose just to save, and not take any loans.</li> </ul> <p><b>Credit:</b></p> <ul style="list-style-type: none"> <li>• Loans are allocated by following a decision-making process rather than automatically; the group decides when and if to distribute funds.</li> <li>• Loans are not compulsory.</li> <li>• Members can choose to take more than one loan.</li> <li>• Loans can be larger and have a longer maturity than ROSCAs – depending on members’ cash flow.</li> <li>• Interest is charged on loans.</li> </ul>
<b>Management</b>	ASCA operations are complex and rules may be documented. As savings, loans, profit reinvestment and the payment of interest vary by member,

	they are more difficult for nonliterate people to manage.
<b>Self-Help Groups (SHGs)</b>	
<b>Membership</b>	10 to 30 individuals (mainly women) from similar socio-economic backgrounds
<b>Regulation</b>	Regulated by the national financial institution
<b>Products and services</b>	<p><b>Savings:</b></p> <ul style="list-style-type: none"> <li>• Members regularly contribute fixed amounts over time that are lent to other members.</li> <li>• Link with formal financial institutions and utilize their deposit facilities for the group's pooled savings.</li> <li>• Interest is earned on savings.</li> </ul> <p><b>Credit:</b></p> <ul style="list-style-type: none"> <li>• They typically charge rates of interest that are lower than in the informal market.</li> <li>• Linkages with more formal financial institutions allow access to larger and longerterm loans for on-lending to members.</li> </ul> <p><b>Other financial products and services:</b></p> <ul style="list-style-type: none"> <li>• Members may have the opportunity to access diverse products and services through linkages with formal FSPs.</li> </ul>
<b>Management</b>	Although they have autonomous management, they are upgraded and trained by an individual or an institution, such as an NGO, in the required management skills. It is common practice for members to change their leaders annually in order to enhance capacity-building and empowerment.
<b>Other</b>	These groups have social aims beyond providing financial services, such as reducing poverty, building awareness, increasing literacy, catalysing political participation or family planning. Often promoted and part-funded by the government.
<b>Geographic coverage</b>	Prevalent in India where NGOs, banks, government entities and individuals have promoted over 1.6 million SHGs with over 30 million members. Also present in other parts of Asia and in Latin America.

## Appendix VIII: Key features of large community-based cooperative groups

<b>Caisses Villageoises d'Épargne et de Crédit Autogérées (CVECAs, Self-Managed Village Savings and Credit Bank)</b>	
<b>Membership</b>	Members pay a fee to join, rather than having to buy shares.
<b>Regulation</b>	Included in microfinance regulation laws in some countries (e.g. Mali)
<b>Products and services</b>	<p>Instead of paying dividends to members, the annual surplus is reinvested in the CVECA or the village.</p> <p><b>Savings:</b> Savings are voluntary.</p> <p><b>Credit:</b> Loan size is not linked to savings.</p>
<b>Management</b>	<p>The management committee is composed of representatives of each neighbourhood in a village. It is responsible for many management functions, some of which are assumed by part-time staff.</p> <p>In contrast with a typical cooperative, the CVECA management committee reports to a general assembly of all villagers rather than just to its members.</p>
<b>Geographic coverage</b>	West Africa
<b>Savings and Credit Cooperatives (SACCOs)</b>	
<b>Membership</b>	<p>Each member purchases one or more shares and has one vote.</p> <p>Rural SACCOs are likely to have between 50 and a few hundred members, although in the case of national cooperatives, they can have significantly more members when aggregated under a national apex organization.</p> <p>Rural SACCOs focus on a village or even a segment of the village population such as women. Members often meet regularly.</p>
<b>Regulation</b>	They may be registered under the cooperatives or credit union laws, sometimes as a non-bank financial institution (NBFI) of the country, depending on the law and on the size and sophistication of the SACCO, or, alternatively, they could be supervised by a regional or national cooperative council.
<b>Products and services</b>	<p><b>Savings:</b></p> <p>There are both compulsory and voluntary savings.</p> <ul style="list-style-type: none"> <li>• There are set rules for savings withdrawals, although members may be able to withdraw funds at short notice.</li> </ul>

	<ul style="list-style-type: none"> <li>• Interest can be received on deposits and a dividend is usually paid out of the SACCO surplus.</li> </ul> <p><b>Credit:</b></p> <ul style="list-style-type: none"> <li>• Interest is charged on members' loans – if this generates a surplus for the SACCO, part of this surplus can then be returned to savers either as a dividend or as interest on deposits, while the remaining surplus may be reinvested back into the SACCO.</li> <li>• Loans are typically individual loans as opposed to group loans. This can suit members with larger financing requirements.</li> </ul>
<b>Management</b>	There is at least one paid part-time manager and an elected management committee, and support is provided by an elected credit committee and a supervisory committee.
<b>Geographic coverage</b>	Significant presence in Eastern Europe, Asia, Africa, Latin America and the Caribbean
<b>Credit Unions (CUs)</b>	
<b>Membership</b>	Rural credit unions are likely to have between 50 and a few hundred members, although in the case of a national credit unions movement (often including urban credit unions), the aggregate membership can range up to hundreds of thousands of members. Membership is based on a common bond, shared by savers and borrowers, such as belonging to the same community or place of employment. Each member purchases one share and has one vote in board elections, regardless of their amount of savings or shares in the credit union.
<b>Regulation</b>	Ideally, they are regulated by the central bank or a registrar of credit unions or cooperatives and supervised by regional or national cooperative councils.
<b>Products and services</b>	<p><b>Savings:</b></p> <ul style="list-style-type: none"> <li>• Savings are voluntary and compulsory.</li> <li>• There are good rates of interest paid on savings (although this can depend on whether the credit union has generated a surplus so that it can afford to pay interest).</li> <li>• Members' savings and shares finance their own loan (sometimes supplemented by external funds, but credit unions aim to retain a high ratio of internally generated funds to the loan portfolio).</li> </ul> <p><b>Credit:</b></p> <ul style="list-style-type: none"> <li>• Usually, interest rates charged on loans are lower than the average rates in the</li> </ul>

	<p>market.</p> <p><b>Other financial products/services:</b></p> <ul style="list-style-type: none"> <li>• There is full range of financial services, including remittances and insurance, depending on size and development stage of the credit union movement.</li> <li>• In the early stages, loan amounts and terms can be limited.</li> </ul>
<b>Management</b>	Usually one part-time manager. Management reports to the board of directors. The board of directors is elected and formed by the membership. Importantly, the internal audit function is elected independently, is usually called a “supervisory committee” and is part of the governance structure.
<b>Geographic coverage</b>	Most prevalent in Asia, Africa, Latin America and the Caribbean

**Appendix IX: Key features of financial services associations**

<b>Financial Services Associations (FSAs)</b>	
<b>Membership</b>	Members must buy shares; the price of shares depends on the FSA’s financial performance. Voting rights are proportional to the number of shares owned, with a maximum of 10 votes allowed per member
<b>Regulation</b>	Regulation is included in microfinance regulation laws in some countries (e.g. Kenya and Benin), although, in reality, it is difficult to monitor and supervise un-networked, scattered institutions.
<b>Products and services</b>	<p><b>Savings:</b></p> <ul style="list-style-type: none"> <li>• Savings services are traditionally limited and people mainly make deposits for safe keeping.</li> <li>• Interest is not paid on deposits but a dividend is declared from the profits earned and is added to the book value of the shares.</li> <li>• The ability to withdraw funds from the FSA can be circumscribed because of this feature, with withdrawals being based on the book value of the share.</li> </ul> <p><b>Credit:</b></p> <ul style="list-style-type: none"> <li>• Funds from members’ shares and deposits are used to fund short-term loans to other members (often under six month term with weekly repayment).</li> <li>• High interest is paid on loans if the FSA is controlled more by shareholders</li> </ul>

	<p>than borrowers. A borrower-dominated FSA usually pushes for average interest rates, although, in reality, a balanced mix is best.</p> <p><b>Other financial products and services:</b></p> <ul style="list-style-type: none"> <li>• The strategy for FSAs is to establish a relationship with commercial banks, to broaden their range of services and access incremental capital.</li> </ul>
<b>Management</b>	<p>FSAs are managed by an elected board and by committees supported by professional staff in some cases.</p> <p>They receive initial capacity-building support from entities such as NGOs.</p>
<b>Geographic coverage</b>	Worldwide and found in remote rural areas in South, West and East Africa.

**Appendix X: KPIs applicable to CBFOs**

<b>Indicator</b>	<b>Definition/calculation</b>	<b>What it measures</b>
<b>Outreach: To indicate the size, which can also have sustainability implications, and if the target group is being reached</b>		
<b>Outreach: <i>Breadth</i></b>		
Average number of members per group	Total number of members /total number of groups	
Women members (%)	Registered women/total number of members	Whether the institution is reaching enough women
<b>Outreach: <i>Depth (client poverty level)</i></b>		
Average savings per member mobilized to date	Value of savings outstanding/number of active members	Level of confidence in CBFO
Average outstanding loan size	Value of loans outstanding/number of loans outstanding	Indicates changing debt capacity of members
Total value of gross loan portfolio	Total outstanding principal of all outstanding loans (includes all loans current and non- current; excludes non-microfinance loans, interest receivable	Shows the total value of loans made by the CBFO at a certain time, which can be compared with the total estimated time

	and loans that have been written off)	demand for microcredit in the market
<b>Performance</b>		
<b>Risk: <i>Repayment</i></b>		
Portfolio at risk (PAR) > 30 days	<p>Outstanding balance of all loans with a payment later than 30 days/gross loan portfolio × 100</p> <p>Value of outstanding loans that have an instalment past due by more 30 days, as a percentage of the value of the entire portfolio of all outstanding loans</p> <p>Include the outstanding value of all renegotiated loans, including rescheduled and refinanced loans, because they have higher than normal risk, especially if a payment is missed after renegotiation</p>	<p>PAR is the best way of depicting the risk of a CBFO's loan portfolio</p> <p>The lower the percentage, the healthier, less risky the loan portfolio and the safer the members' savings</p> <p>Any CBFO that is capable of collecting the "Outreach: Depth" indicators as per above should be able to report on PAR</p> <p>Note: For groups linked with formal financial institutions, PAR might show a better result for timely repayment of the loan to the formal financial institution but at the same time a poor result for timely repayment of internal CBFO funds from members to the CBFO (Ritchie 2007)</p>
Optionally: Loans at risk (LAR) > 30 days	(Number of all loans with a payment over 30 days late/ total number of outstanding loans) × 100	<p>The lower the percentage, the healthier, less risky the loan portfolio</p> <p>While PAR is the best indicator for understanding portfolio risk, some small or fledgling CBFOs</p>

		<p>– particularly small community-based time-bound savings groups and small community-based accumulating savings groups – do not have loan tracking systems that are sophisticated enough to calculate PAR but they should be able to calculate LAR, a simpler indicator that counts the number of loans instead of their amounts</p> <p>If the repayment rate is roughly the same for large loans and small loans, LAR will not be much different than PAR.</p>
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<b>Sustainability</b>		
Operational self-sufficiency (only for CBFOs that are not time-bound and are accumulating)	Financial revenue from the income statement divided by financial expense + loan loss provision expense + operating expense from the income statement	<p>Overall performance and sustainability</p> <p>How well a CBFO covers its costs with its operating revenue and how reliant it is on donor funds</p> <p>The smaller the loans the CBFO makes and the higher their relative cost (i.e. more rural outreach), the lower this ratio</p>