

**ASSESSING BARRIERS LIMITING ACCESS TO FORMAL BANKING SERVICES
AMONG VILLAGE SAVINGS LOAN MEMBERS UNDER VISION FUND MALAWI
IN PHALOMBE DISTRICT**

MASTER OF BUSINESS ADMINISTRATION THESIS

JOEL WAMUCHISALALA NKHONYA

**UNIVERSITY OF MALAWI
THE POLYTECHNIC**

JANUARY, 2020



**ASSESSING BARRIERS LIMITING ACCESS TO FORMAL BANKING SERVICES
AMONG VILLAGE SAVINGS LOAN MEMBERS UNDER VISION FUND MALAWI
IN PHALOMBE DISTRICT**

MASTER OF BUSINESS ADMINISTRATION THESIS

By

**JOEL WAMUCHISALALA NKHONYA
B.Ed. (Humanities)-UNIVERSITY OF MALAWI**

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

**University of Malawi
The Polytechnic**

JANUARY 2020

DECLARATION

I, the undersigned hereby declare that this thesis is my own original work, which has not been submitted to any other institution for similar purposes. Where other peoples' work has been used, they have been duly acknowledged.

Joel Wamuchisalala Nkhonya.....

Signature

.....

Date

CERTIFICATE OF APPROVAL.

We the undersigned certify that we have read and hereby recommend for acceptance by the University of Malawi, a thesis entitled: *Assessing barriers limiting access to formal banking services among village savings loan members under Vision Fund Malawi in Phalombe district.*

Dean- Postgraduate : Dr. Peter Mhagama

Signature : _____

Date : _____

Main Supervisor : _____

Signature : _____

Date : _____

Co-supervisor : _____

Signature : _____

Date : _____

Head of Department : _____

Signature : _____

Date : _____

DEDICATION

To my late father Mr. Lewis Nkhonya who always encouraged and supported me in my education from primary through university. The humble life he lived and the hardworking spirit which he instilled in me have helped me to fight on in life to achieve excellence.

ACKNOWLEDGEMENTS

My pursuance of this Master of Business Administration (Executive MBA) would not have been successful without the support of my lecturers at The Malawi Polytechnic. They saw me excel through the 14 compulsory and 4 Elective modules. These include: Prof. J. Khomba, Dr.J.Buliani, Dr. E. J. Sankhulani, Dr. T. Taulo, Dr. V.Chikasanda, Dr. C. Bakuwa, Mr. S. Chimtengo, Mr.F.G. Chirwa, Mr. J. Kaphale, Mr. A. Mwanyungwe, Mr. Dambuleni and Mr. C. Mwatsika

Special regards to my Thesis supervisors Mr. Archie Mwenefumbo (Main Supervisor) and Prof. James Khomba (Co-Supervisor) for their constructive comments and advice during proposal development, data collection and analysis up to the actual writing of this thesis. I salute Mr. Evans Lwara for editing the Thesis and the valuable input he gave.

Special thanks to the following: Mr. Joel Mkumbwa, Mr. J.L. Chikaonda, Mr. C. Namagowa, Mr. W. Chikazinga Nyirenda, Mr. George Chirwa and Mr. Symon Msukwa for various academic support each one of them rendered to me as I wrote this Thesis. The encouragement I got from you when the going got tough reinvigorated my zeal to carry on. I also extend my heartfelt gratitude to Thandie and Jeremiah Nyirenda for offering me standard accommodation during my course work in Blantyre. “The ultimate measure of a man is not where he stands in moments of comfort and convenience, but where he stands at times of challenge and controversy” Martin Luther King Jr.

Sincerely thanks to my wife Mirriam Munthali for sacrificing most of her nights to help me with data entry. To all you people, I say it is your unconditional support that has made me achieve this far.

MAY GOD THE ALMIGHTY BLESS EACH ONE OF YOU PLENTIFULLY

ABSTRACT

The Malawi financial sector is characterized by few commercial banks regulated by the Reserve Bank of Malawi. Formal banking services in Malawi usually target the high income earning population mostly residing in urban areas, leaving out the majority of the population with low income based in rural areas. The main objective of the study was to analyze the degree to which demand and supply barriers limit access to formal banking services among Village Savings Loan (VSL) members in Phalombe district. The demand barriers analyzed were irregular income and literacy level, while the supply barriers included distance to the bank and lack of identification documents. Stratified sampling method was used to draw a proportionate sample of 148 VSL members comprising 70% and 30% of female and male respondents respectively from a population of 239 VSL members supported by Vision Fund Malawi. Stratified sampling was ideal because the population had more female VSL members than males because Vision Fund Malawi uses the 70:30 principle in forming VSL groups. A semi-structured questionnaire was administered to 148 respondents to gather data on access to formal banking services. The data collected was analyzed in SPSS 23.0. Descriptive and inferential statistics were used to analyze different variables in the study. The key results indicated that access to formal banking services measured on whether a VSL member held a bank account with a commercial bank or had ever accessed a loan from a formal bank, revealed that only 16.2% of VSL respondents had bank accounts with different commercial banks. None of the respondents had accessed a loan from commercial banks, while 93.9% had accessed loans from the different VSL groups they belonged. Furthermore, the results showed that irregular income was the major barrier limiting 58.1% of VSL members from accessing formal banking services in Phalombe district essentially credit facilities, savings and remittances, whereas long distances to the bank accounted for 23.6%. Literacy level and lack of identification documents accounted for 16.9% and 1.4% respectively as barriers limiting access to formal banking services. The study found a slightly positive correlation between holding personal bank account and distance travelled to nearest bank branch among VSL members with “Pearson’s R” correlation of 0.111. Finally, the study results found a weak positive correlation between gender of VSL members and holding of VSL group bank accounts with “Pearson’s R” correlation of 0.106.

TABLE OF CONTENTS	
DECLARATION	ii
CERTIFICATE OF APPROVAL	iii
DEDICATION	iv
ACKNOWLEDGEMENTS	v
ABSTRACT	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	xi
LIST OF FIGURES	xii
LIST OF ACRONYMS AND ABBREVIATIONS	xiii
APPENDICES	xiv
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background	1
1.1.2 Village Savings Loan members under Vision Fund Malawi in Phalombe	4
1.2 Problem Statement	6
1.3 Research Objectives	7
1.3.1 Main Objective	7
1.3.2 Specific Objectives	7
1.3.3 Research Questions	7
1.4 Significance of the study	8
1.6 Chapter Summary	8
CHAPTER TWO	9
LITERATURE REVIEW	9
2.1 Introduction	9

2.2	The Concept of Village Savings and Loan Association (VSLA)	9
2.3	Theories and Models of Financial Access	10
2.3.1	Theories of Banking	10
2.3.2	Micro Finance Model	13
2.3.3	The Village Savings Loan Model	15
2.4	Access to Formal Financial Services	16
2.4.1	Determinants of Financial Services Access	19
2.4.2	Access to Formal Financial Services in Developing Countries	22
2.4.3	Programmes linking the poor towards Formal Financial Services	26
2.5	Measurement of Financial Access	28
2.6	Conceptual framework	28
2.7	Chapter Summary	31
	CHAPTER THREE	32
	RESEARCH METHODOLOGY	32
3.1	Introduction	32
3.2	Study design	32
3.2.1	Research Strategy	32
3.3	Sample Size and Sampling Methods	33
3.4.1	Questionnaire	35
3.4.2	Validity and Reliability	36
3.4.2	Data Analysis and Presentation	37
3.5	Limitations of Study	38
3.6	Ethical consideration	38
3.7	Chapter Summary	39
	CHAPTER FOUR	40

RESULTS AND DISCUSSION	40
4.1 Introduction	40
4.2 Discussion of Findings	40
4.2.1 Demographic Characteristics of Respondents	40
4.3 Demand side barriers to access formal banking services	45
4.3.1 Irregular income	45
4.3.2 Literacy level	52
4.4 Supply side barriers to access formal banking services	60
4.4.1 Distance to the bank	60
4.4.2 Lack of necessary identification documents	64
4.5 Ranking of Formal Banks’ Access Barriers	67
4.6 Chapter Summary	69
CHAPTER FIVE	70
CONCLUSION AND RECOMMENDATIONS	70
5.1 Introduction	70
5.2 Study Conclusions	70
5.2.1 What proportion of VSL members in Phalombe district under Vision Fund Malawi are unable to access formal banking services?	70
5.2.2 To what extent do demand and supply barriers limit VSL members supported by Vision Fund Malawi in Phalombe district from accessing formal banking services?	71
5.2.3 What financial interventions should be pursued to mitigate barriers that hinder VSL members under Vision Fund Malawi from accessing formal banking services	72
5.3 Recommendations	73
5.4 Areas for further research	74
5.4.1 Harmonization of informal and formal financial sectors	74

5.4.2	The role of Microfinance institutions in poverty reduction.....	74
5.4.3	Effectiveness of mobile money and banking on wheels in achieving financial inclusion.....	74
	REFERENCES	76
	APPENDIX 1: SEMI-STRUCTURED QUESTIONNAIRE FOR VSL MEMBERS	82
	APPENDIX 2: INTRODUCTORY LETTER FROM THEPOLYTECHNIC	88
	APPENDIX 3: LETTER TO VISION FUND MALAWI OFFICE.....	89
	APPENDIX 4: LETTER TO THE DISTRICT COMMISSIONER PHALOMBE	90

LIST OF TABLES

Table 1: Distribution of Respondents Age, Gender and Education level.....	41
Table 2: VSL groups supported by Vision Fund Malawi or Self-supported	44
Table 3: VSL members operating SMEs as individuals	45
Table 4: Types of Small and Medium Enterprises (SMEs) operated by VSL groups.....	46
Table 5: Frequency at which VSL group members earned income.....	47
Table 6: Percentage of VSL members who accessed loans from VSL groups.....	49
Table 7: Correlation between Annual turnover and holding personal a bank account.....	49
Table 8: Cross tabulation of VSL members' level of education and bank account holding status.....	53
Table 9: VSL group bank accounts held at commercial banks.....	54
Table 10: Correlation: VSL members' level of education and bank account holding status...	54
Table 11: Gender of VSL member vs group bank account holding at commercial banks.....	55
Table 12: Correlation: Gender of VSL member vs bank account holding with banks.....	56
Table 13: Association: Gender of respondent vs bank account holding with commercial banks.....	57
Table 14: VSL members who transacted with Mpamba or Airtel money platforms.....	58
Table 15: VSL members who regarded mobile money platforms as complete substitutes for opening a bank account.....	59
Table 16: VLS members' awareness on existence of Mobile Van Banking services.....	59
Table 17: Respondent' Perceptions on who is eligible to transact with Commercial Banks.....	60
Table 18: Distance to the nearest bank branch as a barrier to access formal banking services..	61
Table 19: Access to formal banking services among VSL members in Phalombe	61
Table 20: Correlation: Holding personal bank account vs distance to nearest bank branch...	62
Table 21: Distribution of VSL members on willingness to transact with commercial banks if distances were reduced.....	63
Table 22: Summary of the various types of IDs that VSL members used to open bank accounts.....	65
Table 23: VSL members sent back from a bank due to lack of authentic IDs.....	66
Table 24: Distribution of VSL members who would transact with formal banks if IDs were not a requirement.....	67

LIST OF FIGURES

Figure 1: Conceptual Framework: Demand and Supply Barriers to access Banking Services.....	29
Figure 2: Village Savings Loan (VSL) membership distribution.....	43
Figure 3: Categorization of SMEs by annual turnover in (MWK) among VSL members.....	48
Figure 4: Different sources of credit available for VSL members other than their VSLgroups.....	50
Figure 5: Various sources of money used to buy shares when VSL members gather for meetings.....	51
Figure 6: Demand and supply barriers limiting access to formal banking services	68

LIST OF ACRONYMS AND ABBREVIATIONS

ATM	Auto Teller Machine
CARE	Cooperative for Assistance and Relief Everywhere
CGAP	Consultative Group to Assist the Poor
IDC	Innovative Delivery Channels
KYC	Know Your Customer
MFI	Microfinance Institutions
MSCE	Malawi School Certificate of Education
MWK	Malawi Kwacha (Currency)
NSO-MIHS	National Statistical Office-Malawi Integrated Household Survey
PIN	Personal Identification Number
PSEP	Phalombe Social Economic Profile
ROSCA	Rotating Savings Credit Associations
SACCO	Savings Credit Cooperation
SHG	Self Help Groups
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Science
T/A	Traditional Authority
VFM	Vision Fund Malawi
VSL	Village Savings and Loan
VSLA	Village Savings and Loan Association

APPENDICES

APPENDIX 1:	Semi-Structured Questionnaire for VSL Members.....	82
APPENDIX 2:	Introductory Letter from The Polytechnic.....	88
APPENDIX 3:	Letter to Vision Fund Malawi Office.....	89
APPENDIX 4:	Letter to the District Commissioner Phalombe.....	90

CHAPTER ONE

INTRODUCTION

1.1 Background

Financial inclusion is central to economic empowerment in rural communities. According to Oji (2015), it forms the foundation for the sustainable economic development of the less privileged in society. By engaging in economic activities where goods and services are traded for cash, less privileged people particularly those organized in Village Savings Loans Associations (VSLA) and cooperatives become part of economic clusters. While most people in the developed world take access to formal banking services such as holding a bank account and access to credit for granted, price and non-price barriers prevent large parts of the population in developing countries from accessing such services (Beck, 2009). Access to formal banking services essentially savings, credit, insurance and payments by less privileged people enables them to engage in viable small and medium enterprise (SMEs) as one way of improving their socioeconomic status.

In developing countries, the significance of SMEs cannot be overemphasized. Allan (2013) points out that these SMEs account for over 45 percent of all employment in the developing world. The growth of SMEs is therefore vital to create jobs and increase prosperity among the disadvantaged. However, the growth and expansion of SMEs in developing countries including Malawi face a number of challenges such as lack of capital. Low and erratic income generated by SMEs makes it difficult for commercial banks, which account for 60% of financial industry in Malawi to disburse business loans to SME owners because they lack fixed assets to pledge as collateral in case of default (Naik, 2013).

Allen (2014) states that lack of capital and financial exclusion for the poor has led to the development of resourceful indigenous community-based solutions including mushrooming of village savings loan (VSL) groups in many rural parts of Malawi. Linde and Spencer (2015) contend that the basic idea of the VSL approach is to reach out to the unbanked rural poor and develop their capacity to access savings, loans and insurance services. On average, a VSL group

consists of 15-20 self-selected individuals who save together and take loans from their accumulated savings (Linde & Spencer, 2015). The VSL model builds a saving culture in VSL members prior to start borrowing the money from the common fund. By saving small amounts as little as MWK15, 000 a month, VSL members gradually build financial reserves from which members begin to access loans, which they use as investment capital in their SMEs (Allen, 2014).

In a study conducted in Zambia, Uganda, Tanzania, Egypt, Ghana, Kenya and India, Svarer (2011), discovered that very poor people do have the capacity to save and are highly creditworthy, with loan repayment rates particularly in VSL groups ranging from 98-100 percent.

Svarer (2011) concluded that financial inclusion for poor people in developing countries is paramount because the poor are actively involved in SMEs, which in turn contributes to over 45 percent of all employment in such countries. Failure by commercial banks to appreciate the creditworthiness of people based in rural areas, primarily VSL members and those organized under cooperatives, has led to banks concentrating in towns and cities targeting the well-off population (Sabola, 2017).

Therefore, there is need for the poor to be financially included in the economic fabric of the society for them to be economically empowered. Chakrabarty (2015) defines financial inclusion as a process of providing access to formal financial services for the most vulnerable groups such as people from low income and weaker sections in the society at a very low affordable cost in a proper and transparent way by recognized financial institutions including commercial banks.

Financial inclusion for the poor is specifically described by the Consultative Group to Assist the Poor (CGAP) (2015), as a state in which all working age adults and those engaged in income generating activities have effective access to credit, savings, payments, remittances and insurance from formal service providers. Besides, for financial services to be effectively accessed, they have to be convenient.

However, there are multiple demand and supply barriers that limit poor people including VSL members from becoming financially included. Akers (2011) states that while obstacles and reasons for financial exclusion of the poor rural vary between countries and regions, a number of common barriers emerge that generally represent a mix between supply-driven and demand-driven barriers. Demand barriers with regard to accessing formal banking services derive from the customer, whereas the supply barriers emanate from financial institutions providing the services. There are numerous demand and supply barrier factors limiting access to formal banking services among VSL members across Africa, but this study assessed the most significant barrier factors that are noteworthy to Malawi as identified by Bhuvana (2016) and Shankar (2013).

Bvuvana (2016) specifically identified four major barriers to financial inclusion emerging from the demand-driven and supply-driven barrier factors that limit poor people from developing countries including Malawi to access formal banking services.

The demand side barriers to financial inclusion are intrinsic factors that limit prospective customers from demanding formal banking services from financial institutions. These comprise:

- i. *Irregular income*: Very low income and inconsistent cash flow among poor people are considered as a demand driven factor of financial inclusion. Poor people from the most vulnerable groups in the society not only have low income to open and maintain a viable bank account, but also get an irregular income and various uncertainties in cash flows.
- ii. *Literacy level*: Financial isolation of the rural people is often a result of low literacy in understanding financial products and services offered by formal financial institutions, which in turn makes them to distance themselves from formal financial institutions.

The supply barriers to financial inclusion are barriers originating from service providers that need to be mitigated in order to enable prospective customers access formal banking services.

These consist of:

- iii. *Distance to the bank*: Distance to reach the bank branch for the rural people is a common barrier of the supply driven factors. Banks are highly concentrated in towns and cities making it difficult to reach out to rural people with their services. Archana (2013) states that a reasonable distance from the bank branch should be 3 to 4 kilometers. This is in sharp contrast with Malawi, where distances from the bank branch for most rural people range from 10 to 100 kilometers (Sabola, 2017). The long distances to access formal

banking services are costly to prospective customers, hence they fail to access banking services.

- iv. *Lack of authentic identification documents:* Inability to provide authentic identification such as identity proof required by formal financial institutions is another frequently faced barrier to accessing formal banking services by people from rural areas. Commercial banks are required by financial regulators to conduct sufficient identity checks technically known as “Know Your Customer: (KYC)” in the financial industry before opening bank accounts for customers. Prior to 2018, Malawians did not have National Identity Cards (NIC), which rendered the majority of the population without any form of authentic identification.

However, Pai (2010), has documented minor barriers that limit access to formal banking services

which include; religious reasons, lack of trust, expensive accounts, place of living, unfriendly interface with bank staff, perceived risk, high charges and inappropriate bank products that do not match the needs of customers.

1.1.2 Village Savings Loan members under Vision Fund Malawi in Phalombe.

Phalombe district is located in southern part of Malawi and has one commercial bank, the FDH bank according to Phalombe Social Economic Profile (PSEP)(2016).The FDH bank serves 100,985 bankable adults aged between 18-49 years from the district population of 231,990 people (NSO, 2010). To enhance financial inclusion through regular income, Vision Fund Malawi (VFM) offers VSL members in Phalombe district both business and agricultural loans to economically empower them to engage in various viable SMEs (Phalombe Social Economic Profile (PSEP), (2016)).

The study done by Karlan and Savonitto (2011), revealed that most VSL members either collectively or individually are not involved in successful SMEs, which could earn them sustainable income to meet their basic needs and bank the surplus money with a formal bank. The study further uncovered that VSL members in Malawi remained unbanked at individual level, despite having group bank accounts that are imposed on them by microfinance institutions as a requirement for group lending under the VSL model (Karlan & Savonitto, 2011).

Among other reasons why VSL members remain unbanked, Karlan and Savonitto (2011), cited; high illiteracy levels among people from rural areas, distance to the bank branch, irregular income, lack of identification documents and inappropriate bank products as common barriers limiting people from rural areas to access formal banking services. This concurs with NSO (2010), survey which documented that only 21% of adult population in Malawi had bank accounts mostly urban dwellers. This explains why VSL members in rural parts of Malawi are unbanked.

Vision Fund Malawi in Phalombe district targets 70% women and 30% men in disbursing business and agricultural loans to VSL members. More women are targeted because they are viewed as being more financially excluded than men due to an array of social and economic disadvantaging factors (Allan, 2013). In most developing countries, more than two-thirds of the adult population has no access to formal financial services, and in sub-Saharan Africa, financial exclusion is as high as 76 percent (Klapper, 2012).

It should be noted that financial exclusion is typically highest amongst women, youth and the very poorest segments of society (Cull, 2013). A number of studies have been conducted to provide explanation on why women are more financially excluded than men. Suran (2009) for example, asserts that women globally are more financially excluded than men, and the discrepancies in income earning is wider in developing countries where women earnings are even lower. Chakrabarty (2015) observes that property titles may be in a man's name, even if property is jointly owned. Women's mobility is restricted either because of cultural norms or household responsibilities or both. Women are less literate than men, they are victims of gender based violence, which affects their ability to repay loans (Chakrabarty, 2015).

Kadale Consultants (2009) final report, "Supply Side of Financial Inclusion in Malawi" pointed out that most VSL members remained unbanked because commercial banks view them as not creditworthy due to their low income. However, Ksoll, Lilleor and Lonborg (2013), contend that although rural areas remain comparatively poor, they nonetheless constitute the majority of the population and should therefore, be sufficiently explored by financial service providers.

In this study Phalombe is one of the districts in southern Malawi deprived of formal banking services which would boost the economic activities of VSL members supported by Vision Fund Malawi. The population of the district is served by one commercial bank; the FDH Bank, which is not accessed easily by those from the remotest parts of Phalombe district. The main objective of Vision Fund Malawi in Phalombe district since it started its operations in 2010 as a microfinance institution is to economically empower VSL members with initial loans, financial literacy and micro business operations skills.

The majority VSL members in Phalombe district have tried to seek formal banking services from commercial banks upon being empowered with initial loans, financial literacy and micro business skills, but have not succeeded due to a number of demand and supply barriers. The demand and supply barriers to access formal banking services have constrained VSL members to achieve economic independence, to fully graduate from VSL model and seek formal banking services on their own without relying on Vision Fund Malawi.

1.2 Problem Statement

Vision Fund Malawi (VFM) a microfinance institution has disbursed small agricultural and business loans to Village Savings Loan (VSL) members in Phalombe district since 2010 as one way of empowering them economically. The small loans offered by VFM are only initial capital to stimulate VSL members to set up Small and Medium Enterprises (SMEs) so that upon attaining economic empowerment, they can in turn seek formal banking services on their own from commercial banks. Despite VSL members generating substantial income from their SMEs, most of them remain formally unbanked due to a number of demand and supply barriers. The demand and supply barriers restrain VSL members to access formal banking services with varying degrees when ranked from the most to the least limiting barrier. It is against this background that the study seeks to analyze the demand and supply barriers limiting VSL members empowered by Vision Fund Malawi in Phalombe district from accessing formal banking services. The analysis focused on the following: Irregular income and literacy level as demand barriers, while distance to the bank and lack of identification documents as supply barriers.

1.3 Research Objectives

1.3.1 Main Objective

To analyze the demand and supply barriers limiting access to formal banking services among VSL members supported by Vision Fund Malawi in Phalombe district

1.3.2 Specific Objectives

- i. To determine the percentage of VSL members supported by Vision Fund Malawi in Phalombe district who hold bank accounts with commercial banks;
- ii. To rank the demand and supply barriers limiting VSL members from accessing formal banking services from the most limiting barrier to the least significant and
- iii. To measure the effect of VSL members' financial literacy on products and services offered by commercial banks

1.3.3 Research Questions

- i. What proportion of VSL members supported by Vision Fund Malawi in Phalombe district hold bank accounts?
- ii. Which demand and supply factors by ranking are the most significant barriers limiting access to formal banking services among VSL members in Phalombe district?
- iii. How knowledgeable are VSL members supported by Vision Fund Malawi in Phalombe district on products and services offered by commercial banks?

The main question the study intended to respond to upon analyzing the demand and supply barriers limiting access to formal banking services; was to find out why most VSL members remain unbanked despite Vision Fund Malawi offering them loans to engage in viable Small and Medium Enterprises (SMEs) since 2010 so that they grow their business, get banked and eventually access credit from commercial banks on their own.

1.4 Significance of the study.

The findings of this study will inform financial service providers particularly microfinance institutions working in rural areas and commercial banks to work towards mitigating the demand and supply barriers that hinder VSL members from accessing formal banking services despite running successful micro enterprises . In addition, the study findings are significant as they enrich the literature on the common demand and supply barriers that make the majority rural population of Phalombe remain unbanked. Though the results are based on Phalombe district specific, some level of generalization for other rural districts with similar demographic characteristic and social economic profile to Phalombe can be done.

1.6 Chapter Summary

This chapter has given the background to the study, exposing the knowledge gap why Phalombe district was chosen to conduct the study. The demand and supply barriers limiting access to formal banking services among VSL members living in rural areas have been highlighted as main focus of assessment in this study. The focus among rural people are VSL members in Phalombe district who rely on informal mechanisms to access financial services essentially savings and credit to meet their daily financial needs. The problem statement, main objective, specific objectives and research questions have been stated concisely.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter literature relating to the key themes on access to formal banking services by village savings loan (VSL) members living in rural areas is reviewed. The review provided important insights and framework which formed the basis of this study. The purpose of this literature review was basically three fold:

- i. To understand what other scholars have written on access to formal banking services among people living in rural areas with focus on VSL group members
- ii. Identify the right framework for measuring access to formal banking services
- iii. Provide clear basis for responding to research questions

The rest of the chapter is organized in subsections covering theoretical literature, empirical literature, models on access to finance and the conceptual framework.

2.2 The Concept of Village Savings and Loan Association (VSLA)

The VSLA concept is sometimes simply referred to as Village Savings Loan (VSL) groups. According to AYEDI (2018), a Village Savings and Loan Association (VSLA) is a group of 15-30 people who save together and take small loans from those savings. The activities of the VSLA run in cycles of about one year each. After the cycle has concluded, the accumulated savings and profits are shared out among the members according to the amount they have saved. VSLAs are member-managed. Vesterager (2009) identified the following key principles of how a VSLA methodology works:

- VSLA members are self-selected; members choose one another to anchor trust and ownership of the group.
- A VSLA is autonomous and self-managing.
- All VSLA transactions are performed at meetings in front of all the members. To ensure that transactions do not take place outside of VSLA meetings, cash and passbooks are locked in a cash box.
- The cycle of savings is time-bound.

- All associations keep their own records.
- The share value cannot change during the cycle.

In developing countries including Malawi, it is becoming clear that while formal banks and other financial institutions can provide valuable financial services to the poor, these institutions are most successful in economically dynamic urban areas, where borrowing requirements are high and the costs of reaching clients is low. Most of the people who live in rural areas including VSL members organized in groups and in urban slums particularly the very poor receive minimal to no financial services at all. As a result, there is still a very large gap between the needs for financial services of the poor and the ability of banks and other financial institutions to provide these services. There is also a discrepancy between what public financial institutions offer and the services that are needed by the poor in rural areas.

2.3 Theories and Models of Financial Access

This section reviewed literature on theories of banking and models on access to finance with focus on provision of financial services to rural areas. The provision of formal financial services to the rural population is critical to the growth of SMEs which provide a living for the self-employed residing in urban slums, growth centers and remotest parts of developing countries.

2.3.1 Theories of Banking

According to Werner (2016), there are three theories of banking, namely: The financial intermediation theory of banking, the fractional reserve theory of banking and the credit creation theory of banking. However only one theory relevant to this study; the financial intermediation theory of banking is discussed in details because of its direct applicability to the VSL model and VSL group members.

The financial intermediation theory of banking holds that banks are merely financial intermediaries, not different from other non-bank financial institutions; they gather deposits and lend these out. In the words of recent authors on banking: “Banks create liquidity by borrowing short and lending long” meaning that banks borrow from depositors with short maturities and lend to borrowers at longer maturities (Dewatripoint, Rochet, & Tirole, 2010). The activity of the banks as negotiators of credit is characterized by lending of other people’s borrowed money.

However, Mises (1980), differentiates banks from other non-bank financial institutions. Banks borrow money in order to lend it; banking is negotiation between granters of credit and grantees of credit. Mises concludes that only those who lend the money of others are bankers; those who merely lend their own capital are capitalists, but not bankers (Mises, 1980).

Similarly, Keynes (1936), in his *General Theory of Employment*, clearly states that for investments to take place, savings first need to be gathered. Correspondingly, the VSL model operates on the principle similar to the financial intermediation theory of banking of gathering deposits from its members first (who act as depositors) for a period of 1-3 months, and when deposits are enough (liquidity) members start borrowing from the fund (now as borrowers) of their own money. Whilst the financial intermediation theory of banking assumes that different depositors (surplus units) deposit with banks and different borrowers (deficit units) borrow from the banks, the VSL model serves a homogenous group of depositors and borrowers who are members of the same VSL group.

In a VSL group only members are allowed to borrow from the fund, which results in high loan repayment rates and zero percent defaulters. This concurs with Svarer (2011), in a study he conducted in Zambia, Uganda, Tanzania, Egypt, Ghana, Kenya and India, where it was revealed that very poor people do have the capacity to save and are highly creditworthy, with loan repayment rates particularly in VSL groups ranging from 98-100 percent.

Despite the VSL model's similarity in principle and operation with the financial intermediation theory of banking, particularly in mobilizing deposits first and lending them at an interest rate as one way of growing money, the financial activities in the VSL model remain informal. This informal status in VSL model limits VSL members to access some key banking services and products that can only be accessed in the mainstream formal banking sector namely; life assurance, insurance of property, opening of personal bank accounts, access to large amounts of loans for investment and remittances within the country and abroad. The three theories of banking focus on formal banks, i.e. commercial banks which transact with the moderate poor

(the well-off) leaving out the poor who constitute the majority of unbanked adult population in Malawi.

Nkuna, Montfaucon, Kabango & Kaude (2018) contend that commercial banks in developing countries including Malawi, are considered to be the traditional channels in which integration of the unbanked into the formal financial system takes place in an effort to achieve universal financial inclusion. The financial intermediation theory of banking linking depositors to borrowers only refers to the formal banking system dominated by commercial banks, while VSL group members who constitute the majority of the organized informal financial sector are left out (Karlán & Savonitto, 2011).

It is argued that even where financial institutions have sufficient resources, lending to small scale businesses like those operated by VSL members is seen to be costly and considered risky (Chipeta & Mkandawire, 1991). This is also echoed by United Nations Development Programme (UNDP, 1999), which found out that liberalization of the financial sector through enactment of the Reserve Bank Act and Banking Act of 1989 had little effect on improving credit availability in Malawi (Reserve Bank of Malawi, 1992).

The other two theories of banking are: The credit creation theory of banking and the fractional reserve theory of banking. The credit creation theory of banking predominant a century ago, does not consider banks as financial intermediaries that gather deposits to lend out, but instead argues that each individual bank creates credit when granting a bank loan. On the other hand, the fractional reserve theory of banking propagates that each individual bank is a financial intermediary without the power to create money, but the banking system collectively is able to create money through the process of multiplier deposit mechanism ‘the money multiplier’ (Werner, 2016).

In relation to this study, the fractional reserve theory of banking underpins the fact that unless VSL groups collectively work together as an industry and be organized as commercial banks are, they will remain a financial intermediary without the power to create enough money to serve the needs of the unbanked. According to the fractional reserve theory of banking, banks are able to provide a range of financial products and services (deposits, credit facilities, insurance, foreign exchange and remittances) because the banking industry collectively operates as a system where customers are assured of being serviced. The VSL model is however limited

in its provision of financial services to VSL members because VSL groups do not receive any capital through grants or external loans (Karlana, Thuysbaert, & Udry, 2017).

2.3.2 Micro Finance Model

The microfinance model is discussed for the reason that it offers credit facilities to people living in rural areas such as VSL members that are not serviced by formal banks, thereby economically empowering the unbanked to seek formal banking services as they engage in profitable small and medium enterprises (SMEs). Microfinance by definition is the provision of microcredit (small loans), savings facilities and other financial services to the very poor who cannot access such services from the mainstream financial service providers largely commercial banks (Pai, 2010). It is generally accepted that the microfinance sector emerged as an answer to financial market failures. Market failure occurs when there is inefficient allocation of goods and services in the market and in this study, it refers to inefficient access to formal banking services among VSL members living in rural areas in Phalombe district. Microfinance has tried to bridge the gap between formal financial institutions and the poor by providing some intermediary mechanisms of transaction aggregation and rationalizing costs (Morduch, 2010)

In relation to VSL members under this study, the VSL model which guides the financial operations of a VSL group is a microfinance concept which provides small loans to VSL members living in hard-to-reach rural areas where formal banks have not yet penetrated to serve the poor masses. It has been argued that access to microfinance for VSL members provides the opportunity to smooth the income and consumption, to buy fertilizer at the beginning of the season as most of them are involved in substance farming, to invest in tools or machines or to purchase a stock of goods to sell later as prices appreciate, which are all actions that increase future income (Odell, 2011). In this way, microfinance enables the poor to engage in productive economic activities such as starting up small businesses and commercial farming which do not only make rural people meet their daily basic needs, but also have bankable income in the long run.

Gradually microfinance activities enable the ultra-poor segments of society including VSL members graduate to capable people with assets and income to access bank accounts with

formal banks. Archana (2013) points out that having access to a bank account and insurance services enables saving and provides security for challenging events. According to the World Bank's Global Findex research (2014), almost half of the world's adult population has no access to formal financial services (World Bank, 2014). Likewise, the World Bank's Findex research indicated that within Malawi only 18% of adults (age over 15 years) had access to a bank account, 7% to formal savings and 6% to formal borrowing (World Bank, 2014).

It should be pointed out that microfinance services in Malawi are provided by both non-governmental organizations (NGOs) as part of their poverty alleviation interventions in catchment areas where they work on one hand, and standalone microfinance institutions on the other including Vision Fund Malawi. Bhuvana (2016) points out that reaching the rural poor with formal banking services is a challenge due to low demand for credit and high delivery costs, consequently many commercial banks and microfinance institutions focus on reaching the urban poor instead.

To underscore the important role microfinance plays in financial inclusion for the rural poor such as VSL group members and agricultural cooperatives members, in 2005 the United Nations organized an event in order to highlight microfinance as an act of making financial services more available to the poor and low-income people dubbed "Year of Microfinance, 2005" to help them engage in productive income generating activities (World Bank, 2008). By 2012 microfinance services worldwide had reached 204 million people (World Bank, 2014).

Despite these statistics the World Bank concludes that microfinance still has a long way to go to reach all of its potential market and to reach all of the world's poorest population seeking for microfinance services. Group lending is one of the distinguishing features of microfinance where poor borrowers who have no physical collateral act as guarantors for each other by assuming joint responsibility for the loans. Credit facilitates VSL group members trump over their liquidity constraints and undertake some income-generating activities and helps the poor in general to smoothen their consumption (Helms, 2006).

2.3.3 The Village Savings Loan Model

The VSL model in theory and principle operates similar to commercial banks except that the financial activities under VSL model are informal and the services offered are limited in variety (primarily; savings, credit and social insurance) and magnitude (micro-savings, micro-credit and sometimes no provision for social insurance). The VSL model draws most of its features from one of the three theories of banking; the financial intermediation theory of banking underscoring the prominent roles of depositors and borrowers in the banking system. VSL groups work as a member-owned financial intermediaries with three main products, namely: savings, credit and insurance and typically target those individuals who are based in urban slums or more remote rural areas (Maksimovic & Beck, 2004).

VSL groups bridge the gap left by formal banks as they provide the most pertinent credit and savings facilities to the unbanked (Allison, 2014). The goal of VSL model is to form a group of people who are able to pool their savings in order to create a source of lending funds for future needs. Village banking provides for the poor to accumulate and manage their assets. The VSL model creates a space for window to the unbanked members to save in amounts that are typically too small to ever be provided or attractive by the formal banking sector. The small pools of capital contributed by VSL members are intermediated at village level (financial intermediation theory of banking) to satisfy household cash management needs for those who live in areas where formal banks and microfinance institutions do not have a presence (Allen, 2014).

The VSL model is designed to provide access to basic financial services to the poor and the very poor (KADALE Consultants, 2009). In principle VSL members over time gain financial discipline through basic financial practices such as managing group money, reminding members to repay their loans on time, cashbox security where the three keys are kept by three different group members, which in theory these basic financial practices expose VSL members to envisage how transactions are carried out in the formal banking sector. The VSL members are able to save, borrow and invest in new assets or provide funds for emergencies such as health requirements, school fees or sudden death (Karlan & Savonitto, 2011).

The VSL model combines a variety of services normally provided by formal financial market including savings, access to loans and social insurance. In order to provide credit and insurance to its members the VSL group raises sufficient amounts of savings which is guaranteed through compulsory weekly contributions (Allen, 2014). In a VSL model members develop the saving culture, learn how to calculate interest earned, number of shares purchased, interest accumulated on money loaned to group members and basic financial record-keeping which all makes VSL members visualize the services and products offered by commercial banks.

2.4 Access to Formal Financial Services

Access to banking services essentially means having a bank account (Beck & De la Torre, 2007).

This is because having a bank account enables people to perform other important financial functions, such as accessing savings schemes, accessing credit, taking out loans or insurance, and making money transfers. In this way, bank accounts determine access to many other financial services (Carbo & Molyneux, 2005). Most people in developing countries, Malawi inclusive, do not have access to formal banking services (Mandiwa, 2014). Access to formal financial services for low income households such as savings, insurance services, small loans and remittances enable them to benefit from economic opportunities to build up income and assets to lift them out of poverty. Mandiwa (2014) concludes that despite making significant improvements in areas related to profitability and competitiveness, commercial banks in Malawi have not been able to reach the underprivileged sections of the society with basic banking services.

Naik (2013) states that the ecosystem of financial systems consists of many participants namely; the government, banks, MFIs, nonbanking financial institutions, Non-governmental organizations (NGOs) and Technology vendors. Therefore, financial inclusion has to be viewed through the lens of two side barriers namely supply side barriers and demand side barriers. Supply side barriers are inappropriate products, complicated processes, insufficient reach and access. The demand side barriers are financial literacy, sociocultural factors and unfriendly interface (Naik, 2013).

Numerous studies have documented that most adults in developing countries, particularly in Africa, Latin America and parts of Asia are unbanked. For instance, the Consultative Group to Assist the Poor CGAP (2007), in their report estimated that 80% of the people in least developed countries are unbanked. The term unbanked refers to people who do not use simple banking services that the developed world and most people in urban areas take for granted, such as remittances and savings. Barriers to conventional methods of banking include lack of education, illiteracy, high fees, and proximity to the banking facilities. This lack of access to banking services hinders economic development because it gives the poor no option other than the informal and cash economy, leaving them vulnerable to risks and without a means to efficiently save or borrow money.

According to Levine (2005), access to banking services (particularly credit, savings and payment services) provides opportunities for income through three channels. These channels include: Firstly, new economic opportunities; which involves access to credit and information on investments through the financial system allowing poor people to invest in income-generating activities. Secondly, risk management; which involves savings, insurance and credit that allow poor people to smoothen their consumption, protect their assets and income against shocks and make lumpy investments in housing, education and health. Thirdly, facilitating exchange of goods and services; which in essence involves payment services that help poor people remit money, trade in goods and services and reduce their transaction costs.

The most significant move in financial inclusion in Africa in the last 10 years has been the success of mobile money services which continues to bridge the gap left by conventional brick-and-mortar banking system. The most cited example of this, is M-Pesa the mobile money transfer service in Kenya which was launched in 2007 by Safaricom, the country's largest mobile-network operator (Calleo Payment Technologies, 2014). It is now used by over 17 million Kenyans which is approximately two-thirds of the adult population in Kenya and around 25% of the country's Gross National Product (GNP) flows through M-Pesa (Calleo Payment Technologies, 2014). Access to formal financial system increases asset ownership and serve as a catalyst to greater economic empowerment among rural people (Pagura & Kirsten, 2014). A

formal bank account provides a safe place to save and creates a reliable payment connection with family members, an employer, or the government (Allen, 2014).

Kesavan (2015) analyzed the factors that are affecting access to formal financial services in Zimbabwe. These factors included psychological, cultural barriers, legal identity, income level, terms and conditions, procedural formalities, limited literacy, place of living, social security payments, occupation type and product attractiveness. The study found that both price and non-price barriers restricted people from rural areas from accessing formal banking services with varying degrees, with price barriers such as minimum book balance, monthly charges and irregular income being dominant barriers.

Thus Iyer (2014), concludes that, different studies have explored various barriers limiting access to formal banking services in least developed countries including Malawi, the reasons are either price and non-price barriers or supply and demand driven barriers. Hence categorized that the policy and infrastructure are supply side barriers, whereas financial capability, trust and lack of financial knowledge are said to be the demand side factors that determine the use of formal financial services. On the other hand, Singh and Tandon (2012), listed that gender issues, limited literacy, legal identity, place of living, income, occupation type, and bank charges as factors that affect access to formal financial services.

Laha (2011) conducted a study in which he concluded that the poor access financial services from four types of financial service providers, namely: informal providers that include family members, friends and money lenders; informal unregulated financial service providers, such as Rotating Savings Credit Associations (ROSCA) and credit unions; formal financial institutions regulated by general laws but not specific banking laws including microfinance institutions and Savings and Credit Cooperatives (SACCO); and formal deposit taking institutions regulated by specific banking laws such as banks and building societies.

Beck, Demirguc-Kunt and Peria (2005) contend that access to formal financial services has many dimensions; services need to be available when and where desired, and products need to be tailored to specific needs. Services need to be affordable, taking into account the indirect

costs incurred by user, such as having to travel a long distance to a bank. Increasing access to financial services through regulated providers is necessary to reduce systemic risk and support financial sector deepening through the diversification of financial instruments and financial institutions.

However, there are a number of limitations to the expansion of formal financial services including small scale financial systems. The total size of most formal financial systems in Africa is less than \$1 billion which is equivalent to a small bank in industrialized countries (Stijn & Liliana, 2009). In Malawi, the financial system is small and dominated by commercial banks, stock brokers and insurance companies (Chipeta & Kanyumbu, 2018).

According to Singh and Tandon (2012), small financial systems are less competitive, less efficient, costlier to regulate than larger financial systems considering the three aspects of physical access, information asymmetry and limited uptake. With regard to physical access, financial transactions by poor people are high frequency and low volume. This emphasizes the importance of easily accessible services in close proximity. On the other hand, limited uptake is driven by servicing costs, such as prohibitively high fees and minimum bank account requirements. These deter poor clients as the formal financial products are not suited to such clients' low and erratic incomes of the poor.

Poor people may lack knowledge of financial services or skills to use them effectively. This brings us to another key factor; information asymmetries. Most rural residents who constitute the majority of VSL members are smallholder farmers with erratic income, low education and no opportunity to get an agricultural loan to enable them graduate from subsistence farming to commercial. The poor also often lack official identification documents, records of their financial transactions and collateral, which increases the risk of service provision.

2.4.1 Determinants of Financial Services Access

The subject of access to formal banking services cannot be discussed in isolation to the broad aspect of financial inclusion, which encompasses financial services offered by commercial banks, microfinance institutions, insurance companies, telecommunication companies and brokers. Financial inclusion is the provision of a range of banking products and financial

services to the poor populations (Kunt & Klapper, 2012a). The poor are usually locked out of the conventional banking system due to their low income. Inclusive finance helps the poor to finance their activities, save money, support their families and hedge against risks of everyday life (Stijn & Liliana, 2009).

Uddin, Chowdhury and Islam (2017) investigated the determinants of financial inclusion in Bangladesh during the period 2005-2011. The study employed the generalized method of moments and the quantile regression approach. The research distinguished between supply side and demand side determinants of financial inclusion. The study uncovered that size of a bank, efficiency, and the interest rates as supply side determinants, while literacy rate and age dependency ratio were demand factors.

Vesterager (2009) concurs with Uddin et al. (2017) in classification of supply side and demand side determinants of financial inclusion. Vesterager (2009) contends that financial access can broadly be divided into two broad categories; one based on supply side information from the perspective of credit providers such as banks and other service providers, while the other based on demand side information from the perspective of users-individuals, households or firms.

The booming of VSL groups in Malawi is a result of a gap which exists between demand for financial services from commercial banks and the failure of commercial banks to provide such services to people residing in rural areas (Mandiwa, 2014). This is also pointed out in the studies done by Ksoll et al. (2013), who indicates that setting up VSL groups worldwide has become an increasingly widespread intervention aimed at improving local financial intermediation. The vast majority of the world's poor live in rural areas of developing countries with little access or no access to formal banking services (Ksoll et al., 2013).

Zins and Weill (2016) investigated the determinants of financial inclusion in Africa using the World Bank's Global Findex database on 37 countries. The study employed the probit estimation method and found that financial inclusion was determined by gender, age and education levels with a higher influence of education and income. This compares well with studies done by Ksoll et al. (2013), Siddik, Sun, Shanmugan & Yanjuam (2015) and Kunt & Clapper (2012b), who all investigated various supply and demand sides of determinants of

financial access in various studies that were conducted in various parts of the world particularly in developing countries.

Laha (2011) sought to identify the broad determinants of financial inclusion in some selected districts of west Bengal, India. Empirical results using Bivariate Probit model showed that asset level of the household, as determined by the operated land holding, significantly enhances the probability of becoming a bank customer, while the existence of information asymmetry in financial services acts as an obstacle to the process of financial inclusion.

Siddik et al. (2015) studied the determinants of financial inclusion in Bangladesh using multi-dimensional index. In this study, it was found that rural population, housing size, and literacy rate

were significant variables among the socio-geographic variables. The infrastructure variables that were found to be significant in determining financial inclusion were paved road networks and internet technology use. The deposit penetration in the banking sector was found to be the most significant determinant of financial inclusion in this study.

Chithral and Selvan (2013) in their attempt to identify and analyze the determinants of financial access, carried out empirical analysis that revealed that socioeconomic factors such as literacy, population and income were found to have significant association with the level of financial inclusion. Further, physical infrastructure for connectivity and information were significantly associated with financial inclusion. Among the banking variables, deposit and credit penetration were found to be significantly associated with financial inclusion. Finally, credit-deposit ratio and investment ratio were not significantly associated with financial inclusion.

Nandru, Anand & Rentala (2016) examined the factors that increase financial access in the Pondicherry region in India. The study employed factor analysis and multiple regression methods to understand the relationship between usage and frequency of banking services and other independent variables. The study results indicated that easiness in accessing bank products and purpose of opening bank account have significant influence on usage frequency of banking services.

2.4.2 Access to Formal Financial Services in Developing Countries

Empirical evidence suggests that improved access to finance is not only pro-growth but also pro-poor, reducing income inequality and poverty. Cross-country studies have shown that countries with more developed formal financial systems record faster declines in income inequality and poverty levels (Levine, 2005).

Abel, S., Mutandwa, L., and Roux. (2018) employed the Logit model to investigate the determinants of financial inclusion in Zimbabwe. The underlying thinking behind the use of the Logit model was premised on the fact that people are faced with decisions on whether to be formally financially included or not. Akudugu (2013) argue that individuals make a decision on whether to be included or not on the reaction threshold inherent in them based on a number of factors, beyond the threshold the person will not seek to be included in the formal financial market while at the critical threshold level the desire to be included in the formal financial market is motivated.

The study by Abel, et al (2018), established that age, education, financial literacy, income and internet connectivity were positively related to financial inclusion. On the other hand, the documentation required to open bank accounts and the distance to the nearest access points were negatively related to financial inclusion. The study recommended that governments should put in place policies that encourage financial service providers to set up operations closer to the people or ensure they adopt technologies that warrant financial services are more accessible such as agency and mobile banking. The study further recommended that governments should encourage use of KYC lite accounts to ease documentation requirements without compromising anti-money laundering framework which can destabilize the financial system.

Chipeta and Kanyumbu (2018) conducted a study, “Determinants of Access to Banking Services in Malawi”, taking into account that limited coverage of banking services especially in rural areas has been constraining sustainable economic development. To explore the determinants of access to banking services in Malawi, household-level data from the FinScope Malawi 2008 and 2014 surveys of demand for financial services was used. From both an analysis of cross-tabulation of frequency of responses and a regression analysis, the study found that the degree of access to banking services ascends from rural to urban areas and that the

degree of access to banking services rises with rising levels of income. The study further found that the degree of access to banking services was high among those who received salaries and pensions and those residents who conducted businesses or earned rental income, as well as those who received transfers and remittances from other people.

On the contrary, the degree of access to banking services was low among those who received low and irregular incomes, such as smallholder farmers and casual workers. It further established that access to formal banking services rises with higher levels of education and that distance to the nearest bank branch was negatively correlated with access to banking services. The last outcome was that financial innovation encourages access to banking services such as use of mobile vans, mobile money and agency banking.

Maksimovic and Beck (2004) carried out a research on various indicators of banking sector penetration across 99 countries based on a survey of bank regulatory authorities, which showed that greater outreach or penetration is correlated with standard measures of financial development, as well as with economic activity. The researchers also found out that better communication and transport infrastructure and better governance are also associated with better outreach. They further found out that firms in countries with higher branch and ATM penetration and higher use of loan services reported lower financial obstacles, thus linking banking sector outreach to the alleviation of firms' financial constraints.

Mwansakilwa, Tembo, Zulu & Wamulume (2017) carried out a study entitled: "Village Savings and Loans Associations (VSLAs) and Household Welfare", conducted in Eastern and Western Zambia using Propensity Score Matching (PSM) to estimate the impact of participating in VSLAs on consumption expenditure among rural households. The study examined the impact of VSLA participation on household welfare. The results indicated large positive and statistically significant consumption effects of participation in VSLAs. As much as 38% and 17% of total and per capita weekly household expenditure respectively was attributed to participation in VSLA interventions. This is consistent with most prior studies and seems to suggest that if properly designed and implemented, informal savings and lending initiatives equally have the capacity to contribute to rural poverty alleviation by facilitating access to affordable credit through savings.

Latortue and Ardic (2013) in their financial access 2012 report which was based on eight years data from 2004 to 2011 showed the global strands taken on financial inclusion. They found out that high income nations had ten times the deposit penetration as compared to low income nations, and lower middle income nations had three times the deposit penetration of low income nations and there was a steady growth on the number of commercial bank branches and ATMs. Besides, low-income nations had 3.2 ATMs and 3.8 branches per 100,000 adults in 2011, while high-income nations had 123 ATMs and 34 branches per 100,000 adults

Majanga (2016) analyzed the history and current status of financial inclusion in Malawi and its associated impact on individual, societal and overall national development. Through a review of past literature on financial inclusion and a survey on individuals' opinions on financial services availability and affordability, the study revealed that financial inclusion has a direct relationship with economic performance and that individual economic performance, financial literacy and accessibility play crucial roles in determining the level of financial inclusion in an economy.

Waihenya (2012) investigated the relationship between agent banking and financial inclusion in Kenya. The study utilized descriptive survey research method. The study investigated agent banking in Kenya with emphasis on the factors contributing to financial exclusion, both natural barriers such as rough terrains and man-made barriers such as high charges on financial services and limited access due to limited bank branches. The study found that agent banking is continuously improving and growing and as it grows, the level of financial inclusion is also growing proportionately. The study findings showed that increasing the area covered by agents within the country had the effect of increasing the reach of the financial services to the poor thus raising the levels of financial inclusion.

Jarden (2017) in Webinar State of Linkage Report dispels the notion that poor people cannot be banked. The findings from Webinar State of Linkage Report commissioned by Barclays, CARE International and Plan UK details the extent that organizations are actively linking poor people to formal financial products and services in developing countries of Sub-Saharan Africa, Asia-Pacific and Latin America. The report states that:

- 106 savings and credit products are currently offered to savings groups such as VSL, ROSCA, SHG, SACCO and Cooperatives

- 95 financial service providers are offering formal financial services to informal savings groups
- Five of these financial institutions, namely: Barclays, Bank of Africa, Kenya Commercial Bank, Opportunity International Bank and FINCA offer products in multiple markets
- 27 countries where savings groups are linked to formal financial services
- Nearly two-thirds of all linkage products identified are found in Sub-Saharan Africa, while
- Asia-Pacific and Latin America account for 29% and 6% of the linkage products respectively.

The Webinar State of Linkage Report provides for the first time a global mapping of ‘linkage’ activity, the process through which informal savings groups are able to access products and services from formal financial service providers. The report identifies where linkage is taking place, what organizations are currently linking and the kind of financial products being offered.

Chaia, Aparna and Tony (2010) under the Financial Access Initiative found that almost all of the 2.5 billion people in the world lacking access to financial services reside in Africa, Asia and Latin America and the majority (60%) of these adults reside in East and South Asia. Based on the population breakdown by income level the researchers found that out of a population of 1.2 billion adults using formal financial services, a third or 800 million people are in the lowest income category of living under US\$5/day. The researchers found that apart from socioeconomic and demographic factors, the main drivers of inclusion were an effective regulatory and policy environment and enabling the actions of financial service providers.

Ksoll et al. (2013) conducted a rigorous impact assessment study on VSLAs and analyzed the impact of the approach on household outcomes in Northern Malawi villages. Methodology and sampling; out of 64 villages, 23 were randomly chosen to participate in a VSLA project and the remaining villages served as a control group by denying them entry to the programme by two years from 2009 to 2011. A baseline survey of 1,775 households was conducted before and after programme implementation. The impact of the introduction of the VSLA was assessed by analyzing developments in food security, income-generating activities and household income.

The study found that food security as measured by number of meals per day, had significantly improved in treatment villages. There was also evidence of improved income generating activities as households held significantly larger savings in VSLAs and some participants in treatment villages had opened bank accounts with formal banks.

Shankar (2013) examined that microfinance institutions has reduced many barriers and constraints of financial inclusion. Penetration of microfinance institution has taken some areas which were neglected by the banking sectors and the study suggested policy incentives to encourage expansion to those neglected areas.

Beck, Demirguc-Kunt and Peria (2005) under the World Bank research initiative used information from 193 banks in 58 countries; the researchers developed and analyzed indicators of physical access, affordability and eligibility barriers to deposit, loan and payment services. They found that substantial cross-country variation in barriers to banking showed that in many countries these barriers could potentially exclude a significant share of the population from using banking services. Correlations with bank-and-country-level variables showed that bank size and the availability of physical infrastructure were the most robust predictors of barriers.

Christabell (2012) examined that the Women's Self Help Group movement is bringing a transformation in rural areas of India. Microfinance Institutions play a significant role in facilitating financial inclusion, as they are uniquely positioned in reaching out to the rural poor.

2.4.3 Programmes linking the poor towards Formal Financial Services

The programmes linking the poor towards formal financial services in developing countries are mostly implemented by Local and International Non-Governmental Organization (INGOs), United Nations Agencies and Local Government offices through different approaches such as VSL models, microfinance, credit cooperatives, agribusiness initiatives and social cash transfer programmes among other channels. One of the programmes that governments of developing countries are implementing to link the poor to formal financial services is financial education. There is global policy interest in increasing financial inclusion and recognition of the need for complementary policies on financial education and financial consumer protection. Atkinson and Messy (2012) point out that the surging global interest in financial education for financial

inclusion is reflected in national policies, many governments are now addressing the financial inclusion and financial education needs of their populations through coordinated strategies designed to tackle both demand and supply-side barriers to financial inclusion and low levels of financial literacy.

AYEDI (2018) reports that in Uganda, it is becoming clear that while banks and other financial institutions can provide valuable services to the poor, these institutions are most successful in economically dynamic urban areas where borrowing requirements are high and the costs of reaching clients is low. Most of the people who live in rural areas and in urban slums (and particularly the very poor) receive minimal to no financial services at all. As a result, there is still a very large gap between the needs for financial services of the poor and the ability of banks and other financial institutions to provide these services. There is also a discrepancy between what public financial institutions offer and the services that are needed by the poor.

In Malawi many international non-governmental organizations among others; United Purpose, Save the Children, CARE Malawi, World Vision have agribusiness, microfinance and livelihood programmes implemented in such channels as social cash transfer, VSL groups and cooperatives which target the ultra-poor to empower them economically before linking them to formal financial institutions (Vesterager, 2009).

Innovative linkages among telecommunication companies, NGOs and banks is another avenue being used to link the rural poor to formal financial services in many developing countries (World Bank, 2014). These include banks partnering with telecommunication companies to use the mobile platform in reaching out to the rural population through mobile phones to access formal financial services mostly remittances, savings and payment of utility bills.

Singh and Tandon (2012) argue that financial services are key to leveraging opportunities, transforming ideas into productive ventures, scaling up projects, and making value chains sustainable, thereby improving the social and economic well-being of smallholders, those who are vulnerable to economic and environmental shocks and those who live in remote locations, and contributing to economic growth. Empirical studies from Kenya indicate that M-Pesa a comparable mobile money platform to Airtel Money and Mpamba in Malawi has closed the gap in reaching out to people in rural Kenya who are not served by commercial banks (Calleo Payment Technologies, 2014).

2.5 Measurement of Financial Access

According to Bhuvana (2016), some of the commonly used indicators for measuring financial access are: number of bank accounts per 1000 adult population, number of bank branches per one million people, number of ATMs per one million people, amount of bank credit and amount of bank deposits.

Beck and De La Torre (2007) expound that one of the measures of access to banking services is typically the number of people who have bank accounts. This is so because bank accounts enable people to perform other important financial functions such as obtaining access to saving schemes and credit, taking loans, insurance and money transfers. Therefore, bank accounts determine access to many other financial services (Chipeta & Kanyumbu, 2018).

Locational measures of access have been among the means through which the Malawi Government has tried to track and address the shortcoming of access to banking services. It has been noted that most banks in Malawi are concentrated in urban areas, leaving most of the rural population unbanked (Chipeta & Kanyumbu, 2018). Some of the efforts by the government therefore have been to ensure that banking services are available in rural areas. To assess whether the location of a potential customer seeking banking services plays a role in access to banking services in Malawi (Mandiwa, 2014).

2.6 Conceptual framework

Conventionally, VSL groups are motivated by the extreme lack of savings and loan facilities in rural areas of developing countries. In the case of extreme poverty, where households do not have the capacity to access credit from formal banking institutions for productive purposes, VSLs are viewed as self-managed and capitalized microfinance methodologies that can alter the development equation in marginalized communities worldwide, providing VSL members with the means to cope with emergencies, build capital and recreate social dynamics that support genuine self-reliance (Allen, 2014).

The review of literature revealed that literacy level and irregular income are demand driven barriers to financial inclusion, while distance to the bank and lack of necessary identification documents are supply driven barriers to financial inclusion. It is conceptualized that barriers to

financial inclusion from the demand and supply sides can be reduced through Innovative Delivery Channels (IDC) to reach people in rural areas with formal banking services. The IDCs are alternative platforms where financial services can be accessed other than brick-and-mortar banks. These include; use of mobile vans, mobile phones, VSL groups, moneylenders, agent banking and microfinance institutions (Bhuvana, 2016). Allison (2014) contends that people from rural areas who use any of the IDCs graduate easily to formal banking services unlike those who do not.

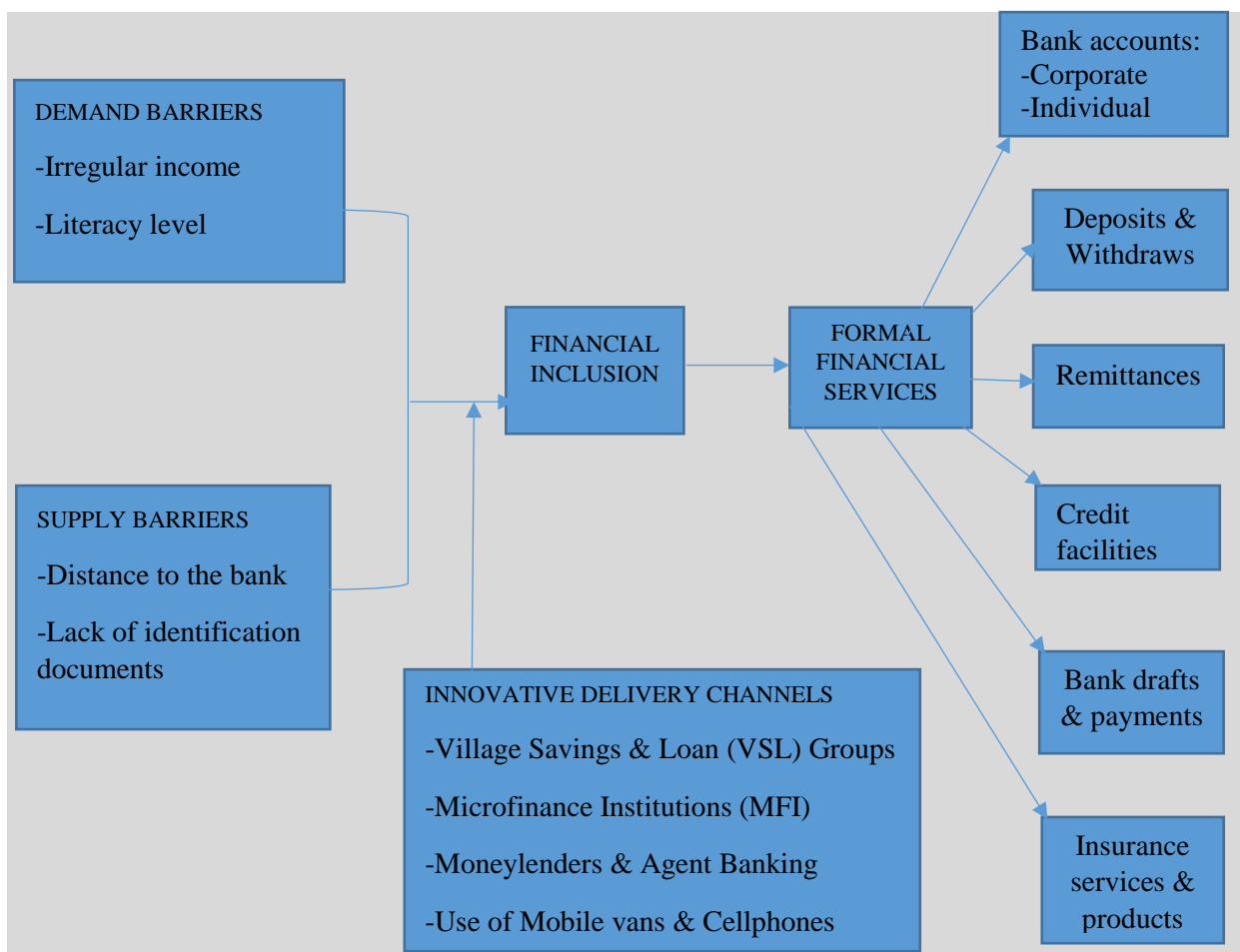


Figure 1: Conceptual Framework: Demand and Supply Barriers to access Banking Services

Source: Bhuvana (2016)

It is clear from the conceptual framework in Figure 1, that there are demand and supply side barriers that decrease the penetration of formal banking services into rural areas. The demand and supply barriers to access formal banking services are reduced by the innovative delivery channels (IDC) including village savings groups, microfinance institutions, mobile vans, agent

banking, moneylenders, and use of mobile phones. The innovative delivery channels assist people from rural areas including VSL members achieve financial inclusion by empowering them to seek formal banking services, comprising credit, savings, remittances, insurance, payments and opening of bank accounts (Bhuvana, 2016).

To sum up; from the conceptual framework flow diagram, innovative delivery channels assist people from rural areas achieve access to formal banking services in several ways as follows:

Microfinance institutions have reduced many barriers and constraints to financial inclusion by penetrating in rural areas neglected by the formal banking sector (Christabell, 2012). Microfinance institutions facilitate linkage of VSL members to commercial banks where members access formal personal and group banking services mainly credit, savings and insurance because most microfinance institutions are uniquely positioned to reach out to rural poor people where commercial banks have avoided to trade (Goshi, 2013).

On the other hand, VSL groups are innovative delivery channels for micro-entrepreneurs found in rural areas where formal banks do not exist and the members of the group agree to save small amounts of money regularly to enhance their savings into a common fund to meet their emergency credit and savings needs based on mutual understanding (Archana, 2013). The VSL model builds the saving culture among VSL members enabling them to graduate from the informal financial sector and open bank accounts with commercial banks. Village savings groups serve as a potential link to the formal financial sector because members gain business skills, attain financial discipline, build up their assets and adopt good coping mechanisms in lean seasons of the year (Allison, 2014).

Mobile vans and cellphones as platforms for sending and receiving money have assisted the unbanked people in rural areas where the brick-and-mortar formal banking services are not available (Vimala, 2015). Mobile vans are commissioned by different commercial banks to go in rural areas where fully fledged formal banking services are offered to VSL members who cannot afford to travel to urban areas to access such services.

Moneylenders and agent banking are alternatives for rural people to access credit and savings facilities at the convenience of a customer (Pai, 2010). The main challenge with moneylenders and agent banking is limited amounts of cash that a customer is allowed to transact per time, because most kiosks ration the amounts in order to serve many customers per day. In addition, most moneylenders and kiosk bank agents charge exorbitant interest rates when serving customers taking advantage of non-existent of commercial banks in rural areas (Chiteli, 2013).

2.7 Chapter Summary

Literature relating to financial inclusion, access to formal banking service, determinants of financial services access was reviewed. The review of theoretical literature focused on the three theories of banking with emphasis on “the financial intermediation theory of banking,” which holds that banks create liquidity by borrowing short and lending long. The chapter further reviewed the VSL model and Microfinance model because the two models provide an alternative means to access financial services to hard-to-reach areas not served by commercial banks. Programmes linking the poor to formal financial service providers were also reviewed. Empirically, the chapter reviewed various empirical studies that have been conducted in developing countries including Malawi and are published in various international academic journals on financial inclusion, access to formal banking services, determinants of financial access and supply and demand barriers to access banking services by the rural population in hard to reach areas.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology used in the study and outlines the following important sections; study design, research strategy, study location and population, sample size and sampling techniques, research instruments, data collection and data analysis, data presentation and ethical consideration. In order to analyze the degree to which demand and supply barriers limit VSL members from accessing formal banking services, qualitative and quantitative data sets on VSLs' education level, financial literacy, frequency of earning income, distances to the nearest bank branch, identification documents required by banks to open a bank account among other primary data sets were collected. The two demand barriers analyzed in the study were literacy level and irregular income, while distance to the nearest bank branch and lack of authentic identification documents were supply barriers.

3.2 Study design

This study adopted the descriptive design. This was chosen because of a large sample which was used in the study. In addition to a large sample, the descriptive design using research assistants ensured probing and high rate response from respondents. Moskal and Leyden (2010) contend that involvement of research assistants in descriptive design to collect data ensures high response rate from the sampled respondents because responses can be probed for clarification during face to face interviews. According to Key (2010), the descriptive design involves interviewing or administering a questionnaire to a large sample of respondents. In this study it involved administering a questionnaire to 148 VSL respondents at household level.

3.2.1 Research Strategy

The survey method was applied in this study. The participants in the study answered questions that were administered through the questionnaire in a face to face interviews. The survey method using research assistants in the study ensured high response rate because unclear answers from respondents were probed on spot for clarity. The large sample in the study necessitated the selection of the survey questionnaire method because surveys gather data over

a large sample within a short period of time, when compared to case study and observation designs (Kombo & Tromp, 2009). The survey method using a standardized questionnaire ensured respondents have same set of questions for uniform understanding, unlike when using study guides which allow researchers to rephrase questions in the course of interview, and sometimes compromise on validity and reliability.

3.2.2 Study location and Population

This study was carried out in Phalombe district located in the southern part of Malawi. Phalombe district is located 74 kilometers South-East of Blantyre city travelling through Chiradzulu district. In Phalombe district the study was precisely conducted in (T/A) Jenala where Vision Fund Malawi has been working supporting VSL groups with micro-loans and SMEs trainings since 2010. The researcher chose Phalombe district due to economic and geographic convenience. Economically, the research location at T/A Jenala was only 10 kilometers to where the researcher resided at Phalombe district centre, thereby saving on transport fares to and from the study location. Geographically, the respondents were evenly spread across the villages under T/A Jenala which made it easy to trace respondents at household level where research assistants interviewed them.

On the other hand, the population in this study was the total number of all registered VSL members under Vision Fund Malawi found in Traditional Authority (T/A) Jenala in Phalombe district as at December, 2017. The total population for VSL members registered under Vision Fund Malawi in Phalombe district was 239 as accessed at Phalombe VFM office in December, 2017. It should be pointed out that Vision Fund Malawi (VFM) started working in Phalombe district in 2010 where self-formed VSL groups existed (Vesterager, 2009). Vision Fund Malawi reorganized all existing VSL members into savings groups comprising women and men in the ratios of 70:30 percent respectively. The higher ratio of women in forming VSL groups is an affirmative action for VFM on women economic empowerment.

3.3 Sample Size and Sampling Methods

3.3.1 Sample Size

The sample size in this study was 148 VSL members sampled at 95% confidence level using a Sample Size Calculator from the population of 239 VSL members registered under Vision Fund

Malawi in Phalombe district as of December 2017. Interviewing 148 VSL members in this study gave a sample representation of 62% from the population of 239 VSL members registered under Vision Fund Malawi.

3.3.1 Sampling Methods

The study adopted three sampling methods, namely: stratified sampling, census and simple random sampling to come up with the 148 VSL members as a required sample of respondents to be interviewed at 95% confidence level. The three sampling techniques were necessitated because of the composition of the population which was dominated by female VSL members as opposed to male VSL members. Female VSL members were in majority because of Vision Fund Malawi's policy which advocates for 70% females versus 30% males when forming VSL groups as an affirmative action for economic women empowerment. (Vesterager, 2009).

Firstly, stratified sampling was applied to divide the population of 239 VSL members into two strata of female and male VSL members, resulting into 218 females versus 21 males. However the needed sample at 95% confidence level was 148 VSL members from the total population of 239 VSL members. The 21 males represented 14.2% of the 148 VSL sample needed, while the 218 females represented 147.3% of the 148 sample required in the study.

Secondly, the female stratum was subjected to the second method of sampling; simple random sampling in order to get the 127 females to come up with the required sample of 148 VSL respondents. This was to ensure that female and male VSL members are proportionately represented in the sample of 148 VSL respondents in the percentages of 14.2% males to 85.8% females and remove any traces of gender biases in the study. Simple random sampling was applied to the female stratum to ensure that each of the 218 females in the female stratum had an equal chance of being selected into the sample of 127 females.

Finally, the census was applied to the male stratum as all available 21 males representing 14.2% in the sample of 148 VSL respondents were included in the sample because there were less than the recommended 30% of the total study population, which Vision Fund Malawi policy

stipulates that VSL groups should comprise 30% males versus 70% females as a deliberate effort to empower women economically (Vesterager, 2009).

3.4 Data Collection and Analysis Methods

3.4.1 Questionnaire

A semi-structured questionnaire containing closed and open-ended questions was administered to 148 VSL members to collect primary data. The primary qualitative data was gathered through open-ended questions, while the closed-ended questions in the questionnaire gathered quantitative data. The use of open-ended and closed-ended questions in descriptive design in this study helped to collect data on VSL members' attitudes towards banking, opinions on banking services and variety of education and social issues surrounding access to formal banking services. To this effect, the questionnaire was carefully designed to gather data on what motivates or demotivates VSL members from seeking formal banking services.

The questionnaire was divided into four sections A, B, C and D corresponding to the two demand barriers of irregular income and literacy level on one hand; and two supply barriers of distance to the bank and lack of identification documents. The division of the questionnaire into four sections ensured detailed collection of data sets on each barrier in relation to accessing formal banking services among VSL members.

The questionnaire mainly used two types of scales of measurement namely; nominal and ordinal due to the nature of data sets collected from VSL members. For instance, gender of VSL respondents was given the value of 1=Male and 2=Female which is nominal. According to Cooper and Schindler (2014), nominal data involves the collection of information on a variable that can be grouped into two or more categories that are mutually exclusive and collectively exhaustive. While level of education attained by VSL members is ordinal and was coded 1=Never attended school, 2=Primary level, 3=Secondary level and 4=College/Technical level. An ordinal scale arranges and classifies objects according to their degree in an ordered relationship (Zikmund, 1991).

The 148 VSL respondents were interviewed in their households by trained research assistants to ensure high rate response and probing for clarity in cases where respondents gave partial answers. Data was collected by four trained research assistants who were recruited from

Phalombe district. The recruited research assistants had a minimum academic qualification of the Malawi School Certificate of Education (MSCE) as a prerequisite to understand the survey questionnaire in both English and Chichewa languages. The researcher played a supervisory role besides doing quality checking in the whole period of data collection.

To easily locate the VSL respondents, the researcher liaised with Vision Fund Malawi Phalombe office to gain access to a VSL register where physical maps to villages of sampled VSL respondents were sketched. Physical features such as prominent cardinal points of churches, boreholes, hawkers and village names were used to locate respondents.

During the face to face interviews between research assistants and respondents, closed and open-ended questions from the questionnaire were asked to respondents in Chichewa. The responses were clearly recorded in the survey questionnaire spaces accordingly. The questionnaire was used to collect data in line with the advantages it carries when dealing with large samples of respondents who are localized and spread in the same geographical area. The use of questionnaire is echoed by Kombo and Tromp (2009), who maintain that a questionnaire gathers data over a large sample from diverse regions and it ensures confidentiality besides saving on time. In addition to the survey questionnaire, the four research assistants were provided with notepads and pens where quick notes of the observable behaviors in the course of the interview were written down. The notes taken were important source of qualitative data to supplement the quantitative data collected through closed-ended questions in the semi-structured questionnaire.

3.4.2 Validity and Reliability

The semi-structured questionnaire was pretested to a smaller group of VSL members to measure its validity, that is; the degree to which an instrument measures what it is purported to measure prior to administering to the whole sample of 148 VSL members under Vision Fund Malawi in Phalombe district. To ensure reliability of the research instrument, pilot data was collected for two consecutive weeks at weekly interval to same group of VSL members to measure if questions in the questionnaire collected similar data on two repeated trials prior to main data collection period.

Data collected during pilot stage was useful for comparing findings during data analysis of the main study. The questionnaire was consistent as questions contained in it yielded the same

results e.g. respondents responses did not change between the time of piloting and the main survey data collection time.

3.4.2 Data Analysis and Presentation

Data analysis was done using SPSS 23.0 version. Quantitative and qualitative data sets collected through semi-structured questionnaire which contained closed-ended and open-ended questions respectively were analyzed using SPSS 23.0 version. Descriptive statistics in SPSS software was used to analyze different quantitative variables using cross tabulations, frequencies, percentages, central measures of tendencies (mean, mode and median) and standard deviation in order to measure the degree to which supply and demand barriers limit access to formal banking services among VSL members supported by Vision Fund Malawi in Phalombe district. The numeric data analyzed included amounts of loans obtained, savings accounts opened, number of VSL members involved in SMEs, education levels of VSL members, annual turnovers on SMEs done by VSL members and other quasi-quantitative data.

Qualitative data sets gathered through open-ended questions in the face to face interviews was analyzed thematically. In thematic analysis, key themes and sub-themes arising from respondents' answers were identified. These key themes, sub-themes, ideas and views were coded according to similarities in respondents' responses. Interrelated information, ideas, opinions, responses, and observations were coded into relevant sub-themes which supplemented major themes to answer research questions on access to formal banking among VSL members in Phalombe district. Some of the coded data was further analyzed quantitatively using SPSS 23.0.

Data presentation; the study adopted a combination of statistical and graphical data presentation techniques. Kombo and Tromp (2009) contend that there are three ways in which researchers can present data after analysis, which include statistical techniques, graphical techniques and a combination of both. This study adopted both techniques because they complemented each other. For instance, data on average business income that VSL members earned through SMEs was presented statistically by working out the average amounts earned per year, the most earned amounts by the majority VSL members as mode and the middle amounts earned as median

when amounts were arranged in ascending order. Data was also presented graphically using bar graphs, pie charts and histograms. The number of VSL members who accessed formal banking services including use of Auto-Teller Machines (ATM), those who had accessed a loan, distances travelled to the bank, literacy levels of VSL respondents were plotted as bar graphs, pie charts or histogram with different colours of bars corresponding to particular variables.

3.5 Limitations of Study

The study had two main limitations, namely:

The study sample had more female respondents by default than men due to Vision Fund Malawi's policy of forming VSL groups comprising 70% women membership against 30% men, which the researcher had no control over gender composition with female respondents dominating in the study sample.

Financial constraints to meet all research costs in full restricted the researcher to work with a sizable sample of 148 VSL members from T/A Jenala only in Phalombe district leaving out the rest of VSL members in other T/As of Phalombe

3.6 Ethical consideration

The two main ethical considerations in this study were informed consent and confidentiality of the responses from VSL respondents. The study participants signed a written consent after being explained to the objectives of the study and how each one of them was sampled out for inclusion in the study. This ensured that each respondent makes an informed decision before accepting to be interviewed in the study. Total confidentiality on data obtained from respondents was strictly observed as no name of a respondent was written on the paper questionnaire because each VSL respondent was assigned an ID number. Research assistants were not allowed to discuss among themselves the responses obtained from VSL respondents as one way of ensuring confidentiality. Furthermore, permission was sought from Vision Fund Malawi (VFM) National Office in Lilongwe through a letter requesting VFM National office to allow the researcher interview their clients in Phalombe district through a letter in Appendix 3. The Phalombe District Commissioner (DC) office was also informed about this academic research study which took place in their district through a letter in Appendix 4.

3.7 Chapter Summary

The chapter discussed research design, research strategy applied, study population and location, sample size and sampling techniques used, data collection and research instruments, data analysis and presentation of findings. The chapter also highlighted validity and reliability, scales of measurements used, ethical consideration on confidentiality and informed consent in dealing with human subjects as respondents.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents and discusses the data collected from 148 VSL respondents by looking at various outputs from statistical analysis that were run using SPSS 23.0. The chapter gives the descriptive and inferential analysis on the four highlighted barriers that limit access to formal banking services among VSL members under Vision Fund Malawi in Phalombe district. The analyses of the four barriers has been aligned to the three research objectives from sections 4.3 to 4.5. The chapter concludes by determining the main barrier that limit VSL members from accessing formal banking services by comparing various statistical analysis specifically cross tabulations, percentages, “Pearson’s R” correlations, frequencies, Chi-Square Test and measures of central tendency.

4.2 Discussion of Findings

4.2.1 Demographic Characteristics of Respondents

This section discusses respondents’ demographic characteristics that are relevant to this study. The prominent demographic characteristics included age, gender and education attainment of VSL respondents. The respondents were grouped according to age, gender and education level as shown in Table 1.

The age of a VSL member in this study had a bearing on what type of SME a member pursued and in turn how much was earned to afford opening a bank account with a formal bank. Some SMEs required physical fitness and the young adults were dominant members, while other SMEs required minimal strength and were ideal for the elderly VSL members of the Village Savings Loan groups. For instance, the study found that SMEs such as baking scones in ovens in Phalombe was mostly done by young adult VSL members in the age bracket of 26 to 35 years, and were gender sensitive mostly plied by women, while tailoring and fish smoking were mostly done by men in the age brackets of 26 to 35 years and 36 to 45 years, whereas tea room restaurants were run by everybody despite the gender, education level or age including elders in the age brackets of 56-65 years and 66-75 years.

Table 1: VSL Distribution of Respondents' Age, Gender and Educational level Cross tabulation

How far did you go with your education?				Gender		Total
				Male	Female	
Never attended school	Age of	26-35	0	1	1	
	Respondents	36-45	0	5	5	
		46-55	0	4	4	
		56-65	0	1	1	
		66-75	1	0	1	
		Total		1	11	12
Primary level	Age of	15-25	2	10	12	
	Respondents	26-35	6	43	49	
		36-45	2	30	32	
		46-55	0	6	6	
		56-65	2	7	9	
		66-75	0	2	2	
	Total		12	98	110	
Secondary level	Age of	15-25	0	2	2	
	Respondents	26-35	5	12	17	
		36-45	3	4	7	
	Total		8	18	26	
Total	Age of	15-25	2	12	14	
	Respondents	26-35	11	56	67	
		36-45	5	39	44	
		46-55	0	10	10	
		56-65	2	8	10	
		66-75	1	2	3	
	Total		21	127	148	

Table 1, above shows that the most dominant age groups in VSL membership were young adults aged 26 to 35 years representing 45.3% of the total sample. This is seconded by the middle aged group of 36 to 45 years, which represented 29.7% of the sample. Those in the age category of 66-75 years constituted 2% of the total sample. Among other reasons, most VSL members in Phalombe district are involved in strenuous income generating activities including fish mongering, fish smoking, burning of charcoal uphill, baking scones in ovens, transporting goods on foot bikes and motor bikes which all require sufficient energy. Therefore, the membership of most VSL groups was dominated by young adults and the middle aged. However, on education attainment, Table 1, shows that the majority of VSL members a total of 110 respondents representing 74.3% had attained primary education, 17.6% had secondary education and 8.1% never attended school.

Empirical literature on studies done by Chipeta and Kanyumbu (2018), in Malawi and Efobi, Beecroft and Osabuohien (2014) in Nigeria point out various relationships among age, gender and education level of a person and access to formal banking services.

Chipeta and Kanyumbu (2018) in their study, “Determinants of Access to Banking Services in Malawi” contend that education is one of the key determinants of access to banking services because banks in Malawi require their clients to provide their details in English when opening an account and other services. This means that it is easier for people who are able to read and write in English to open and maintain a bank account than for those people who are unable to read and write in English.

Efobi et al. (2014) drew a relationship between age and access to banking service, as the older one becomes the greater the need to save money and consequently the need to have a bank account. Conversely, very old people may find it challenging to use modern banking facilities like ATMs and to use a PIN (Efobi et al., 2014).

On gender and access to banking services, Chipeta and Kanyumbu (2018), point out that despite huge leaps in access to banking services and the financial system globally, it has been shown that there is a persistent gap between the percentage of men and women who have bank accounts based on the 2014 World Bank report. The report showed that 58% of women globally were banked in 2014, compared with 65% of men.

The size of a VSL group was another important characteristic which determined the rate at which savings were accumulated in a savings group before members could start borrowing from the fund. Figure 2, displays the distribution of VSL groups in terms of size ranging from the smallest group with few members to the highest group with many members.

In this study, the average size of a VSL group comprised 13 members as depicted in the histogram with the highest group comprising 24 members and the least group had 8 members as shown in Figure 2. The study found that larger VSL groups with many members (15 members and above) had the advantage of accumulating savings quicker than smaller groups. This enables VSL members to start borrowing from the common fund in less than 3 months, while slower accumulation of savings in smaller VSL groups meant that members start borrowing in the sixth month of savings accumulation.

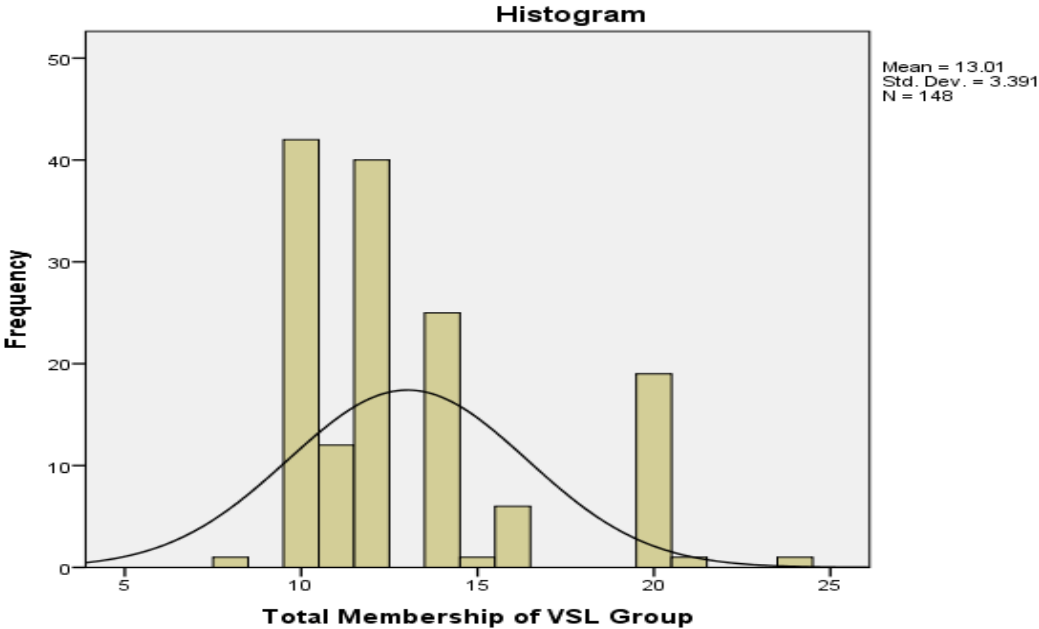


Figure 2: Village Savings Loan (VSL) membership distribution

However, the study revealed that VSL leadership which comprised the chairperson, treasurer and secretary acknowledged that small VSL groups were manageable as compared to larger VSL groups which were problematic because they lacked social cohesion resulting in high default rate in loan repayment. When it comes to gender of the sampled VSL members, female VSL respondents outnumbered the male respondents as depicted in Table 1 which shows a

sample of 148 respondents with 127 females and 21 males representing 85.8% versus 14.2% gender ratio respectively. Female VSL respondents outnumbered males due to Vision Fund Malawi’s gender policy of recruiting 70% women versus 30% men when forming VSL groups as an affirmative action for women economic empowerment (Vesterager, 2009). Probing further why men did not account for the 30% advocated by Vision Fund Malawi, the 14.2% men in the sample stated that some men view the whole VSL model as a feminine undertaking. Some female respondents stated that their husbands warned them against joining VSL groups which had male members for fear of proposing love to them.

External loans received by VSL members from microfinance institutions had an impact on financial inclusion of VSL members. This study found that the majority of VSL members were supported by Vision Fund Malawi a microfinance institution which provided small loans and business trainings to some VSL groups, while some VSL groups were self-supported with no external loans and no business trainings from any microfinance institution as shown in Table 3.

Table 2: VSL groups supported by Vision Fund Malawi or Self-supported

VSL support status	Frequency	Percent	Valid Percent	Cumulative Percent
Vision Fund Supported	124	83.8	83.8	83.8
Self-supported	24	16.2	16.2	100.0
Total	148	100.0	100.0	

Table 2 shows that 124 respondents answered “YES” to being supported by Vision Fund Malawi representing 83.8 %, while 24 respondents representing 16.2% replied “NO”. The high percentage (83.8%) of VSL groups supported by Vision Fund Malawi (VFM) was a result of Vision Fund Malawi operating in the area of Traditional Authority Jenala in Phalombe district since 2010 (Phalombe Social Economic Profile (PSEP), 2016).

Further the study found that VSL members supported by a microfinance institution were more likely to be banked than those in self-supported groups because most microfinance institutions link VSL members to commercial banks where VSL members open group bank accounts and access bigger loans than those offered by microfinance institutions.

4.3 Demand side barriers to access formal banking services

4.3.1 Irregular income

In this study, irregular income as a barrier to access formal banking services among VSL members in Phalombe district referred to the low income and erratic cash flow which left VSL members without bankable income. Income was measured by the type of SME a VSL member plied, how much was earned as annual turnover, and how regular the VSL member got income from an SME i.e. daily, weekly, monthly or seasonal depending on the nature of the SME.

In order to measure the barrier of irregular income, VSL members were asked several questions pertaining to income generating activities which included; whether they were involved in any SMEs, the type of SMEs, how regular they got their income, how they categorized their annual turnover, whether they ever accessed a loan from the bank or not, what their source of income was to buy shares during VSL meetings, how much interest the VSL groups charged to members who borrowed money and to list assets each VSL member managed to acquire because of involvement in VSL income generating activities.

Table 3: VSL members operating SMEs as individuals

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	134	90.5	90.5	90.5
No	14	9.5	9.5	100.0
Total	148	100.0	100.0	

Table 3 shows that out of a total of 148 VSL members interviewed, 134 VSL members operated individual SMEs representing 90.5%. This clearly shows that in addition to operating SMEs as a group venture, most VSL members in Phalombe district operated their own family businesses and only 14 VSL members representing 9.5% did not operate individual small family businesses.

Table 4: Types of Small and Medium Enterprises (SMEs) operated by VSL groups

Name of SME	Frequency	Percent	Valid Percent	Cumulative Percent
Cash crop farming only	38	25.7	25.7	25.7
Livestock rearing only	1	.7	.7	26.4
Both cash crop and livestock farming	29	19.6	19.6	45.9
Other merchandise	78	52.7	52.7	98.6
99	2	1.4	1.4	100.0
Total	148	100.0	100.0	

The study in Table 4 established that the commonest micro businesses conducted in VSL groups were farming of different cash crops and general merchandizing. Farming in VSL groups involved cultivation of cash crops and rearing of different livestock for both commercial and consumption purposes. Table 4 shows that 52.7% of VSL members were involved in general merchandise such as selling fish, dried cassava, tomatoes, local beer, assorted groceries, tailoring, roasted meat, tailoring, operating tea rooms, operating hawkers and vending in second hand clothes.

On the other hand, 25.7% were involved in cash crop farming, cultivating tobacco, pigeon peas and groundnuts, whereas 19.6% were involved in both livestock and cash crop farming. The study further established that none of the VSL members interviewed used mechanized technologies in their farming practices.

It should be pointed out that VSL members were involved in various SMEs that earned them income at different intervals. Frequency of earning income determined cash flow among VSL members. Most VSL members earned their income, weekly, monthly or seasonally depending on the nature of the SME they pursued as summarized in Table 5.

Table 5: Frequency at which VSL group members earned income

Frequency on income earnings	Frequency	Percent	Valid Percent	Cumulative Percent
Daily	47	31.8	31.8	31.8
Weekly	29	19.6	19.6	51.4
Monthly	10	6.8	6.8	58.1
Seasonal (once or twice a year)	62	41.9	41.9	100.0
Total	148	100.0	100.0	

From Table 5, the majority of VSL members (41.9%) earned substantial income seasonally. This is once or twice a year as most of them rely on rain fed agriculture. The two main income generating activities mentioned by VSL members under seasonal income were cultivation of cash crops and rearing of livestock such as goats which multiply faster per annum. However, 31.8% and 19.6% of the VSL members earned income daily and weekly respectively. The daily and weekly incomes were a result of micro businesses of selling doughnuts, tomatoes, dried cassava, dried fish, operating hawkers and tea rooms.

Figure 3, exemplifies SMEs operated by VSL members in terms of annual turnovers in Malawi Kwacha (MWK). During the interviews, each of the VSL respondents was asked to approximate how much they earned from their operated SMEs in a period of 12 months.

Figure 3, shows that the first category of VSL members representing 41.2% of the sample earned below MWK50, 000 per annum from their SMEs. This translates to a maximum of MWK4, 200 on average per month. This partly explains why most VSL members in Phalombe district could not open and maintain a viable bank account due to low monthly income earnings.

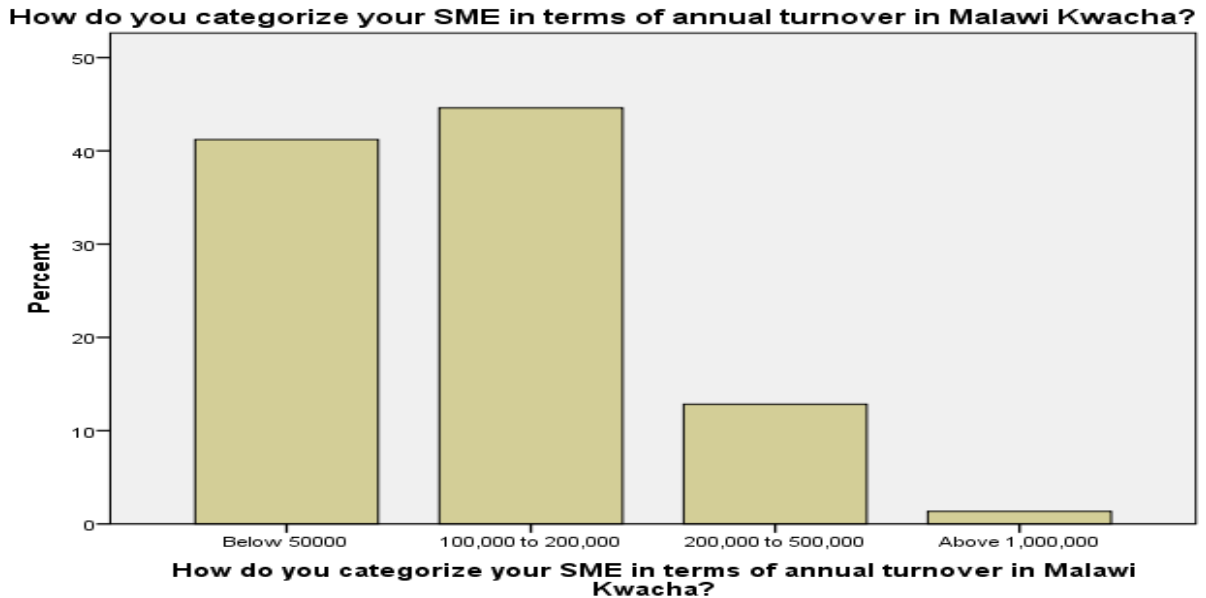


Figure 3: Categorization of SMEs by annual turnover in (MWK) among VSL members

The second category of VSL members representing 44.6 % earned an annual income between MWK 100, 000 to MWK200, 000 which could not either enable VSL members sustain a viable bank account for 12 months. The 3rd category representing 12.8% of VSL members earned annual income between MWK200, 000 to MWK500, 000.

However, the smallest category of VSL members representing 1.4% earned an annual income of above MWK1, 000,000 translating to average monthly income of MWK83, 000. Even with such relatively high earning according to VSL members’ standards, most VSL members did not meet most of their basic needs and have surplus money to bank with formal banks.

The alternative source of credit for most VSL members to boost their micro businesses was VSL groups to which they belonged. Table 6 summaries access to loans from VSL groups by members. It shows that 93.9% accessed loans from VSL groups. On average, VSL groups charged between 10 to 20 percent interest on money lent to members as compared to money lenders who charged interest rates as high as 50% on the borrowed amount (Vesterager, 2009). In VSL groups, money was only loaned to group members for easy recovery. No collateral was demanded for group members to borrow money from the group fund because members trust each other in VSL groups.

Table 6: Percentage of VSL members who accessed loans from VSL groups.

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	139	93.9	93.9	93.9
No	9	6.1	6.1	100.0
Total	148	100.0	100.0	

The group’s cohesion and knowledge of each other’s character and trust among VSL members substituted the demand for physical collateral demanded by formal financial institutions when giving credit facilities to individual customers. VSL members determined the loan amount to be disbursed to each member.

Further analysis was done to determine whether there was a correlation between Annual turnover earned by a VSL member and holding a Personal bank account at commercial banks. Two hypotheses were tested using “Pearson’s r” correlation to determine the relationship. Ho: There is no correlation between annual turnover and holding personal bank account. H1: There is correlation between annual turnover and holding a personal bank account

Table 7: Correlation between Annual turnover and holding personal a bank account

	Do you hold a Personal bank account with any commercial bank?	How do you categorize your SME in terms of annual turnover in Malawi Kwacha?
Do you hold a Personal bank account with any commercial bank? Pearson Correlation Sig. (2-tailed) N	1 148	-.206* .012 148
How do you categorize your SME in terms of annual turnover in Malawi Kwacha? Pearson Correlation Sig. (2-tailed) N	-.206* .012 148	1 148

*. Correlation is significant at the 0.05 level (2-tailed).

From Table 7 of Pearson’s significance p-value at alpha =0.05 to make a decision as to whether fail to reject the null hypothesis (when p-value is above 0.05) or reject it (when p-value is less than 0.05) in favour of the alternative hypothesis. The p-value is 0.012 which is less than 0.05, hence we reject the null hypothesis. This means, there is correlation between annual turnover and holding a bank account among VSL members. However, Pearson value of -0.206 indicates a weak negative correlation between the two variables.

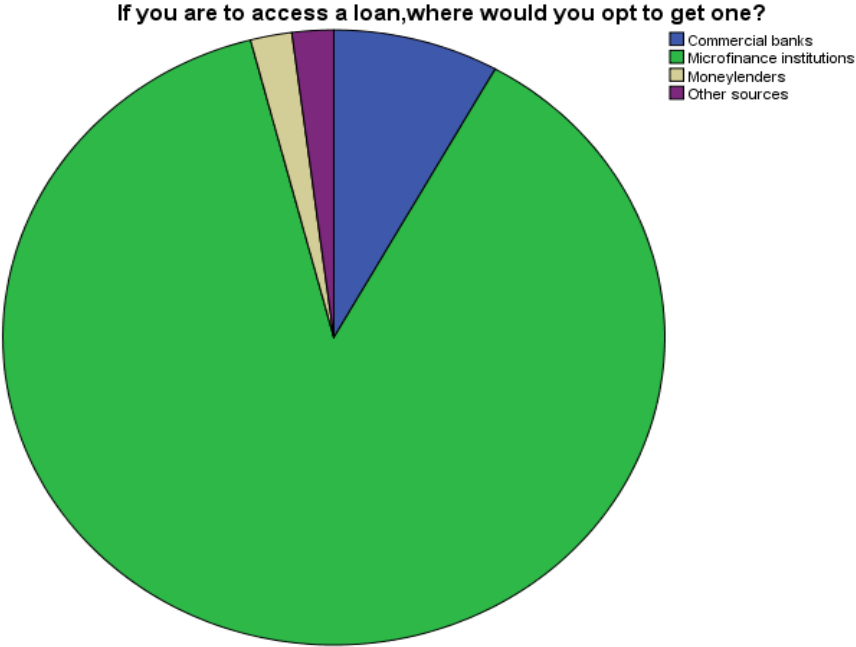


Figure 4: Different sources of credit available for VSL members other than their VSL groups.

In addition to accessing credit from VSL groups, respondents were asked to mention where else they would go to access capital for boosting their SMEs. This was meant to measure their knowledge of alternative sources of credit with regard to different financial institutions offering a range of financial products and services to VSL groups. Figure 4, is a pie chart showing responses on different sources of alternative credit available to VSL members in Phalombe district. The majority of VSL members (87.8%) obtained loans from microfinance institutions like Vision Fund Malawi. This is followed by those who opted for commercial banks at (8.1%). Money lenders and others sources accounted for 4.1% as sources of credit. The reason is that, most microfinance institutions including Vision Fund Malawi operate in remote areas and are

well known by most people living in rural areas as compared to commercial banks, which mostly operate in urban areas. This partly explains the high percentage of VSL members opting to get credit from microfinance institutions because they are readily available in hard-to-reach areas.

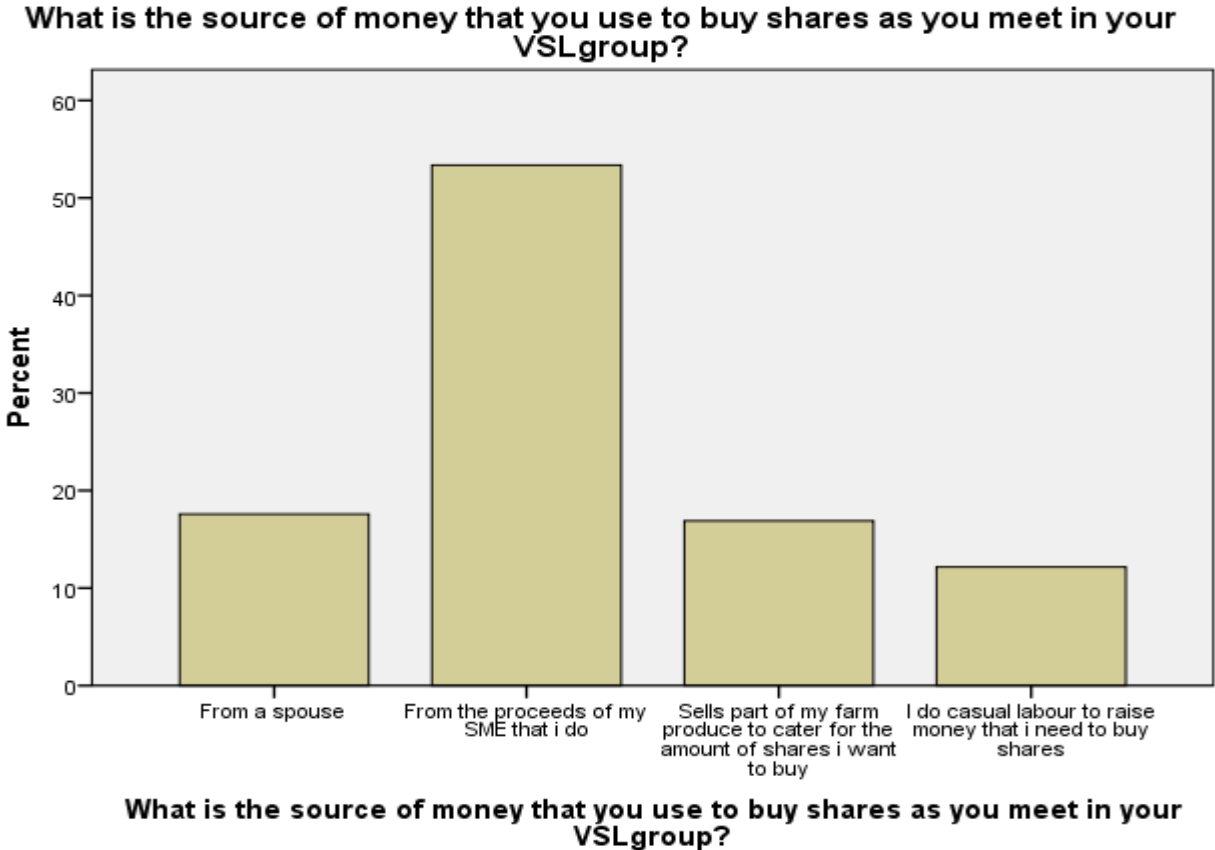


Figure 5: Various sources of money used to buy shares when VSL members gather for meetings

The VSL model requires that members of the group buy shares each time they meet. Some groups meet every week or fortnight while others monthly depending on an individual group’s constitution. The value of a share is agreed upon by the members at the beginning of the saving cycle. A maximum number of shares which a member can purchase at once are also determined at the beginning of a cycle. It is compulsory for each member to buy a share each time members gather. VSL members have different sources where they get the money to buy shares in their respective VSL groups as outlined in Figure 5. The majoring of VSL members (53.4%) used

money from the proceeds of their SMEs to buy shares during their weekly and monthly meetings. While 17.6% got money to buy shares from their spouses. Those that raised money through selling part of their farm produce accounted for 16.9%. The last category (12.2%) did casual labour to raise money to buy shares during meetings.

The majority of VSL members reported to have acquired assets, utensils and managed to meet most of their basic needs as a result of involvement in VSL income generating activities. The frequently mentioned assets and other property which VSL members acquired due to VSL activities included ox-cart, iron-sheet roofed houses, bicycles, motorcycles, chickens, goats, pigs, kitchen utensils, farm inputs, bought uniforms for children, opened restaurant, bought land, paid school fees and burnt bricks among other utilities.

When VSL members were asked for their reasons on what commercial banks needed to innovate in order to attract more rural people to access formal banking services particularly opening of bank accounts and access credit facilities, varied responses were given. The majority of VSL members (20.3%) responded that banks can attract them by offering loans to VSL group members. Serving customers quickly in the banking halls accounted for 19.6%, while 18.9% wanted bank branches to be close to each other to attract them. Sensitize people on the advantages of keeping money in the bank accounted for 17.6% of the responses and reducing bank charges accounted for 10.8%. Remove bank charges completely accounted for 8.1%. While 4.7% of respondents were not sure.

4.3.2 Literacy level

Financial isolation of the rural people often is a result of low literacy in understanding financial products and services offered by formal financial institutions predominantly commercial banks. In this study, in order to measure the degree to which literacy level limits VSL members in Phalombe district to access formal banking services, several questions pertaining to their knowledge on financial institutions and other financial providers were asked.

The study asked the following key questions: Whether a VSL member held an account with any commercial bank as an individual or as a group; to mention any four commercial banks that

VSL members knew in Malawi and any two services that such commercial banks offered; to state the main reasons why VSL members hardly access formal banking services; whether VSL members sometimes transact with Airtel Money or Mpamba as substitutes for opening a bank account; whether they knew about mobile van banking; and their opinion on who is eligible to transact with commercial banks. Table 8, is a cross tabulation summary of educational level attained by 148 VSL respondents interviewed in this study and their bank account holding status.

Table 8: Cross tabulation of VSL members' level of education and bank account holding status

	How far did you go with your education?			Total
	Never attended school	Primary level	Secondary level	
Do you hold a Personal Yes bank account with any No commercial bank?	0	18	6	24
	12	92	20	124
Total	12	110	26	148

From Table 8, the majority of VSL members (74.3%) had attended primary school, 17.6% attended secondary education and 8.1% never attended school. None of the VSL members had attained tertiary education. The low literacy levels shown in Table 7, had put off some VSL members who stated that too much paper work in filling bank forms in English when opening a bank account and filling of withdraw slips in English scared them to transact with formal banks. Empirical literature in a study conducted by Archana (2013), contends that low levels of education deprive citizens of formal banking services as the majority are not aware of products and services offered by formal financial institutions. The fact that most VSL members in Phalombe district have low levels of formal education as portrayed in Table 7, particularly secondary education with the majority attending lower primary, partly explains why only 16.2% of VSL members had personal bank accounts with the majority (83.8%) having none.

However, when it came to group bank accounts, as depicted in Table 9: 74.3% of VSL members responded to belong to group bank accounts in their VSL groups.

Table 9: VSL group bank accounts held at commercial banks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	110	74.3	74.3	74.3
	No	38	25.7	25.7	100.0
	Total	148	100.0	100.0	

Firstly, it is a requirement by each VSL group to open a group bank account with a commercial bank in order to access group loan from Vision Fund Malawi. Table 9 shows that 110 VSL members representing 74.3% of the sample belonged to VSL groups that owned group bank accounts with commercial banks, while 38 VSL members representing 25.7% belonged to VSL groups that did not have group bank accounts with any commercial bank. The group bank account acts as a collateral for the VSL group to access a loan from Vision Fund Malawi. Secondly, VSL members cited that it was easier to maintain a viable group bank account because of the steady cash flow coming from VSL members as they meet each week.

In this study, the high percentage at 74.3% in holding group bank accounts as shown in Table 9 is attributed to several other factors, other than education level shown in Table 10, as Pearson value of -0.137 indicates a negative correlation between educational level of a VSL member and holding of a personal bank account with commercial banks.

Table 10: Correlation: VSL members' level of education and bank account holding status

	Do you hold a Personal bank account with any commercial bank?	How far did you go with your education?
Do you hold a Personal bank account with any commercial bank?	1	-.137
Pearson Correlation		.096
Sig. (2-tailed)		
N	148	148
How far did you go with your education?	-.137	1
Pearson Correlation		.096
Sig. (2-tailed)		
N	148	148

Further analysis was carried out to establish if there was a correlation between gender of VSL members, and opening of group bank account as Table 11 shows that more females belonged to VSL groups that held bank accounts with commercial banks while less males belonged to such VSL groups.

Table 11. Gender of VSL members’ vs group bank account holding at commercial banks

Crosstab					
			Does your VSL group hold a group bank account with any bank?		Total
			Yes	No	
Gender	Male	Count	18	3	21
		%	16.4%	7.9%	14.2%
	Female	Count	92	35	127
		%	83.6%	92.1%	85.8%
Total		Count	110	38	148
		%	100.0%	100.0%	100.0%

From the cross tabulation Table 11, it is clear that 16.4% of those whose VSL groups held bank accounts with commercial banks were males, while 83.6 % were females in computation that 18/110 males belong to VSL groups with bank accounts, while 92/110 females belong to VSL that own bank accounts. There seemed to be a correlation between gender of VSL member and holding of a group bank account with commercial banks among VSL members.

Table 12 summarizes the correlation using “Pearson’s R” correlation. Two hypotheses were tested using “Pearson’s R” correlation.

Ho: There is no correlation between Gender and having a VSL group bank account

H1: There is correlation between Gender and having a VSL group bank account

From Table 12, the Pearson's value is 0.106 and p-value of 0.200. From Pearson's value of 0.106 this means that there is slightly positive correlation between gender and holding of group bank accounts among VSL members though not a strong correlation.

Alternatively, using the p-value to interpret the stated hypotheses, as in $p\text{-value}=0.200 > 0.05$. Hence we fail to reject the null hypothesis, and conclude that there is no strong correlation between the two variables.

Table 12. Correlation: Gender of VSL member vs bank account holding with banks

		Gender	Does your VSL group hold a group bank account with any bank?
Gender	Pearson Correlation	1	.106
	Sig. (2-tailed)		.200
	N	148	148
Does your VSL group hold a group bank account with any bank?	Pearson Correlation	.106	1
	Sig. (2-tailed)	.200	
	N	148	148

To further find out whether gender was associated with holding VSL group bank account, Chi-Square Test was used to test the association as shown in Table 13 of Chi-Square Test.

Going by rule of thumb, Chi-Square Test significance p-value at $\alpha = 0.05$ to make a decision as to whether fail to reject the null hypothesis (when p-value is above 0.05) or reject it (when p-value is less than 0.05) in favour of the alternative hypothesis.

From Table 13 of Chi-Square Test (value 1.664) the p-value is 0.197, which is greater than 0.05, hence we fail to reject the null hypothesis. This means, gender is not associated with holding a VSL group bank account

Table 13: Association: Gender of respondent vs bank account holding with commercial banks

Chi-Square Tests						
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	
Pearson Chi-Square	1.664 ^a	1	.197			
Continuity Correction ^b	1.041	1	.308			
Likelihood Ratio	1.848	1	.174			
Fisher's Exact Test				.282	.153	
Linear-by-Linear Association	1.652	1	.199			
N of Valid Cases	148					
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 5.39.						
b. Computed only for a 2x2 table						

The study further assessed VSL members' knowledge on commercial banks in Malawi by asking respondents to mention any four commercial banks that they knew. The majority of VSL members mentioned the names of banks correctly, but others had partial or no knowledge of any commercial bank in Malawi. The VSL members who had partial knowledge of commercial banks in Malawi mentioned the Reserve Bank of Malawi and Old Mutual as examples of commercial banks.

The most frequently mentioned commercial bank was FDH (61.5%), because it was the first bank to get established in Phalombe district, seconded by National Bank (7.4%) while Opportunity Bank and NBS banks came third and fourth at 5.4% and 4.1% respectively. Only 4% of VSL members mentioned Standard Bank, Inde Bank and FMB as commercial banks.

The rest at 17.6% did not know the names of commercial banks but managed to describe the banks by their colors such as red bank, blue bank, and maroon bank which was sometimes difficult to match the colors with actual names of existing commercial banks in Malawi.

To further assess their financial literacy, VSL members were asked to list two services offered by commercial banks. The highly mentioned functions were saving money for customers (44.3%) and offering loans to customers (25.9%). The other less mentioned bank services which accounted for 29.8% included remittances, payments, opening bank accounts for customers and withdraws.

Furthermore, VSL members were interviewed if they transacted with mobile money platforms namely: Airtel Money and Mpamba as substitutes for commercial banks. The majority of VSL members (62.2%) transacted with Mpamba and Airtel Money platforms, while 37.8% did not transact with either Mpamba or Airtel Money as indicated in Table 14. It is documented that since the dawn of Airtel money in 2012 and TNM Mpamba in 2013 there were more than one million five hundred users of the facility by 2015 (Rogoff, 2016).

Table 14: VSL members who transacted with Mpamba or Airtel money platforms

Mobile Money transactions	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	92	62.2	62.2	62.2
No	56	37.8	37.8	100.0
Total	148	100.0	100.0	

The study further analyzed data to find out whether VSL members who transacted with Airtel Money and Mpamba regarded the two mobile platforms as complete substitutes for opening bank accounts. Table 15 shows that 31.1% of VSL members regarded Airtel Money and Mpamba mobile money platforms as complete substitutes for opening a bank account. Empirical literature from Kenya indicate that M-Pesa a comparable mobile money platform to Airtel Money and Mpamba in Malawi has closed the gap in reaching out to people in rural Kenya who are not served by commercial banks.

Studies done by Calleo Payment Technologies (2014), point out that the most significant move in financial inclusion in Africa in the last 10 years has been the success of mobile money services which continues to bridge the gap left by conventional brick-and-mortar banking system. The most cited example of this, is M-Pesa the mobile money transfer service in Kenya which was launched in 2007 by Safaricom, the country’s largest mobile-network operator (Calleo Payment Technologies, 2014).

However, the majority of VSL members at 68.9% as shown in Table 15 responded that the two mobile platforms were not complete substitutes for opening a bank account. Some VSL respondents stated that mobile money platforms were convenient, despite not performing core functions of a commercial bank such as offering group loans to VSL members. Secondly, VSL members pointed out that mobile money platforms had limitations on amounts to be transacted per day especially in remote areas where large amounts of money was difficult to access from mobile money agents.

Table 15: VSL members who regarded mobile money platforms as complete substitutes for opening a bank account

Mobile Money transactions	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	46	31.1	31.1	31.1
No	102	68.9	68.9	100.0
Total	148	100.0	100.0	

The study further assessed VSL members’ knowledge of mobile van banking as one of the innovations the banking industry has advanced to reach out the rural people with formal banking services. Results of this inquiry are presented in Table 16.

Table 16: VLS members’ awareness on existence of Mobile Van Banking services

Mobile Van Services	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	105	70.9	70.9	70.9
No	43	29.1	29.1	100.0
Total	148	100.0	100.0	

From the responses in Table 16, the majority of VSL members (70.9%) in Phalombe district were aware of mobile van banking services, whereas 29.1% expressed ignorance of the existing mobile van banking services. Mobile van banking increases financial inclusion by reaching out to people in rural areas where brick-and-mortar types of banking does not exist to offer banking services (Beck, 2009).

Finally, the study assessed the respondents' perceptions with regard to the widely held world view that commercial banks are meant to serve the affluent citizens residing in urban areas and not poor people in rural areas. The study asked the following question to get the perceptions of VSL members: In your own opinion, who is eligible to transact with commercial banks? Table 17 summarizes the perceptions on eligibility of VSL members to transact with commercial banks.

Table 17: Respondent' Perceptions on who is eligible to transact with Commercial Banks

	Frequency	Percent	Valid Percent	Cumulative Percent
Rich people only	5	3.4	3.4	3.4
Everyone who seeks banking services	143	96.6	96.6	100.0
Total	148	100.0	100.0	

It is apparent from Table 17 that VSL members were aware that everyone was eligible to transact with commercial banks with 96.6% responding that everyone was eligible. However, 3.4% had the perception that only rich people were eligible to transact with commercial banks.

4.4 Supply side barriers to access formal banking services

4.4.1 Distance to the bank

The study found that Phalombe district had one fully fledged commercial bank, the FDH bank at the time of the study in 2017. Existing and potential customers who needed fully fledged banking services including VSL members had to travel from various remote parts of Phalombe to access formal banking services at FDH bank branch. In order to assess the degree to which

distance was a barrier among VSL members to access formal banking services, VSL respondents were asked the following questions during interviews:

Was distance a hindrance to access formal banking services? Were formal banking services easily accessed in Phalombe district through other means? How long did it take to access the nearest bank branch? Whether if distance was reduced it could attract more people to transact with commercial banks? What is the cost of transport to access the nearest bank branch? The results in Table 18, showed that distance restricted 60.1% of VSL members from accessing formal banking services. The VSL respondents cited high costs in transport fares to and from the bank branch as not being cost effective in relation to erratic cash flows earned from various SMEs they pursued. However, 39.9% of the respondents replied that distance was not a barrier to access formal banking services but rather irregular income and erratic cash flows.

Table 18: Distance to the nearest bank branch as a barrier to access formal banking services

Distance as barrier		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	89	60.1	60.1	60.1
	No	59	39.9	39.9	100.0
	Total	148	100.0	100.0	

Chipeta and Kanyumbu (2018) established that access to banking services in Malawi rises with higher levels of education and that distance to the nearest bank branch is negatively correlated with access to banking services.

While access to formal banking services was affected by long distances and other barriers, VSL members were asked to state whether banking services were easily accessed in Phalombe district, through alternative means such as mobile van banking and use of kiosk agents of Airtel Money and Mpamba platforms as shown in Table 19.

Table 19: Access to formal banking services through alternative means by VSL members

Accessibility	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	70	47.3	47.3	47.3
No	78	52.7	52.7	100.0
Total	148	100.0	100.0	

The slightly high percentage of the respondents at 47.3% in Table 19 accessing formal banking services in Phalombe district despite long distances to the nearest bank branch was attributed to mobile van banking interventions operated by Opportunity bank and Inde bank on designated days of the week. The mobile van banking alternative shortened distance for VSL members who could not travel to Phalombe town centre to access formal banking services. Instead, the mobile vans travelled to remotest areas of Phalombe to offer banking services thereby shortening distance travelled by customers.

Furthermore, the correlation between distance and account holding was tested. Two hypotheses were tested using “Pearson’s r” correlation.

Ho: There is no correlation between distance to bank and account holding

H1: There is correlation between distance to bank and account holding

Table 20: Correlation: Holding personal bank account vs distance to nearest bank branch

	Do you hold a Personal bank account with any commercial bank?	How long does it take you to access the nearest bank branch?
Do you hold a Personal bank account with any commercial bank? Pearson Correlation Sig. (2-tailed) N	1 148	.111 .180 148
How long does it take you to access the nearest bank branch? Pearson Correlation Sig. (2-tailed) N	.111 .180 148	1 148

From Table 20 using Pearson’s value of 0.111 shows that there is a slightly positive correlation between holding personal bank account and distance travelled to nearest bank branch by VSL members. While the p-value=0.180 > 0.05. Hence we fail to reject the null hypothesis, and

conclude that there is no strong correlation between holding personal bank account and distance to nearest bank branch.

Furthermore, VSL members were asked to approximate the distances they travelled to access formal banking services. The distances were categorized into four: very near (5km), somehow far (15km), far (30km) and very far (more than 30km).

The results showed that none of the VSL members travelled the shortest distance of 5km to access formal banking services to the nearest bank branch. The majority at 93.9% travelled 30km to access the nearest bank branch. Those that travelled 15km were 2% and more than 30km were 4.1%. However, as highlighted by Archana (2013), a reasonable distance from the bank is between 3 to 4 kilometers, which means all VSL members in Phalombe district travelled long distances as all the 148 VSL respondents travelled more than 5 km.

VSL members were also asked to state whether they would transact with commercial banks if distances they travelled to access the nearest bank branch were reduced by bringing services closer to the people. Table 21 summarizes the responses of the 148 VSL members that were interviewed.

Table 21: Distribution of VSL members on willingness to transact with commercial banks if distances were reduced

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	141	95.3	95.3	95.3
No	7	4.7	4.7	100.0
Total	148	100.0	100.0	

Most of the VSL members (95.3%) were willing to transact with commercial banks if distances to service points were reduced. Reducing distances meant commercial banks building bank branches close to each other or adopting innovating means such as mobile van banking where customers can be followed in rural areas to offer them fully fledged banking services at their door step on designated days.

Long distances to access formal banking services in this study were associated with high costs on transport fares which customers pay in order to reach the places where banks are located. In this study, VSL members were asked to broadly state how much it cost them in Malawi Kwacha (MWK) to travel to reach the nearest bank branch. The fares were categorized into four as follows: Less than MWK 1,500; MWK 2,000 to MWK 3,000; MWK 3,000 to MWK 5,000 and above MWK 5,000. The transport fares were based on the cheapest means of public transport in Malawi which includes, buses, minibuses and other public vehicles excluding luxurious coach buses.

The study found that none of the VSL members paid above MWK 5,000 to access formal banking services. The majority (58.1%) paid between MWK 2,000 to MKW 3,000 to travel to the nearest bank branch. In general, 70.3% of VSL members paid between MWK 2,000 to MWK 5,000 to access banking services at the nearest bank branch, which is quite a big amount for an average villager. The high cost in transport fares discouraged those VSL members with low income and erratic cash flows to access formal banking services. The official exchange rate of Malawi Kwacha (MWK) to 1 US\$ was 1USD = MWK750 at the time of the study.

4.4.2 Lack of necessary identification documents

The study further assessed the degree to which lack of Identification Documents (IDs) among VSL members inhibited them from accessing formal banking services. To ascertain the percentage of VSL members with valid identification documents that are acceptable by the banks, the study asked the following questions during face to face interviews:

What identification documents VSL members possessed; whether they were ever sent back from the bank due to lack of valid IDs; whether VSL members were familiar with various forms at the bank which customers fill in to transact; whether people from rural areas would open bank accounts if they were not requested to produce IDs in order to transact; Finally, what commercial banks should do to better serve people from rural areas with formal banking services.

Table 22 summarizes the most common types of IDs among VSL members presented to banks in order to access formal banking services including opening of bank accounts and withdrawing cash.

Table 22: Summary of the various types of IDs that VSL members used to open bank accounts

Type of identification document	Frequency	Percent	Valid Percent	Cumulative Percent
Voter Registration Card (VRC) from Malawi Electoral Commission	139	93.9	93.9	93.9
National Identity Card (NIC) issued by National Registration Bureau	2	1.4	1.4	95.3
Letter from the chief or village head	7	4.7	4.7	100.0
Total	148	100.0	100.0	

The results from the study showed that the majority of the VSL members (93.9%) used Voter Registration Cards (VRC) from Malawi Electoral Commission (MEC) as identification documents to transact with commercial banks as depicted in Table 22. The high possession of VRC among VSL members was as a result of presidential general elections that are conducted every 5 years where every eligible citizens of Malawi that are above 18 years of age are issued with VRC as a voting tool. The other types of identification documents that were mentioned during data collection but uncommon among VSL members included driving licenses, birth certificates and international passports.

The other types of IDs apart from the VRC which were less frequently used included the National Identity Card (NIC) because at the time of this study, most citizens in Malawi had not yet received their NICs.

However, the use of a letter from the chief was acceptable by some banks for opening a bank account but had two setbacks: Firstly, some VSL members who sought identification letters from their village chiefs were asked to pay for it, which put them off.

Secondly, some commercial banks did not accept letters from chiefs as authentic IDs to open bank accounts. The study further established that some VSL members did not possess any form of IDs including the most common form of identification document, the voter registration card which is issued every five years to Malawian citizens aged 18 years and above for voting purposes.

In order to underscore the importance of valid IDs, some commercial banks send back customers who did not bring authentic IDs. The 148 VSL members were asked to state whether they had ever been sent back from the bank due to lack of authentic identification documents.

Table 23 outlines their responses. Out of the 148 VSL respondents, only 42 people representing 28.4% were ever sent back due to non-possession of identification documents. It is a requirement by the central bank that all customers are properly identified (KYC requirement) before opening bank accounts. Mandiwa (2014) points out that KYC principles insist that when doing any bank transaction with a customer, to a minimum, the institutions should access the full identity of the customer like passport and, driving licence but the best among the identifications is the National ID.

Table 23: VSL members sent back from a bank due to lack of authentic IDs.

Identification	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	42	28.4	28.4	28.4
No	106	71.6	71.6	100.0
Total	148	100.0	100.0	

In addition to IDs, most rural people shun formal banking services due to unfamiliarity with paper work which commercial banks subject customers to fill in forms when transacting. In this study, out of the 148 VSL respondents, 67 (45.3%) responded to be familiar with paper work

while 81 (54.3%) were not familiar with bank forms. Those who were not familiar with paper work attributed this to low literacy levels in understanding financial transactions and the complexity of paper work which commercial banks ought to simplify.

The study further investigated whether VSL members could transact with commercial banks if they were exempted from being asked to produce identification documents. Exemption on IDs was to rule out if VSL members with stable income but had no IDs would open bank accounts with commercial banks if they were exempted. Table 24, shows positive responses from the 148 VSL members who responded that they could transact with commercial banks if IDs were not a requirement.

Table 24: Distribution of VSL members who would transact with formal banks if IDs were not a requirement

Identification documents	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	108	73.0	73.0	73.0
No	40	27.0	27.0	100.0
Total	148	100.0	100.0	

The respondents were of the view that many people from rural areas would transact with commercial banks if they were exempted from IDs. Out of 148 respondents, 73.0% favoured exemption on IDs and 27.0% were of the view that exemption on IDs would not encourage rural people to transact with commercial banks. Other VSL members feared for the safety of their money in the bank if IDs were exempted to transact on the counter. Lack of IDs as a barrier among VSL members had low weighting because 93.9% of the 148 respondents responded to have Voter Registration Cards issued by MEC which they used as authentic IDs at the time of the study.

4.5 Ranking of Formal Banks’ Access Barriers

The conclusive objective of the study ranked the four barriers of demand and supply in magnitude of limiting access to formal banking services expressed as a percentage. Each VSL

member was asked to rank the barriers from the most limiting barrier to the less limiting barrier among the four barriers presented in Figure 6.

The barriers in Figure 6 were divided into demand and supply sides. The demand barrier on irregular income (not sufficient income to maintain a viable bank account) ranked the highest limiting barrier restraining 58.1% of VSL members from accessing formal banking services. The supply barrier on long distances which are costly to access banking services had 23.6% of responses as second limiting barrier in hierarchy. The other two barriers; literacy level of a VSL member and lack of authentic identification documents ranked 16.2% and 2.1% respectively on limiting access to formal banking services among VSL members in Phalombe district.

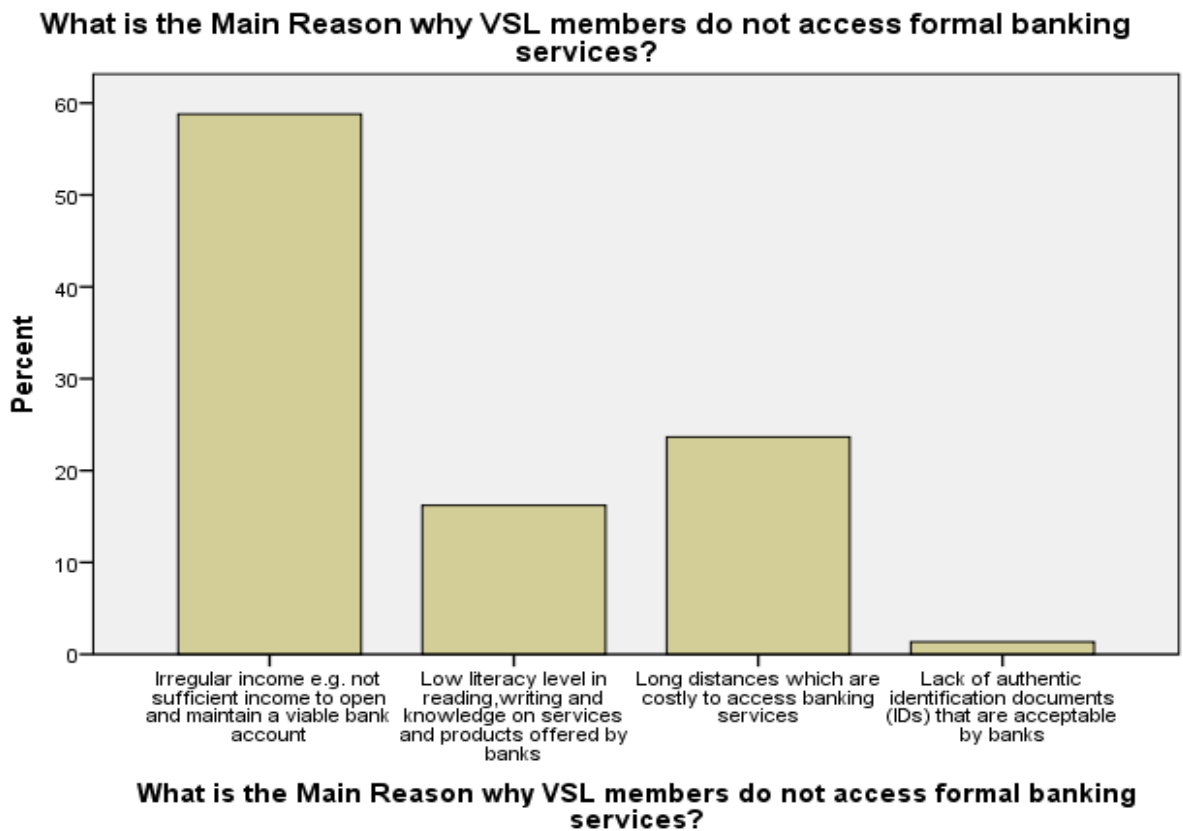


Figure 6: Demand and supply barriers limiting access to formal banking services

The study found that irregular income among VSL members in Phalombe district was a result of numerous economic factors. The most common cited factors included lack of sufficient capital to finance their SMEs, low monthly turnover on micro businesses operated by VSL

members which its profit catered for their basic needs and part of it ploughed back into microbusinesses.

4.6 Chapter Summary

This chapter presented the results data analyses and discussion. It was found that irregular income was the major barrier that hindered 58.1% of VSL members from accessing formal banking services in Phalombe district, whereas long distances to the bank accounted for 23.6% as a barrier. Literacy level of VSL members accounted for 16.2% as a barrier, while lack of proper identification documents was an insignificant barrier rated at 2.1% as a barrier.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the conclusions that have been drawn from the study findings discussed in chapter four. The chapter has been presented in order of research questions on conclusions, followed by sections on recommendations and areas for further research.

5.2 Study Conclusions

5.2.1 What proportion of VSL members in Phalombe district under Vision Fund Malawi are unable to access formal banking services?

The study found that despite the majority of the VSL members (83.8%) were being supported by Vision Fund Malawi (VFM) a microfinance institution with business trainings and initial loans as capital to set up SMEs or boost existing ones, access to formal banking services measured by access to credit and opening of bank accounts with formal banks remained low in Phalombe district. The study measured access to formal banking services at both individual and group levels. According to this study, only 16.2% of the VSL members had personal bank accounts with commercial banks, while 83.8% did not hold a bank account.

However, the study found that group banking was high among VSL members as 74.3 % of VSL members reported that they belonged to VSL groups which had bank accounts with commercial banks. The study further found that 28.4% of the VSL members were sent bank from commercial banks due lack of authentic identification documents required by commercial banks as part of KYC. The majority of VSL members at 62.2% in Phalombe district used either Mpamba or Airtel Money in their financial transactions which they cited as a financial service that was readily available in their villages. The other members (31.1%) that were partly satisfied regarded the use of Airtel money and Mpamba as complete substitutes for opening a bank account. Besides, the majority of VSL members under VFM in Phalombe district were women

who pointed out during the study that they were responsible for providing for their families and that money realized from VSL income generating activities was used to buy food for the family and had no surplus to keep in the bank. In comparison with other African developing countries, Malawians in rural areas are largely unbanked at individual level with only 17% of the adults holding bank accounts with formal banks in 2012 as compared to other countries in Africa with adult bank account holding rate of 80% in Mauritius, 54% in South Africa, 40% in Mozambique and 33% in Rwanda (Kunt & Klapper, 2012a).

5.2.2 To what extent do demand and supply barriers limit VSL members supported by Vision Fund Malawi in Phalombe district from accessing formal banking services?

In this study, the barriers to access formal banking services among VSL members were categorized into demand driven and supply driven barriers. The study found that the extent to which supply and demand barriers limit VSL members from accessing formal banking services varied greatly with some being significant barriers while others being negligible. Demand driven barriers derive from customers or potential customers who seek formal banking services, while supply driven barriers emanate from financial service providers, in this case commercial banks, which provide formal banking services to the unbanked people.

The results showed that there was no adequate demand for formal banking services among VSL members in Phalombe district due to irregular income. Irregular income as a demand barrier was the major factor that hindered 58.1% of VSL members from accessing formal banking services in Phalombe district, whereas long distances to the bank branch as a supply barrier hindered 23.6% of VSL members from accessing formal banking services. Literacy level of VSL members accounted for 16.2% as a barrier to access banking services, while lack of authentic identification documents was an insignificant supply barrier rated at 2.1% as a limitation to access banking services.

The study concluded that the two most significant barriers that limited access to formal banking services among VSL members in Phalombe district were irregular income rated at 58.1% as a barrier and long distances to the nearest bank branch rated at 23.6% as demand and supply barriers respectively. The other two; literacy level and lack of authentic identification documents were rated as minor barriers at 16.2% and 2.1% as demand and supply barriers

respectively that hindered access to formal banking services. The study also unearthed other barriers that VSL members mentioned during interviews that restricted access to formal banking services which included high interest rates charged on loans, poor reception of customers by frontline bank staff, high service fee charges, information asymmetry on products and services offered by banks and collateral requirements to access loans.

The study findings further revealed that most VSL members lacked basic needs, such as food and clothing which if offered a loan by commercial banks, the loan firstly was channeled to fulfilling these needs instead of using the money as business capital. The study further found a correlation between educational level and bank account opening, where a portion (12.2%) of the VSL members with primary education in this study stated that they held a bank account with a formal bank, which was not the case with those who never attended school.

5.2.3 What financial interventions should be pursued to mitigate barriers that hinder VSL members under Vision Fund Malawi from accessing formal banking services

This study further explored what VSL members felt should be done from the supply and demand sides in terms of products and services offered by financial institutions predominantly commercial banks to ease the barriers of long distances, literacy level, irregular income and lack of authentic identification documents.

The study found mixed responses from VSL members who pointed out that both government and financial institutions needed to implement a number of favorable policies that accommodate people from rural areas who are characterized by erratic cash flows, low financial literacy levels and travel long distances to access formal banking services. Specifically, the study found that simplified KYC among VSL members living in rural areas would attract them to transact with formal banks. Reduced paper work among illiterate VSL members was highly mentioned as an incentive to attract the illiterate but bankable VSL members. Improved attitude and good customer care of bank staff towards VSL members from rural areas featured highly as a motivating factor to acquire new customers. Civic education on financial products and services offered by commercial banks through community campaign was recommended by most VSL members as an awareness tool to bridge information gap between users and service providers.

In conclusion, the demand and supply barriers to access formal banking services among VSL members had varying degree of hindrances. The highly ranked demand and supply barriers in order of limitation to access formal banking services were irregular income and distance to the bank rated at 58.1% and 26.3% respectively.

Despite irregular income being ranked as the major barrier to access formal banking services among VSL members in Phalombe, the root causes of irregular income in this study varied among VSL members ranging from floods, droughts, poor harvest and poor prices of farm produce which resulted into low income among VSL members leading them not to seek banking services. Financial institutions, both microfinance and commercial banks, as revealed in this study need to tackle the problem of financial inclusion not only by providing frontline banking services of opening bank accounts and loan disbursement for people in rural areas, but go an extra mile providing insurance cover for property, natural disasters and offer training in SMEs as one way to build economic resilience in VSL members.

5.3 Recommendations

- 5.3.1 Commercial banks should open more bank branches in rural areas to reduce the distances travelled by the unbanked majority of VSL members seeking formal banking services as the study revealed that 23.6% of VSL members in Phalombe district are constrained by long distances to access formal banking services.
- 5.3.2 Enhance financial literacy among VSL members through community awareness campaigns on products and services offered by financial institutions as one way of creating demand for formal banking services among the unbanked. The study revealed that only 18.9% and 31.1% of respondents knew of loans and savings accounts respectively as the only services offered by commercial banks.
- 5.3.3 Microfinance institutions should empower VSL members business-wise at both individual and group levels with sustainable sources of micro-loans that will enable VSL members boost their SMEs. Microfinance institutions in this study were ranked 87.2% as most readily available source of credit in rural areas among VSL members, seconded by commercial banks at 7.4%, moneylenders 2% and other sources at 3.4%.
- 5.3.4 Commercial banks should increase the use of intermediary deliver channels such as agent banking, use of mobile phones and mobile vans to bring banking services to the

unbanked population residing in rural areas as part of financial inclusion. The study found that 62.2% of VSL members used both Airtel money and Mpamba to transact and that 31.1% further responded that they considered Airtel money and Mpamba as complete substitutes for opening a bank account

5.4 Areas for further research

The current study only assessed four barriers namely; irregular income, literacy level, distance to the bank and lack of identification documents limiting access to formal banking services among VSL members in Phalombe district. The following areas need further research to complement the findings of the current study:

5.4.1 Harmonization of informal and formal financial sectors

Further research is needed to harmonize the current status of the two sectors, the informal and the formal financial sectors which are working in parallel structures with the informal sector serving people from rural areas including VSL members, while the formal sector dominated by commercial banks serving the affluent targeting people residing in urban areas.

5.4.2 The role of Microfinance institutions in poverty reduction

It has been argued in some economic and developmental studies (Pagura and Kirsten, 2014), as to whether microfinance institutions are more profit oriented, where loan beneficiaries are left more indebted than before, or developmental oriented, where credit beneficiaries are left more economically empowered as projects phase out. It is imperative to undertake further research in areas where Vision Fund Malawi (VFM) has operated for more than 5 years including Phalombe district to establish whether the microfinance institution has had a positive impact in empowering VSL members economically or has left them more indebted than before?

5.4.3 Effectiveness of mobile money and banking on wheels in achieving financial inclusion

From 2011 Malawi witnessed the expansion of banking services using alternative delivery channels apart from the banking hall, such as mobile money and banking on wheels, where a van goes to designated rural areas on specific days to offer banking services to the financially

excluded populations (Mandiwa, 2014). However, some customers are not comfortable to open bank accounts and transact with bank on wheels because they think their money is not safe. Some banks started banking on wheels' operations but stopped due to various reasons. Further research is needed to determine the extent to which mobile money and banking on wheels have contributed in reaching out to the financially excluded people in rural areas of Malawi

REFERENCES

- Abel, S., Mutandwa, L., & Roux. (2018). A Review of determinants of financial inclusion. *International Journal of Economics and Financial Issues*, 8 (3), 1-8. Retrieved from www.econjournals.com.
- African Youth Empower and Development Initiative (AYEDI, 2018). *Village Savings and Loan Association*. Boston, MA 02210: The Bantwana Initiative of World Education, Inc.
- Akers, G. (2011). *Business to Billions: The Challenge to Financial Exclusion*. London: Clanwood Publishers.
- Akudugu, M.A. (2013). The Determinants of Financial Inclusion in Western Africa: Insights from Ghana. *Research Journal of Finance and Accounting*, 4(8), 1-10.
- Allan, A. (2013). *Banking on Change-Breaking Barriers to Financial Inclusion*. London: CARE International.
- Allen, H. (2014). *Program Guide-Filed Operations Manual for Village Savings Groups*. Solingen: Solingen Publishing.
- Archana, H.N. (2013). Financial Inclusion-Role of Institutions. *Innovative Journal of Business and Management*, 2 (1), 44-48.
- Atkinson, A. and F. A. Messy, (2012). *Measuring Financial Literacy: Results of the OECD International Network on Financial Education*. Working Papers on Finance, Insurance and Private Pensions, No. 15. Retrieved from <http://dx.doi.org/10.1787/5k9csfs90fr4-en>
- Beck, T. (2009). Banking Services for Everyone. *Journal of Financial Economics*, 58 (4), 261-300.
- Beck, T., Demirguc-Kunt, A., & Peria, M. (2005). *Reaching out: Access to and use of Banking Services across Countries*. World Bank Policy Research Working Paper 375. Retrieved from http://siteresources.worldbank.org/DEC/Resources/Reaching_out_Access_to_and_use_of_Banking_Services.pdf.
- Beck, T. & De La Torre, (2007). The basic analytics of access to financial services. *Financial Markets, Institutions and Instruments*, 16 (2). Tilburg University.
- Bhuvana, M. (2016) Drivers of Financial Inclusion to Reach Out Poor. *Arabian Journal of Business and Management Review*, 6 (4), 235. doi:10.4172/2223-5833.1000235.

- Calleo Payment Technologies (2014). *Accessing the Unbanked: Branchless Banking in Africa*. Cape Town: Research Division.
- Carbo, S., & Molyneux, J. (2005). *Financial Exclusion*. Palgrave: MacMillan.
- Chaia, A., Aparna, D., & Tony, G. (2010). *Half the World is Unbanked*. World Bank Policy Research Working Paper 5028.
- Chakrabarty, K. (2015). *Financial Inclusion in India-A Road Map towards Growth of Initiatives and Achievements*. New Delhi: Reserve Bank of India.
- Chipeta, C., & Kanyumbu, E. (2018). *Determinants of Access to Banking Services in Malawi*. Zomba: Southern African Institute for Economic. AERC Research. Research Paper 351.
- Chipeta, C., & Mkandawire, M.L.C. (1991). *The Informal Financial Sector and Macroeconomic Adjustment in Malawi*. AERC Research paper 4, Nairobi: African Economic Research Consortium.
- Chiteli, N. (2013). Agent Banking Operations as a Competitive Strategy of Commercial Banks in Kisumu City. *International Journal of Business and Social Sciences*, 4 (13), 1-19.
- Chithra, N., & Selvan, M. (2013). *Determinants of Financial Inclusion: An Empirical Study on Inter-State Variations in India*. Retrieved from <http://dx.doi.org/10.2139/ssrn.2296096>.
- Christabell, P. (2012). Financial Inclusion in Rural India: The Role of Microfinance as a Tool. *IOSR Journal of Humanities and Social Science*, 2 (5), 1-5.
- Consultative Group to Assist the Poor (CGAP) (2015). Community-Managed Loan Funds: Which Ones Work? *Delhi Business Journal*, 5 (12), 67-78.
- Cull, R. (2013). *Banking the World: Empirical Foundations of Financial Inclusion*. Massachusetts: Massachusetts Institute of Technology.
- Dewatripoint, M., Rochet, J., & Tirole (2010). *Balancing the Banks: Global lessons from the Financial Crisis*. Princeton: Princeton University Press.
- Efobi, U., Beecroft & Osabuohien, E., (2014). Access to and use of bank services in Nigeria: Micro-economic evidence. *Review of Development Finance*, 4, 104-114.
- FinScope Consumer Survey Malawi (2014). *Making Financial Markets Work for the Poor*. Johannesburg: Finmark Trust.
- Goshi, J. (2013). Microfinance and the Challenge of Financial Inclusion for Development. *Cambridge Journal of Economics*, 37 (6), 1203-1219.

- Helms, B. (2006). *Access for All: Building Inclusive Financial System*, CGAP. Retrieved from <http://www.cgap.Org/gm/document-1.9.2715/Book AccessforAll.pdf>.
- Iyer, I. (2014). *Financial Inclusion in India-Why Distinguishing between Access and Use has become more important*. New Delhi: National Council of Applied Research.
- Jarden, F. (2017). *Five ways East Africa is leading the World on Financial Inclusion through Savings Groups*. CARE International: Webinar State of New Linkage Report.
- Kadale Consultants (2009). *Supply Side of Financial Inclusion in Malawi*. Final Report. Retrieved from <http://www.mamn.mw/images/resources/2.pdf>.
- Karlan, D., & Savonitto, B. (2011). *Evaluating Village Savings and Loans Associations in Malawi*. New Haven: Innovations for Poverty Action.
- Karlana, D., Thuysbaert, B., & Udry, C. (2017). *Impact of Savings Groups on the Lives of the Rural Poor in Ghana, Malawi and Uganda*. New Haven: Innovations for Poverty Action
- Kesavan, V. (2015). Financial Inclusion in India-A Road Map towards Growth of Initiatives and Achievements. *IOSR Journal of Economics and Finance (IOSRJEF)*, 6 (3), 70-81.
- Key, J. (2010). *Research Design in Occupational Education*. Oklahoma: State University.
- Keynes, J.M. (1936). *The General Theory of Employment. Interest and Money*. London: Macmillan.
- Kombo, K., & Tromp, D. (2009). *Proposal and Thesis Writing: An Introduction*. Nairobi: Paulines Publication Africa.
- Ksoll, C., Lilleor, H.B., & Lonborg, J.H. (2013). *Impact of Village Savings and Loans Associations: Evidence from a Cluster Randomized Trial*. Denmark: Rockwool Foundation.
- Kunt, D., & Klapper, L. (2012a). *Financial Inclusion in Africa: An Overview of World Bank Policy*. Research Working Paper No. WPS 6088.
- Kunt, D., & Klapper, L. (2012b). *Measuring Financial Inclusion: The Global Findex Database*. World Bank Policy Working Research Paper 6025. Retrieved from <http://documents.worldbank.org/curated/en/453121468331738740/pdf/WPS6025.pdf>.
- Laha, A. (2011). Determinants of financial inclusion: A study of some selected districts of West Bengal, India. *Indian Journal of Finance*, 5 (8), 1-20.

- Latortue, A., & Ardic, O. (2013). *Financial Inclusion: Blurred Lines*. Sharper Vision. Retrieved from <http://www.cgap.org/blog/financial-inclusion-blurred-lines-sharper-vision>.
- Levine, R. (2005). Stock Markets, Banks and Economic Growth. *American Economic Review*, 88 (3), 537-558.
- Linde, T., & Spencer, M. (2015). *Access to Financial Services and Women's Empowerment: An Evaluation of a Village Savings and Loans Associations in Rural Malawi*. Sweden: University of Gothenburg.
- Maksimovic, V., & Beck, T. (2004). Bank Competition and Access to Finance: International Evidence. *Journal of Money, Credit, and Banking*, 36 (3), 627-648.
- Mandiwa, M. (2014). *Access to Financial Services in Malawi: Policies and Challenges*. Lilongwe: Ministry of Finance, Economic Planning and Development.
- Mises, V. (1980). *Theories of Banking, Economics of Money and Credit*. New York: Ronald Press Company.
- Morduch, J. (2010). *The Microfinance Schism*. New Jersey: Princeton University Press.
- Moskal, B., & Leyden, J. (2010). *Validity and Reliability*. London: Oxford University Press.
- Mwansakilwa, C., Tembo, G., Zulu, M.M., & Wamulume, M. (2017). Village Savings and Loan Associations and Household Welfare: Evidence from Eastern and Western Zambia. *African Journal of Agriculture and Resource Economics*, 12 (1), 85-97
- Naik, P. (2013). Financial Inclusion-Key to Economic and Social Development. *CSR Mandate*, 1 (1), 1-4.
- Nandru, P., Anand, B., & Rentala, S. (2016). Exploring the factors impacting financial inclusion: Evidence from South India. *Annual Research Journal of SCMS*, 4 (1), 1-15.
- National Statistics Office (NSO) (2010). *Malawi Integrated Household Survey*. Zomba: National Statistics Office.
- Nkuna, O., Montfaucon, A.F., Kabango, G., & Kaude, P. (2018). The Role of Commercial Banks on Financial Inclusion in Malawi. *Open Journal of Business and Management*, 6, 812-832.
- Odell, M. (2011). *Microfinance in Africa: State of the Sector Report*. Accra: Access Africa.
- Oji, C. (2015). *Promoting Financial Inclusion for Inclusive Growth in Africa*. Pretoria: South African Institute of International Affairs.

- Pagura, M., & Kirsten, M. (2014). *Formal-Informal Financial Linkages: Lessons from Developing Countries*. India: Small Enterprise Development Institute.
- Pai, D. (2010). *Overview of Financial Inclusion and Micro Credit*. India: Municipal Press Limited.
- Phalombe District Council (2016). *Phalombe Social Economic Profile*. Phalombe. Retrieved from www.malawi.gov.mw.
- Reserve Bank of Malawi (1992). *Economic and Financial Review*. Lilongwe: Reserve Bank of Malawi.
- Rogoff, K. (201). Costs and benefits to phasing out paper currency. *NBER Macroeconomics Annual*, 29 (1), 445-456
- Sabola, T. (2017). *Seventy Five Percent of Malawians Unbanked*. Blantyre: Bankers Institute of Malawi.
- Shankar, S. (2013). Financial Inclusion in India: Do Microfinance Institutions Address Access Barriers? *ACRN Journal of Entrepreneurship Perspective*, 2 (1), 60-74.
- Siddik, N.A., Sun, G., Shanmugan, J., & Yanjuam, C. (2015). Impacts of e-banking on performance of banks in developing economy: Empirical evidence from Bangladesh, *Journal of Business Economics and Management*, 17 (6), 1066-1080.
- Singh, A., & Tandon, P. (2012). Financial inclusion in India: An Analysis. *International Journal of Marketing, Financial Services and Management Research*, 6, 23-30.
- Stijn, C., & Liliana, R. (2009). Policy Principles for Expanding Financial Access. *Journal of International Development*, 28, 75-90.
- Suran, K. (2009). *Farming Land and Property ownership in Bangladesh*. London: Oxford Press.
- Svarer, C. (2011). *National and International Barriers and Opportunities to Formal Banking*. London : Prentice Hall.
- Uddin, A.A., Chowdhury, M.A.F., & Islam, N. (2017). Determinants of financial inclusion in Bangladesh: Dynamic GMM and quantile regression approach, *Journal of Development Areas*, 51 (2), 221-237.
- Vesterager, J. (2009). *Savings to Survive in Malawi*. Copenhagen: The Rockwool Foundation.
- Vimala, V. (2015). The Impact of Information Technology Adoption on the Customer of Bank of India-An Evaluation Study. *Journal of Business and Management*, 17 (3) 39-44.

- Waihenya, H. (2012). *The effect of Agent Banking on Financial Inclusion in Kenya*.
Nairobi: University of Nairobi.
- Werner, R. A. (2016). A Lost Century in Economics: Three Theories of Banking and the
Conclusive evidence. *International Review of Financial Analysis*, 46, 361-379.
- World Bank (2008). *Republic of Malawi Poverty and Vulnerability Assessment Investing in our
Future*. Washington DC
- World Bank (2014). *The Global Financial Index Development Report*. Washington DC
- Zikmund. W.G. 1991). *Business Research Methods*. Orlando: The Dryden Press
- Zin, A., & Weill, L. (2016). The Determinants of Financial Inclusion in Africa. *Review of
Development Finance*. Retrieved from doi.org/10.1016/j.rdf.2016.05.001.

APPENDIX 1: SEMI-STRUCTURED QUESTIONNAIRE FOR VSL MEMBERS
ASSESSING BARRIERS LIMITING ACCESS TO FORMAL BANKING SERVICES
AMONG VILLAGE SAVINGS LOAN MEMBERS UNDER VISION FUND MALAWI IN
PHALOMBE DISTRICT

PREAMBLE: Tick \surd in **Blank Boxes** accordingly, then **Circle** and **Fill** the rest of the Questionnaire

Age of Respondent: Gender: Male Female

Name of Village Savings Loan group where the Respondent belongs:.....

Total Membership of VSL group Vision Fund Supported Self-supported group

DEMAND SIDE BARRIERS TO ACCESS FORMAL BANKING SERVICES

(A) Irregular income as barrier to access formal banking services

Q.1. Are you involved in any form of Small and Medium Enterprise (SME) as an individual?

- Yes
- No

Q.2. What type of business do you do in your Village Savings and Loan (VSL) group?

- Cash crop farming
- Livestock farming
- Both cash crop farming and livestock rearing
- Other merchandise.....(Specify)

Q.3. How regular do you get your income?

- Daily
- Weekly
- Monthly
- Seasonal (once or twice a year)

Q.4. How do you categorize your SME in terms of annual turnover in Malawi Kwacha (MWK)?

- Below 50,000
- 100,000 to 200,000
- 200,000 to 500,000

- Above 1,000,000

Q.5. Have you ever accessed a loan to grow your business?

- Yes
- No

Q.6. If you are to access a loan, where would you opt to get one?

- Commercial banks
- Microfinance institutions
- Moneylenders
- Other

sources.....(Specify)

Q.7. What is the source of money that you use to buy shares as you meet in your VSL group?

- From a spouse
- From the proceeds of my Small and Medium Enterprise (SME) that I do
- Sells part of my farm produce to cater for the amount of shares I want to buy
- I do casual labour to raise money that I need to buy shares

Q.8. How much interest does your VSL group charge if a member borrows VSL group funds?

- Less than 10%
- 10%
- 20%
- More than 20%

Q.9. List any **four assets** that you own because of your involvement in VSL income generating activities

-
-
-
-

Q.10.What should commercial banks do in order to attract VSL members to start accessing formal banking services mainly opening bank accounts and accessing credit facilities?

-
-
-

-

(B) Literacy level as barrier to access formal banking services

Q.11. How far did you go with your education?

- Never attended school
- Primary level
- Secondary level
- College/Technical level

Q.12. Do you hold a Personal bank account with any commercial bank?

- Yes
- No

Q.13. Does your VSL group hold a group bank account with any bank?

- Yes
- No

Q.14. Mention any **Four (4)** Commercial Banks that you know in Malawi

-
-
-
-

Q.15. Mention any **Two (2)** services offered by Commercial banks

-
-

Q.16. What is the **Main Reason** why VSL members do not access formal banking services?

- Irregular income e.g. not sufficient income to open and maintain a viable bank account
- Low literacy level in reading, writing and knowledge on services and products offered by banks
- Long distances which are costly to access banking services
- Lack of authentic identification documents (IDs) that are acceptable by banks

Q.17. Do you sometimes transact with either **Airtel Money or Mpamba**

- Yes.
- No

Q.18. Do you consider **Airtel Money** or **Mpamba** *as complete substitutes* for opening a bank account?

- Yes
- No

Q.19. Are you aware of **Mobile Van Banking services** offered by commercial banks in Malawi?

- Yes.
- No.

Q.20. In your own opinion, who is eligible to transact with banks?

- Rich people only
- Everyone who seeks banking services
- People living in towns and cities
- Don't know

SUPPLY BARRIERS TO ACCESS FORMAL BANKING SERVICES

(C) Distance to the bank as barrier to access formal banking services

Q.21. Is distance a hindrance to you for not opening a bank account?

- Yes
- No

Q.22. Are formal banking services **easily** accessible to you in Phalombe district?

- Yes
- No

Q.23. How long does it take you to access the nearest bank branch?

- Very near (5 km)
- Somehow far (15 km)
- Far (30 km)
- Very far (More than 30 km)

Q.24. Would you transact with banks if distances were reduced to reach the nearest bank branch?

- Yes

- No

Q.25. How much does it cost you in transport (Malawi Kwacha=MWK) to reach the nearest bank branch?

- Less than 1,500
- 2,000 to 3,000
- 3,000 to 5,000
- Above 5,000

(D) Lack of necessary identification as barrier to access formal banking services

Q.26. What identification document do you have that banks may require if you were to open an account?

- Voter Registration Card from Malawi Electoral Commission (MEC)
- Passport
- National Identity Card (NIC) issued by National Registration Bureau
- Letter from the chief or village head
- Don't have any identification at the moment

Q.27. Have you ever been sent back from a bank due to lack of proper identification documents?

- Yes
- No

Q.28. Are you familiar with various bank forms that a customer fills in a bank when transacting?

- Yes
- No

Q.29. Do you think many rural people would open bank accounts with commercial banks if they were exempted from being asked to produce authentic identification documents?

- Yes
- No

Q.30. What do you think banks should do to serve rural people who do not have authentic identification documents but are willing to open bank account with formal banks?

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

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

APPENDIX 2: INTRODUCTORY LETTER FROM THEPOLYTECHNIC



PRINCIPAL
Professor Grant Kululanga, PhD. Eng.,
MSc. Eng., BSc. Eng., MASCE

Our Ref.:
14/MGT/B3

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

Your Ref:

Date: 6th November, 2017

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

LETTER OF INTRODUCTION FOR MR JOEL NKHONYA

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

I hereby confirm that Mr Joel Nkhonya is indeed a student and currently undertaking a research titled;

“Assessing barriers hindering access to formal banking services among village savings loan members under vision fund Malawi in Phalombe district”

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

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

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'ALICK KAUMBA'.

ALICK KAUMBA
Head of Department -Management Studies

APPENDIX 3: LETTER TO VISION FUND MALAWI OFFICE

Link Community Development

P.O. Box 1608, Lilongwe

6th October, 2017

Cell: 0999 373 849 / 0881 362 324

REF: MBA/13/BT/036

The Chief Executive Officer

Vision Fund Malawi

Mpatsa House

Private Bag A232, Lilongwe

Dear Sir/Madam,

ACADEMIC RESEARCH TO INTERVIEW VILLAGE SAVINGS LOAN (VSL) MEMBERS UNDER VISION FUND MALAWI IN TRADITIONAL AUTHORITY JENALA IN PHALOMBE DISTRICT

The above underlined subject in bold refers.

I am a student pursuing Executive Master of Business Administration (MBA) with The Polytechnic of the University Of Malawi, from 2014 to 2016 who has completed course work and now I am in the process of collecting data for my Thesis. I am currently working with Link Community Development based in Mzuzu.

In line with research ethics and procedures especially when dealing with human subjects, I hereby seek permission to interview some members of the 19 VSL groups under T/A Jenala in Phalombe district where I intend to draw my research sample.

I intend to administer a questionnaire to 148 VSL members out of a population of 239 VSL members drawn from the 19 villages under T/A Jenala where Vision Fund Malawi is operating.

Looking forward to your favorable response.

Yours faithfully,

JOEL W.C. NKHONYA

APPENDIX 4: LETTER TO THE DISTRICT COMMISSIONER PHALOMBE

Link Community Development Malawi

P.O. Box 1608, Lilongwe

6th October, 2017

REF: MBA/13/BT/036

The District Commissioner
Phalombe District Assembly
Private Bag 32, Phalombe

Dear Sir/Madam,

ACADEMIC RESEARCH TO INTERVIEW VILLAGE SAVINGS LOAN (VSL) MEMBERS UNDER VISION FUND MALAWI IN TRADITIONAL AUTHORITY JENALA IN PHALOMBE DISTRICT

The above underlined subject in bold refers.

I am a student pursuing Master of Business Administration (Executive MBA) with The Polytechnic of the University Of Malawi, from 2014 to 2016 who has completed course work and now I am in the process of collecting data for my Thesis. I am currently working with Link Community Development Malawi based in Northern Education Division (NED) in Mzuzu.

Knowing that any developmental activity cannot go or be implemented in a district without going through the District Commissioners' office which is the highest office of authority at district level, I hereby seek permission to interview VSL members in T/A Jenala who are registered with Vision Fund Malawi.

I intend to administer a questionnaire to 148 VSL members out of a population of 239 VSL members drawn from the 19 villages under T/A Jenala where Vision Fund is operating. Furthermore, I assure the Office of The District Commissioner Phalombe that this survey is purely conducted for academic purposes only.

Looking forward to your favorable response.

Yours faithfully,



JOEL W.C. NKHONYA