THE DIMENSION OF GROUP SAVINGS AND LOANS ASSOCIATIONS (GSLA) IN INFORMAL FINANCIAL SERVICES PROVISION

The Economic Use of Savings in Rural Areas
An Alternative Strategy to Accessing Financial Services
‘Knowledge is a patrimony of humanity and not a privilege of a few. It must be spread among everyone who is interested to learn and used by everyone who needs it’

Marcelo Dougnac
ABSTRACT

Access and effect of rural financial services on livelihoods has been the focus of many studies and programme design in developing countries for some time. Growth of community based financial services delivery is emerging at an exponential rate in developing countries as they bring access and convenience to the largely excluded population by the formal financial services sector.

This monograph captures findings of research on the effect of GSLAs on rural livelihoods which manifests itself in wealth accumulation and access to financial services. Sampled formal GSLAs on Malawi Lake Basin Programme in Salina district of rural Malawi responded to a questionnaire administered by field staff. The findings showed that the effect of GSLAs on rural livelihoods is similar in all groups and these include access to financial services, asset accumulation and reduced dependency on exploitative local loan sharks.

GSLAs bring both internal and external benefits to the practising group and community at large. Internally to the group members they learn the habit of saving and investment which leads to reduced dependency on external borrowing from local loan sharks who exploit the rural poor and enhances working in groups for mutual benefits. Externally, to the community at large, GSLA involvement reduces the number of community members that would have been idle and therefore non-productive. This builds a foundation for development of rural community managed financial systems in the long run, as precursors to financial cooperatives.

The findings make an invaluable contribution to the search for a solution for reduced dependency on government loan schemes and exploitative loan arrangement by the rich few in the rural communities, and making financial services accessible by the underserved in rural communities.

The research recommends that placing financial services in the hands of the rural poor should be coupled with knowledge acquisition in enterprise management through use of community managed self-learning methodology called study circle, both of which have capacity to reach out to more people and enhances community ownership and control.

The contents of this monograph were first presented in 2014 as a Thesis to obtain a Masters in Business Administration Degree at Eastern and Southern Africa Management Institute.
This monograph is a product of ideas from many people. It is not possible to mention all of them who have contributed to this work but realistically, I am very indebted to Dr. Will Kaberuka for valuable input and Programme Director, Malawi Lake Basin Programme Mr. Ulf Lindgren, for allowing me to engage field staff for data collection.

In addition, I am grateful to the participants of the study, in particular all respondents from Group Savings and Loans Associations. I thank them all most sincerely for the time and effort to provide information I needed for the study. I also appreciate the role played by Salima District Malawi Lake Basin Programme Staff for their support during the data collection, especially Mr. Mtendere Chitete, Mr. Archangel Munthali and Mr. Mwabi Sichinga.

Special appreciation should go to the reviewers of the draft manuscript who are men in the “trenches” as far as GSLA implementation is concerned in the field namely; Mtendere Chitete and Lovemore Mtalimanja.

Finally, I am indebted to Dr. Marcelo Dougnac who believed in my abilities and strengthened the belief in me that rural development is a slow process and requires patience.

The motivation to publish results of the study is derived in what Late Maya Angelou once said; “When You Learn, Teach; When You Get, Give” And the suggested changes in the VSLA methodology are inspired by what Peter Drucker rightly said “Knowledge has to be Improved, Challenged, and Increased Constantly, or it Vanishes”
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LIST OF ABBREVIATIONS AND ACRONYMS

CBSG    Community Based Savings Groups
CGAP    Consultative Group to Assist the Poorest
EPA     Extension Planning Area
ESAMI   Eastern and Southern Africa Management Institute
FGD     Focus Group Discussion
FINSCOPE Financial Scope
FUM     Farmers Union of Malawi
GSLA    Group Savings and Loans Association
ICA     International Cooperative Alliance
IMF     International Monetary Fund
KYC     Know Your Customer
MBA     Master’s Degree in Business Administration
MFI     Microfinance Institution
MLBP    Malawi Lake Basin Programme
MUSCCO  Malawi Union of Savings and Credit Cooperatives
NASFAM  National Smallholder Farmers Association of Malawi
NBS     New Building Society
OIBM    Opportunity International Bank of Malawi
NGO     Non- Governmental Organization
PCR     Poupanca e Credito Rotativo
SACCO   Savings and Credit Cooperatives
SCC     Swedish Cooperative Centre
SPSS    Statistical Package for Social Scientists
WOCCU   World Council of Credit Unions
CHAPTER 1
INTRODUCTION

1.1 Background to the Study

This monograph, compiles information, study results, communities’ reactions, and fundamentally the author’s own experience in rural financial services provision. The intent of this publication is to present study results but also to provide practical guidance to field staff especially those promoting financial service inclusion based on savings led microfinance services.

Malawi is a landlocked country situated to the south–eastern region of Africa. It shares boundaries with Tanzania, Mozambique and Zambia. The Great Rift Valley passes from the north to south of the country. The Lake Malawi runs in the valley. Malawi’s economy is considered to be among the least developed in the World and is densely populated with widespread poverty and unemployment. Some of the important key features of Malawi are; (i) national currency is Malawi Kwacha (MK), (ii) total size is 118,484 square kilometers of which 94,080 square kilometers is land and 24, square kilometers is water. The World Bank and International Monetary Fund (2008) estimated that 90% of Malawi’s population of 13.1 million is unbanked. This, points at high poverty incidences and high degree of informality. The rural population is estimated at around 6.4 million of adult population representing 85.52% of Malawi’s population. The World Bank and IMF (2008) further noted that a good percentage of Malawians live below the poverty line and that 22%, representing 2.7 million people still live in extreme poverty. The situation tends to be worse in rural areas where most of the populace do not have access to formal financial services and their related products. Accordingly, this calls for a need to increase access to financial services that can reach out to rural people who are shun by formal financial services providers. Financial services provision in Malawi is provided by a wide range of financial institutions and emerging market distractors such mobile phone operators and providers of quick loans that are confined to major trading centers, towns and cities. Though mobile money agents are existent in rural areas, there services are limited to money transfers and do not provide a complete package of financial
services such as savings facilities and loans. Besides, the agents are sometimes limited in the amount of funds availability for one to access through money transfers. Accordingly, there are distortions in the Malawi’s financial system making it the financial landscape largely unsophisticated and very narrow in scope and outreach. According to the Financial Sector Assessment Programme Report of 2007, the total assets of the financial system were estimated at $1.5 billion of which 60% are with the banking system. There are eleven licensed banks. A wide range of non-bank microfinance institutions, payroll based money lenders and member owned financial cooperatives (SACCOs). In addition to these formal players there is also an array of informal providers of financial services. Most of the financial players tend to concentrate their operations and services in urban and/or peri-urban centers of the country thereby excluding the vast majority of population found in rural areas. According to the Malawi Financial Scope (FinScope study) of 2008 the percentage of Malawians that is excluded by formal financial services is high at 81% and these are mostly found in rural areas. To make significant breakthrough on increasing access to financial services to the financially excluded, interventions with apt systems and structures should be designed or adapted to intended users targeting the rural population. This is why MUSCCO with its enormous nation-wide outreach potential to reach even the most remote rural areas is well positioned to deepen financial service delivery through community based financial services model called GSLAs as SACCO precursors. The GSLA model of financial services delivery is modeled on the popular Village Savings and Loans Association (VSLA) model popularized by CARE International (Allen, 2002). The justification for name change from VSLA to GSLA by MUSCCO and its partners in the Malawi Lake Basin Programme is premised on the fact that in one village there could be more than one group involved in savings and loans activities as a means to financial services accessibility, hence Group Savings and Loans Association (Dougnac, 2006)

Group Savings and Loans Association (GSLA) is a small-scale community managed financial institution whose basic principle is that members of a self-selected group, usually from the adult population, voluntarily form Group Savings and Loans Association group and save money through the purchasing of shares. The savings are invested in a loan fund from which members can borrow repaying with an affordable
interest rate with the purpose of growing the fund. Embedded in the methodology is also a community managed insurance service called Social Fund which is aimed at assisting group members during emergencies such as funeral, sickness and accidents.

The groups are made up of 10-29 members to strike a balance between being big enough to create a useful pool of capital and small enough to keep meetings manageable. Membership is open to both men and women, but at least three of the five elected group leaders are women.

All transactions are carried out at meetings in front of all members to ensure transparency and accountability. To ensure that transactions do not take place outside regular group meetings, a lockable cash box is kept, to prevent unauthorized cash movement and the risk that records might be tampered with (Allen 2002).

The cycle of savings and lending is time bound, usually from one to ten or eleven months. At the end of each cycle the accumulated savings and loan interest earned are shared out amongst the membership in proportion to the amount that each member has saved throughout the cycle. This is critical for upholding issues of transparency and maintaining the confidence of the members, as emphasized by the VSLA Associates manual published in 2002.

The primary purpose of a Group Savings and Loans Association group is to provide simple access to financial services through convenient structures that are located in rural areas and urban poor settlements through affordable savings in form of shares and provision of small but useful loans to members that do have access to formal financial services due to restrictions that formal financial services have put in place in form of conditions to open savings accounts and access loans. Most formal financial services in Malawi will require that their clients produce utility bills (water and electricity) to open an account and yet even in the urban poor settlements majority access water through communal water kiosks and are not connected to electricity. The situation is even worse in rural areas where access to water is through boreholes provided by government development initiatives and access to electricity connectivity is largely absent.

On Malawi Lake Basin Programme GSLAs are mobilized by programme extension workers responsible for financial services. The first step in the mobilization is sensitization of local leaders who then organize community meetings for potential GSLA members’ sensiti-
zation meetings. During the community sensitization meetings, extension describe how the GSLA operates in terms of savings and loan products, management of the meetings and composition of management committee that facilitate meetings and responsibilities of each committee member. Management committee of a GSLA is made up of five people namely; chairperson, record keeper, two money counters and box keeper. After community sensitization meetings then, willing community members form groups and each group is then trained. After the training the groups develop constitutions, elect committee members and then are provided with a GSLA kit comprising of a cash box, a ledger, member passbooks, padlocks and string draw bags in preparation for commencement of savings and lending activities. On Malawi Lake Basin Programme, the record keeping system that is promoted is figure based. In the course of savings and lending activities, there is little or no money kept in the cash box, as at the end of each meeting once members save and repay loans, all the money is borrowed by other members. What remains in the cash box are records in form of ledgers and passbooks. Since these groups are informal, they are not regulated by government but they are self-moni-toed based on their constitutions. Malawi Lake Basin Programme staff supervises the activities to ensure that procedures are adhered to, but programme staff do not tamper with the operations of the groups, but rather they provide guidance where necessary. To enhance promotion of the model, community elected community facilitators are trained to assist in the community sensitization meetings after undergoing an intensive training on the methodology. These community facilitators are volunteers and members of good performing GSLAs. In the GSLA, funds that are lent to members are internally generated through member savings (shares), interest on loans and fines. Therefore apart from bringing financial services to members, though informal, community members learn the habit of regular saving.

1.2 Statement of the problem

Access to financial services is still considerably low particularly when you take into account the fact that only 19% of Malawians have formal access to finance. When one looks at the microfinance industry in Malawi which includes financial cooperatives (SACCOs) it is clear that MUSCCO through SACCOs affiliated to it, is a major and important
player on the market. Notwithstanding the progress achieved by MUSCCO since its establishment in 1980, membership in SACCOs is still low compared to the adult economically active population. Membership penetration lies at 1%. Because of the absence of apt financial systems and structures in rural areas, rural masses are at the mercy of local loan sharks that abuse local populace. In order to significantly improve and deepen access to finance especially in rural areas, SACCOs must attain at least 10% penetration of the adult population. The research problem for study therefore is low participation in financial services by rural community members due to absence of appropriate financial services delivery structures.

1.3 Objectives of the study
Based on the fore stated problem statement the following were research objectives;
1. To determine the effect that GSLA has had on the livelihood of its members?
2. To determine whether participation of the community in GSLAs activities helps members accumulate wealth.
3. To establish whether participation in GSLA reduces the members’ dependency on local loan sharks that exploits them.
4. To establish how participation in Group Savings and Loans Associations methodology enables rural communities participate in financial services.

1.4 Research Questions
The proposed research will basically respond to the following questions;
1. Does good Group Savings and Loans Associations methodology have an effect on livelihoods of participating members?
2. Do Group Savings and Loans Associations assist members to accumulate household wealth?
3. To what extent does participation in Group Savings and Loans Associations by rural communities contribute to reduced dependency on exploitative local loan sharks?
4. How Group Savings and Loans Associations methodology enable rural communities to participate in financial services especially savings and lending?
1.5 Significance of the study

While there have been some studies on the Village Savings and Loans Associations, in this study referred to as Group Savings and Loans Associations in the past where most studies focused on performance of GSLAs and a few studies focused on the effect of the GSLA on the socio-economic status of the rural Malawians who are mostly small scale farmers, this study therefore was aimed at confirming and complimenting the existing studies by establishing the level of effect that GSLAs have on the livelihoods of rural individuals by looking at selected indicators. The results have responded to the dilemma of the question “Why a majority of rural community members prefer to remain and access financial services at a GSLA level other than upgrading to upper level structures such as Savings and Credit Cooperatives (SACCOs), as information reveal that most of the GSLA members still have not yet joined the SACCO promoted by MUSCCO in the Malawi Lake Basin Programme impact areas including Salima, much as the GSLA concept was promoted to lay a foundation of the SACCO.

Additionally, the results will assist in the development of strategies by stakeholders, especially MUSCCO on how best GSLA service delivery can be harnessed as SACCO precursors without dismantling them. The results will further help how communities can be stimulated to form more of group savings and loans associations as vehicles for financial services intermediation in rural settings that can assist unlock their potential to participate in the financial services system.

This study, though done in one district and selected GSLA members has provided a platform for further pending studies in financial services such as the Financial Literacy/Education programme by Reserve Bank of Malawi now that in Malawi a Financial Cooperative Law has been passed (2011) and with GSLAs as SACCO precursors the central bank may desire to extend its studies to the sprouting roots for SACCOs such as GSLAs. Further, the study will act as a source of information for more studies on GSLAs/VSLAs as alternative financial provision structures that appeal to rural communities.

It is hoped that that the results will provide insight to the financial service providers such as the regulator, Reserve Bank of Malawi on how best these GSLA can be incorporated into the formal banking sector and be regulated accordingly without limiting their flexibility in use and application. The study has also highlighted some silent features in rural
financial service delivery mechanisms that will possibly assist in linking GSLA to formal financial services system, as a means of poverty alleviation initiative.

1.6 Scope of the study

The study was carried out in rural communities of Salima district where Group Savings and Loans Associations are being implemented for over a period of one month focusing on the following: wealth accumulation, savings mobilization, reduced dependency on local loan sharks, contributory role of systematic record keeping and training on effect of GSLA and participation by gender.

1.7 Rationale for the study

As the theoretical framework suggests financial services is an important component of livelihoods enhancement as it places locally mobilized financial resources in GSLAs in the hands of the rural poor as an essential intervention to domestic wealth creation and production. It is revealed also in the literature review that simple financial systems and structures that appeal to rural communities have potential to lay foundation for development of domestic financial system structures that contribute to the wider country financial system. GSLA, which is known by different names in different countries, has therefore significant potential of introducing rural communities to participate in the wider financial services sector. The evidence further shows that savings mobilization at local level and access of loans thereof prepares people to plan their finances as they acquire financial literacy before participating in the more complex financial systems brought by banks and/or MFIs. From the studies presented it is apparent that introducing financial services managed and controlled by community members at lower levels will result in a prudent management of their finances and contribute to the much needed poverty alleviation and rural wealth creation.
CHAPTER 2
LITERATURE REVIEW

Access to financial services has been more pronounced in recent years in Malawi with government declaring financial literacy week every year and extension of regulation extending to financial cooperatives in 2011 with enactment of the financial cooperative law. Besides, the involvement of accelerating mobile money through mobile phone network organizations has captured the interest of development partners and local financial services providers in Malawi.

2.1 Summary of the literature reviewed

In preparation for this study, literature was consulted and reviewed which was deemed to be of relevance to the subject. Below is a summary of an assessment report that was done on MLBP’s financial services intervention which looked at the effect of GSLAs on rural livelihood enhancement. Further other related literature on VSLAs has been reviewed.

2.2 Livelihood Improvements

The assessment for MLBP conducted in 2010 indicated that a high percentage of households depend on crop farming (57%) and that casual labor was regarded as the livelihood activity that the rural people depend on for income. During the assessment, the respondents were asked to relate the level of their livelihoods before and after the GSLA. The same approach was used for the control groups. Majority of the GSLA respondents were within the very poor (43%) and poor (39%) categories. The control groups also showed similarities with 59% poor and 18% very poor and 2% moderate.

When respondents were asked to identify whether they are at a different level as result of engaging in GSLA activities, they revealed that their livelihoods have improved, with the very and poor categories reducing to 19% and 5% respectively and consequently more people being moderate (39%) and better-off (37%). This clearly shows that the GSLA activities have been adding value to the lives of these vulnerable groups.
The control groups also showed the same trend, having people in the moderate category (73%) increasing as a result and 12% being better-off.

2.3 Food Security
According to the said assessment food security referred the extent to which households are able to access adequate and nutritious food throughout the year. When asked whether engaging in the GSLA activities had contributed positively towards their food security, respondents (66%) within the GSLA answered ‘yes’ while 50% for those in the control group. This is a good indicator that the group members experience a positive change as a result of the group activities.

When asked what the situation was after engaging in the GSLA activities, respondents (63%) indicated that they had adequate food, 26% had adequate food with surplus and only 11% had inadequate. This is a huge improvement from the baseline and goes further to prove the value of GSLA activities.

2.4 Economic Activities
For this study, economic activities were regarded as those activities, which after working or engaging in them, they brought in income for the household. The study revealed that before the GSLA, majority of the group members were doing farming, casual labor or they were idle and with no economic generating activity. The results were comparable for both the GSLA and the control groups.

A huge change occurred with introduction of the GSLA. Now the people are engaging in numerous income generating activities to include farming as a business through irrigation, trading, with only a small percentage without any income generating activity. Those within the programme showed great understanding and initiative towards economic activities.

2.5 Asset Accumulation
The study sought to establish whether people have been accumulating assets as a measure of wealth creation. 41% of the respondents in the programme had bought an asset of some sort, 26% had improved their housing, while 21% had increased their savings. In the control groups,
56% had increased savings, 12% had improved housing, while only 6% had bought an asset of some kind. Further analysis showed that the GSLA activities have increased the ability to acquire more assets.

2.6 Socioeconomic Well-being of Women

The study also sought to understand whether women were now better-off in terms of their socioeconomic status. Majority showed that they are now involved in decision making at their homes and that they now appreciate need for financial education. Those in the programme showed indications that they now engage in more activities than those in the control groups. This is a positive sign that positive change in terms of socioeconomic well-being is taking place as a result of GSLA which gave the women financial independence.

2.7 Financial Services Landscape for Malawi

Financial services access is one of the leading contributors to poverty alleviation. Malawi has increased efforts to make financial services inclusive for sectors of the population for livelihood improvement. By the end of 2007, an estimated 19% of economically active Malawians had access to financial services. Although banks and MFIs had tried to increase access to financial services at the beginning of 2004 (Reserve Bank of Malawi Financial Services Report February 2004) financial institutions embarked on the drive to take banking to the people evidenced mobile banking facilities to rural areas (Reserve Bank of Malawi Financial Services Report February 2004) this was triggered by good performance of the Malawi economy that saw interest rates dropping and as well as treasury bills, thus banks found lending to people profitable and knowing that a majority of Malawians live in rural areas banks had no options but take banking to the people. But this was short lived as Malawi economy tumbled due to withdrawal of aid by development partners and this once again triggered a rise in the interest rates and treasury bills, and once again in 2010 banks found doing business in rural areas expensive and confined themselves in cities and towns. Thus issues of accessibility; financial resources and apt financial services models once again emerged as critical issue of concern in the rural areas (FinScope Survey 2008) as a contributor to livelihood improvement.

Most of Malawian population estimated at 80% live in rural areas and do have access to formal financial services (FinScope Survey 2008).
Poverty levels in the rural areas are high compared to urban areas, as people in rural areas largely depend on seasonal subsistence farming. Therefore this calls for several interventions including financial services to improve livelihoods. This potentially calls for financial services as one of the means to support livelihood improvement. Most rural farming households depend on rain fed subsistence or semi-subsistence agriculture that is supported by small loans for farm inputs. Agriculture is central to rural life, but needs to be supported by other off-farm livelihood enterprises that require financial services as a source of raising capital. A Malawi follow up FinScope Consumer survey of 2014 has revealed that since 2009 the financial inclusion in Malawi has increased to 54% from 45%. The financial inclusion access landscape of Malawi is largely driven by savings products. The report indicates that saving through banks has risen from 14% in 2008 to 58% in 2014 and that the adult population estimated at 1.2 million save through Village Savings and Loans Associations (VSLA), with 81% of those that save through VSLA residing in rural areas. Putting money in livestock, farming with the purpose of making profit has gone down since 2008. The other sector of financial services in Malawi is the insurance. As an option for risk transfer, VSLA members also embed in their methodology the insurance through the social fund contribution as most members in the VSLAs are rural people. This is supported by the surveys report that indicated that insurance products in Malawi largely target the needs of those employed at 41%, and these have disposable income and tend to be educated, 73% having secondary education, while the rest have either vocation training, university degrees or other higher education. To increase uptake of insurance products for the low income people to better cope with emergencies and other risks, insurance products need to be offered at a larger scale as there is desire for such services. Therefore, exploiting such an opportunity can see the insurance sector as part of the financial services striving through pursuing an avenue of micro insurance. This would allow low income people cope with livelihoods risks.

The payments system in Malawi has undergone transformation in recent years evidenced by the number of Malawians using the card system such as Malswitch. The most recent FinScope survey report of 2014 for Malawi show that the number of adults with Malswitch cards increased from 3% in 2008 to 9% in 2014.
The same report indicates that mobile money users, mainly TNM Mpamba and Airtel Money in Malawi primarily use it for remote payments, purchase of airtime (32%) and remittances (26%). Consumers use mobile money where there is clear and value proposition. A difference in the number of people using the mobile money facility is greatly depended on what the user regards as value for money at any particular time.

Financial literacy has been indicated as one of the contributors to low levels of financial inclusion in Malawi. The analysis show that a majority of adult Malawians lack knowledge of most financial terms or language used in the financial services sector. The findings indicate that there is demand and desire for financial literacy so that a majority can make money work for them. The absence of financial literacy can lead to people making poor financial decisions that can have adverse effects on the economic wellbeing of an individual.

From the study therefore the following recommendations are made for an effective financial inclusion in Malawi;

- Continued exploration of the options to develop or upscale financial services that are convenient to users, especially the rural where a majority of Malawians live
- Accessibility of micro insurance services. Designing insurance products that suit an array of population
- Up scaling of the mobile money facility owing to the fact that 72% (Fiscope,2014) of Malawians have access to cellphones, while on the other hand there is little knowledge of mobile money facility
- The growing popularity of Village Savings and Loans Associations since 2008, with 17% (finscoe,2014) 1.3 million people indicating that they save and borrow form VSLAs present a dependable foundation for community based financial institutions commonly known as Savings and Credit Cooperatives (SACCOs)
- Harmonized and intensified financial literacy programme aimed at bringing behavior change in how people manage their finances other than mere knowledge acquisition, as knowing is one thing and applying knowledge is another

Closer to Malawi, in Mozambique where the people share social and
economic behaviour, save for official languages, English in Malawi and Portuguese in Mozambique, while local languages along the borders are the same, there are savings and loans associations called Poupanca e Credito Rotativo (PCR) groups. These groups elect a management committee of 5 members: President, Secretary, Treasurer and two controllers. The committee members can be re-elected and can be removed in extraordinary meetings with consent of the majority of the group (Allen, 2002). The group has regulations that can be changed with the consent of a majority of the General Assembly. The members of group meet on a regular basis as the group decides, but usually weekly. This may vary throughout the cycle depending on the weather and on the availability of funds. The group allows the members to contribute savings according to individual capacities. This means that each member decides on how much she can contribute, but once having made the decision must stick to it for the entire cycle. Again the rules and set structures of the group are meant to safeguard members savings that form a loan fund for members to access leading to livelihood improvement once invested in small scale businesses.

Across Africa, the spirit of people coming together to do things together, the concept of *Ubuthu*, including financial services presents a fertile ground for promotion of groups savings and loans associations, though they may be called by different names based on the cultural setting of the country. For instance in Mali MJT groups comprise of 25 to 35 members as reported by Allen, 2002. Group members self-select each other based on the social affinity. These normally come from existing and recognized traditional village organisations. In the Malian set up these groups are mostly made up of women. As such when a traditional group includes more than 35 women, the MJT project encourages them to set up sub-groups to facilitate the transmission of themes. Literature in other parts of the world mirror the African setting as reported by Aga Khan (2014) as it explains of Community Based Savings Groups (CBSG) in India that these groups, comprise of 15 – 25 people who save together and take small loans from those savings, largely targeting rural community members in villages where savings groups had been formed. The CBSG financial services intervention in India before implementation is preceded by a comprehensive training session aimed at instilling better understanding of savings, loans and micro insurance. According to Aga Khan (2014) participating members
of these training sessions are encouraged to share the information with their relatives and peers. This serves two important things: internalizing of the information learned and creating awareness of the concept. In Madagascar a study involving groups found that the most vulnerable households in Sofia exhaust their day-to-day incomes to simply meet their family’s basic consumption needs. These poor households either cannot save money or can save very little, and use their savings in the very short term. Most of the non-members encountered were in this position. For the great majority of people who are currently saving, management of their savings follows a seasonal cycle. For example, following harvest income-generating activities and/or the sale of agricultural produce allows them to build up a small sum, which is kept at home and/or in a CBSG. Analysis of the interviews revealed a positive shift in saving practices amongst CBSG members. According to them, a sum saved at home can never really grow because there are too many temptations to spend it. Having completed their first savings cycle and share-out, these members have gained confidence in the group’s functioning and, when they can, increase the amount they save with the group. In some cases, members even decided to join several groups in order to save more. The money they receive when the fund is shared out is used in different ways: to send their children to school, to pay rice workers during the planting season, or to buy furniture or sheet-metal roofing for their homes. In addition, as share-out occurs at mid-year near harvest time, when the price of rice is at its lowest, some farmers use part of their funds to purchase additional rice, which they store and then sell for profit when prices rise considerably at year-start during the lean, planting season. Outside the group, there is little or no awareness amongst non-members of how the CBSG works. The small amount of information communicated between members and non-members in the same village means that it has not been possible to find CBSG groups that have formed spontaneously by imitation. However, the introduction of village agents has helped address this issue and has resulted in the formation of new groups in communities where groups had already existed.

2.8 Broader Financial Services Considerations

Klaehn, Branch, and Evans (2002) cited WOCCU’s worldwide field
experience and stated that the minimum critical elements for responsible savings mobilisation include but not limited to the following:

- Entrepreneurial institutional vision;
- Professional staff;
- Effective governance structure;
- Prudential financial discipline;
- Sound credit risk analysis and risk management;
- Physical security’ and
- Internal controls.

However, when interacting with rural people what matters most is convenience and access as revealed in this study. This is supported by the fact that the services of GSLAs appeal more to smaller groups that have greater level of cohesiveness. The other study findings that follow below become a concern to rural people as financial services institutions start to get bigger and complex, and therefore is a need to ensure that as financial services promoters and providers upscale financial services structures there should be consideration of the following as revealed by other studies;

2.8.1 Safety

It is imperative that potential members should be convinced that their money will be safe and therefore, then, individuals can join and start saving through member based SACCOs (WOCCU, 2005; ICA, 2008). In addition, the regulated MFIs that mobilise voluntary savings from the public must be perceived to be trustworthy, secure, stable, and receptive to the needs of their clients. Informal methods of savings do not provide the complete savings package as noted earlier on (Ledgerwood and White, 2006), however they appeal to community members because of strong social collateral as they know each other.

Klaehn, Branch, and Evans (2002) observed that savers most frequently report that the key feature they seek is safety for their savings. They want to feel confident that their deposits will be available when they need them. An institution’s ability to capture savings depends largely on the confidence of local savers. If there is a perception that the institution does not have the funds to pay out savings, then both small and large savers will withdraw their deposits.
2.8.2 Financial Safety Nets

Klaehn, Branch and Evans (2002) stated that in many cases, clients utilise savings services for the purpose of creating financial safety nets to soften the costly repercussions of health emergencies. The costs of health-related crises negatively impact individuals of all socioeconomic levels, but most gravely destabilise the poor. Studies on HIV/AIDS and microfinance conducted by Donahue, Parker et al., (2001) revealed that the clients of microcredit group lending institutions highly desire savings services. Formal savings institutions can serve this demand driven market. The Kenyan and Rwandan savings distribution reveals that member-clients of diverse income levels save at the SACCOs in countries struck by the HIV/AIDS pandemic. Clients also make use of savings services to deal with personal emergencies and unforeseen challenges that stem from political and economic crises. This becomes a need for small groups such as GSLAs as their social fund size is so small to meet a growing demand in the face of HIV and AIDS pandemic, this is when they will desire more complex financial structures that have capacity to cushion them in time of despair.

2.8.3 Complex Procedures

Hirschland, (2005); WOCCU (2006) argued that time-consuming procedures increase the costs of savings for clients and deter prospective clients. Institutions must formalise clear, standardised and streamlined procedures for the administration of savings accounts to limit the time needed for clients to open accounts, make deposits or take out withdrawals. Klaehn, Branch, and Evans, (2002) rightly argued that product design must be simple and clear to enable customers choose products with the confidence that they understand all the benefits and costs of each product. Simplicity also helps reduce administrative procedures and contain operations costs. This is evident in the GSLA methodology where even the illiterate are able to understand the procedures and operations.

While this foregoing observation is deemed to be right, it is argued that risk management processes require that adequate information be gathered from the savers to avoid money laundering. The anti-money laundering directives issued by the Reserve Bank of Malawi in year 2008 direct all banks and financial institutions to be guided by the “Know Your
Customer” (KYC) principles which require a lot of documentation and information especially when a person wants to open an account (Reserve Bank of Malawi, 2008). However, at GSLA level this fear is almost non-existence as members know each other in the communities they live in. However, as financial services structures become complex, Malawi rural can fall prey as there is no national identity system to simplify the KYC principle. Over simplifying procedures for opening and administering savings accounts would jeopardise the security of member funds in MFIs and SACCOs, but so limited at GSLA level. A balance of the two propositions should be considered to ensure people are not discouraged by the complex procedures but at the same time ensure security of member funds.

2.8.4 Flexibility

There should be flexibility which members call convenience that whenever they want to withdraw their savings or else want to access credit for members meeting requirements they should be able to get the service with no hassles. Therefore, this calls for an institution to demonstrate a strong liquidity position (WOCCU, 2005). In contrast, Klaehn, Branch, and Evans (2002) stated that as an institution mobilises savings, liquidity increases and those funds are directed out as loans back into the community. It is critical that the savings taking institution should have in place strong policies and practices for credit screening and risk analysis so that the loans financed by savings are collectible, so that clients’ savings do not dry up in bad loans. Credit risk management must include strict delinquency monitoring, provisioning and collection procedures. What is described here is all available in the GSLA, but one, that a strong liquidity position which sometimes makes members to wait to access credit and the group resort to prioritizing in an open and transparent manner.

2.8.5 Meaningful Returns

The members want to assured that they will get return on their investment in form of interest on their deposits and dividends on their shares invested in the financial institution (WOCCU, 2005). Ledgerwood and White (2006) stated that savers generally do not accept substantial transactional costs, including opportunity cost of their time, to make use of savings
facilities. Savers expect a positive real return on their savings. Small savers will often shift their savings to real goods, which can be resold without losing their value for example a chicken or a calf in rural areas, or constructing houses in urban areas, if financial instrument returns are below the rate of inflation (Klaehn, Branch, and Evans, 2002: Ryhne, 2009).

Ryhne (2009) commented that it is hard to tell whether equity investment in MFIs provides reliably attractive returns, given the limited exits in microfinance history and further argued that the Return On Investment (ROI) for bulk of profitable MFIs falls in the range of 4 to 18 percent. As products are built to meet client demand, the defining characteristics of products are liquidity or access, term, minimum balance, rate of return and transaction costs (Klaehn, Branch, and Evans, 2002). In GSLA, practice has shown that members do not worry much about how much they get as share out but the possibility to access credit for investment in businesses which includes farming. The return at the end of the cycle which they cite quite often is the assets they acquire at the end cycle sharing out.

### 2.8.6 Products Menu

Klaehn, Branch, and Evans (2002) noted that savings services are built in three ways; designed to balance the trade-off between conveniences (liquidity) and return (interest on savings); tailor made to respond to the demands of particular market niches; for example., farmers who save in large chunks after a harvest and withdraw savings gradually through the year, or children and students who save in small amounts due to limited incomes, and finally, adapted to the purposes (purpose designed products that appeal to clients) for which clients save; for example, to pay education fees for children or to purchase large expense items such as appliances or home improvements. This calls for client responsive products initiative or designing.

### 2.8.7 Products and Services

Ledgerwood and White (2006) contended that MFIs that want to mobilise savings from low-income people must first understand in what ways and for what reasons poor people save, and what savers like and dislike about each saving method used. Ledgerwood and White (2006)
conducted a study in Uganda on the increase of membership and savings in MFIs, they found a steady increase in the membership and savings in a short period of time. The increase was due to an increase in products and services, arguing that this can only be offered by regulated institutions. This makes sense because in most countries deposits mobilisation from the public is restricted to banks registered under the Banking Act and administered by Central banks. The main reason is to protect the savers funds from abuse and losses. However, the Malawi law does not restrict small groups to mobilize savings from their members, unless they want to from a financial cooperative which then has to apply for an operating licence from the central bank.

Littlefield and Rosenberg in 2004 noted that there is a growing recognition that building financial systems for the poor means building sound domestic financial intermediaries that can mobilise and recycle domestic savings. This supports the existence of GSLAs which can reduce dependency on external sources of funding. This avoids parachuting of financial resources into communities in form of loans and eventually siphons off domestic resources through exorbitant interest thereby leaving the community poorer than before. This diminishes foreign investor capital as local structures mature and fills the gap. For this reason, more and more MFIs are getting licensed as banks or specialised finance institutions, other just giving out loans that benefit their investors thereby allowing them to fund themselves from capital markets, and from deposits that are not only a source of capital but also an important service to their clients. Most MFIs mobilise deposits from large institutional investors as well as poor clients. Several MFIs, mainly in Latin America, have issued domestic private placements, taken up principally by domestic financial institutions (Rhyne, 2009).

In Malawi, MUSCCO (2010) pointed out that MFIs and Financial Cooperatives such as SACCOs in Malawi require specific law to regulate their operations, which was passed in 2011. This provides standard guidelines regarding management and protection of funds in the MFIs and SACCOs (MUSCCO, 2010). This agrees with Littlefield and Rosenberg (2004) who stated that this increases credibility for the institutions to manage peoples’ funds responsibly.

2.8.8 Policy and Legislation

Policy and legislation are important when member based organizations
such as co-operatives start getting sophisticated so that member funds are safe and that elected leaders do not abuse their powers. However, most policies and legislations are still creating the conditions for rural co-operatives to be confined to specific sectors and or commodities, and because of such confinement; the co-operatives are unable to contribute effectively to national policy and legislation debate. This creates for other players to advance their agenda. The sector approach and inward looking development has resulted into unnecessary competition than co-operation among co-operatives, in many countries, for example Kenya, Ethiopia and Tanzania (Chambo, Mwangi, Oloo and Mutisya, 2010; Hirschland, 2005).

The diversity of institutions, programmes and schemes in most countries providing micro credit to low income clients has led to diversity in lending policies with respect to repayment period, interest rates, repayment schedules, loan processing and conditions for credit recovery, methodology and client selection, among others. As a result of this diversity some schemes have adversely affected the performance of others. Others have been short-lived. This clearly indicates the need for harmonisation and promotion of best practices to ensure sustainability. Currently there is no policy to guide government, practitioners and donors on the way forward (MCI, 2002).

Littlefield and Rosenberg (2004) reported that many countries are considering legislation to create new types of financial licenses, usually with lower minimum capital, designed for specialised microfinance intermediaries. While generally positive, this trend does pose risks. Regulators who are already stretched thin trying to monitor commercial banks can find it difficult to cope with responsibility for a new group of small institutions (Rhyne, 2009).

**2.8.9 Access to Loans**

Ledgerwood and White (2006) further argued that being regulated MFIs and considered secure are necessary tenets, but not sufficient in order to attract most savers. Clients who are borrowers will often travel long distances and wait in long lines for loans, and some may be turned back having not satisfied necessary conditions which make the loan so to be accessed expensive. To go round this, MFIs should be operating in a competitive environment where better services are available, for clients this means closer to the people. Rosenberg, Gonzalez and Narain (2009)
assertion that require higher administrative expenses as they require field officers to visit clients whose costs are part of administrative expenses makes sense for localised financial services that may not have huge overheads. CGAP (2007) pointed that MFIs are underleveraged compared with commercial banks (median MFI debt-to-equity ratios just under 2.0, while commercial banks tend to range from 9.0 to 12.0). Yet, most MFIs surveyed sought more equity, with a universal preference for foreign sourced equity over domestic equity investors. CGAP (2007) also adds to the debate and states that the availability of subsidised loans from both cross-border and domestic sources affects the attractiveness of savings mobilisation as a funding strategy, as people look for loans sourced from outside that internally generated.

### 2.8.10 Convenience of Products and Services

Many poor people use semi-formal services for only a small fraction of their financial transactions. Mostly, they rely on informal options – even when these savings devices are less lucrative, flexible, or secure. One reason is that informal options tend to be available near their doorsteps at hours they can manage. Rarely are formal and semi-formal services so convenient. For the poor, convenience is crucial. Many clients will deposit their money only if they can do so quickly (Hirschland, 2005).

GTZ (2000) agreed with the assertions by Hirschland (2005) and reported that in 1998 the agricultural bank of Thailand, BAAC, found that the distance to branches located in sub-district towns discouraged most of its rural customers from making small deposits. In response, BAAC, pilot study tested the use of vehicles that collected the savings at village markets, temples, and other frequented places. After six months the average balance in the vehicle accounts was four times the average balance in the branch accounts. Despite their limited hours, the mobile units’ proximity made them much more attractive to clients. This can be supported by the local scenario by OIBM Bank and NBS Bank that operate mobile banking services in bid to bring banking to the people. Further, OIBM has situated truck containers in some active trading centres to act as banking halls.

Hirschland (2005) argued that one of the major obstacles to access MFIs services is distance. For many rural and poor savers, walking or paying to travel even three miles to make a small deposit is not realistic. For example a market survey in Malawi which was conducted in a
low-income suburban community in Malawi, found that 75 percent of
the respondents were willing to travel less than five kilometres to
transact. However, over one quarter would go no further than two
kilometres. Yet, particularly in rural areas, MFIs or bank branches are
rarely so close to the people (Hirschland, 2005).

Evans and Klaehn (2004) agreed with earlier assertions and stated
that location of both the sending and receiving outlets factors highly
affect in the costs of the transaction. This is where the mobile money
accelerator concept using cell phone operators and agents becomes
handy. If a person has to travel a long distance to send or receive a
remittance, the cost of that remittance becomes higher than the fee paid.
Most remitters work long hours and do not have time to search for
low-cost transfer alternatives. At the same time, senders do not want their
relatives to have to travel far to receive the money. Interestingly,
Hirschland (2005) alluded that from Ghana to Philippines to Thailand
institutions that have brought services closer to clients have seen huge
increases in deposits.

WOCCU (2010) considered the number and geographical location of
points of service in the sending country and in the receiving countries to
be critical components of a distribution network. Ledgerwood and White
(2006) noted that convenience of location and opening hours coupled
with a choice of several appropriate saving products and services that
can be customised for each saver’s needs, well trained and helpful staff
are essential to attract and keep savers (Ledgerwood and White, 2006).
Savers demand access and liquidity. They want to be able to access their
funds the moment that they need or desire them (Klaehn, Branch, and
Evans, 2002).

Klaehn, Branch, and Evans (2002) are of the opinion that if the
transaction costs of making deposits or withdrawals in an institution are
high, then savers will be less likely to maintain their savings in that
institution. Since the physical proximity of the savings institution
determines the major cost and time required for savers to make deposits
or withdrawals, therefore, institutions should try to locate their offices in
high traffic markets or town centres, and even open lower cost or minimal
infrastructure branches to serve outlying communities. Savings institu-
tions should provide competitive service hour’s compatible with the
schedules of clients and prospective clients in the local community. For
this purpose, many SaccoS have eliminated the practice of closing
during lunch time, and now provide service on weekends. To support this, WOCCU in 2010 proposed that convenient access requires:

- A well-planned physical layout to control public traffic;
- Sufficient human resources to facilitate transactions, and
- Simple, streamlined procedures to provide savers with fast and cost effective service.

### 2.8.11 Mobile Collection

Hirschland (2005) reported that mobile banking is another way to enhance convenience. For some clients, a mobile service reduces travel time; for others, it brings services close enough to be useful. Even though lower transaction costs for clients mean higher costs and more security and control hassles for MFIs, many MFIs find mobile collection worthwhile because it can attract more deposits. The concept here is bringing banking to the person which has been alluded to by several studies under review in this study. The GSLA on the other hand can be looked at as communities creating banking themselves for their use and benefits, and making resources to remain in the community they are generated. When MFIs do mobile banking, they take financial resources in form savings and loan interest out of the communities and invest the same in cities in earning instruments, while for GSLAs financial resources so mobilized remain in the community circulating for the benefit of members.

A Thailand agriculture bank called Atwima Kwanwoma, the Rural Bank of Ghana and Equity Bank of Kenya, for instance all these mobilise savings through use of field teams in vehicles. The situation of Bangladesh where a field officer travels alone on a push bike or on foot limits the amount of money to carried for withdrawals and deposit taking. However, venturing into full-fledged mobile can meet cost limitations and incidences of fraud much as they bring financial services to the people. Hirschland, in 2005 reported that various institutions abandoned mobile banking services due to high operating costs associated with the model.

### 2.8.12 Summary of literature reviewed

From the evidence captured and summarised above, it is apparent that financial services is an important ingredient to poverty alleviation as it places financial resources in the hands of the rural poor as an essential
intervention to livelihood improvement. This has also shown that simple financial systems and structures that appeal to rural communities have potential to lay foundation for development of domestic financial services system structures that contribute to the wider national financial system. GSLA, which is known by different names in different countries, has therefore a significant potential of introducing financially excluded society members in urban rural and urban areas to take part in financial services sector and bring about diversity in investment options. The evidence further shows that savings mobilization at local level and access of loans thereof prepares people to plan their finances as they acquire financial literacy before participating in the more complex financial systems brought by banks and MFIs. From the studies reviewed it is apparent that introducing financial services managed and controlled community members at lower levels does yield financial discipline as there is likelihood of respect of operating procedures that dwell on peer pressure as they know each other, and those that may want to misbehave risk being excluded from other community baked development initiatives.
3.1 Conceptual framework

For the proposed research there was one independent variable namely Groups Savings and Loans Associations activities as a means of financial services delivery to the rural poor who do not have access to formal financial services, with one dependent variable namely; rural livelihoods enhancement as an effect. Thus diagrammatically the conceptual framework is presented as shown below;

The conceptual framework suggests that participation of rural community members in GSLA financial services model leads to improved livelihoods evidenced by wealth and savings accumulation, and reduced dependency on local loan sharks that exploit the rural poor through exorbitant loans.

3.2 Research Design

This is a diagnostic research design aimed at validating GSLA financial
services delivery in rural communities that financial services providers can use to unlock local community members’ potential to participate in the financial services sector through inculcating the savings habit culture and decent loan repayments for capital accumulation and business investment. The approach that will be used in the proposed research is field experiment.

3.3 Study Population
The study focused on five GSLAs in Salima District. As of December 2013 there were a total of 475 new GSLA groups with membership of 6,600. The savings on Malawi Lake Basin Programme for 2013 cycle amounted to MK188,432,429 ($438,214). (Malawi Lake Basin Programme Annual Report, December 2013) Malawi Lake Basin Programme is implementing GSLAs in two Extension Planning Areas (EPAs) of Tembwe and Khombedza

3.4 Sample size determination and selection
The study was focused on 5 GSLAs within the programme. Each group has an approximate membership of 15 and therefore the survey involved 75 GSLA members.

For each GSLA, members were interviewed through structured questionnaires and five groups through focus group discussions (FGDs).

3.5 Sampling Design
The research was carried out in Salima district where MUSCCO is spearheading provision of financial services through Group Savings and Loans Association on the Malawi Lake Basin Programme. Sampling of respondents was done by random sampling by assigning numbers to groups and randomly picks the groups at intervals. Likewise during focus group discussions individuals were be assigned numbers and be picked at determined intervals to form a focus group.

The analysis was done at the individual and household level using percentages, counting and averages but not limited to the following Indicators using Statistical Package for Social Scientists (SPSS) computer package:
- Asset accumulation
- Livelihood improvement
• Savings mobilization

Assets can be built up, depleted or exhausted. The manner and extent to which assets are built up, or drawn upon, reflect the strategies employed by individual households and individual members to cushion themselves against risk and to cope with shocks or losses.

3.6 Method of data collection

The research used Participatory Rapid Assessment (PRA) tools to collect both qualitative and quantitative information from the participants as well as control groups. The main tools that were used for this study are Questionnaires and Focus Group Discussions.

Questionnaires

Questionnaires were designed for both GSLAs groups and individual members of the groups. The captured demographic data of the participants showed the effects of GSLAs on asset accumulation, dependency on loan sharks and livelihood improvements among others.

Focus Group Discussions

The designed FGD were structured along the same structure of the questionnaires for purposes of consistency.

3.7 Data analysis methods

The research took the form of a survey of sampled population based on the given criteria and variables. One Extension Planning Area (EPAs) where GSLAs are in practice from Salima District was picked where respondents were as follows:

A total of 75 respondents were randomly selected from one EPA where respondents participating in GSLA were interviewed. Additionally, Two GSLAs were randomly sampled for focus group discussions in order to consolidate and confirm the individual household interviews.

A semi structured questionnaire were used to collect data and literature reviews of the various reports produced on Village Savings and Loan Association which were complimented with the FGDs. The collected data were analyzed using the different statistical tools such as SPSS in order to come up with inferences and conclusions.
3.8 Study Limitations

The study was limited in the following ways:

a) The study was majorly focused on one district and a few GSLAs that are being implemented from purposively selected sites and cases based on their accessibility and proximity to the researcher. This was possibly a result in biasness of the data collection.

b) The researcher is currently assigned other duties than direct involvement in Programme implementation as such had limited time to conduct interviews and relied on research assistants. This had an effect on data collection and eventual analysis.

c) The study revealed limitations in terms of liquidity in some GSLAs, as such members accessing loans was largely dependent on the amount of funds available in any particular GSLA and not relying on other GSLAs savings within the programme since inter lending between and among GSLAs is not recommended.
4.1 Demographic Characteristics of the GSLA Members

A total of 75 participants (67 female, 8 male) were interviewed in this study. All were members of Group Savings and Loan Associations from ten clusters namely, Chisomo, Kachere, Mbawa, Mdyathope, Mwazawala, Naphini 2, Takondwa, Talandira, Tikondane 1 and Timvane 2. Focus Group Discussions also were carried out in these clusters to complement the data from individual interviews.

From the study it was observed that a youthful population participated. Twenty one participants were between the age ranges of 20 - 29 years representing 28% of the population, 36 % percent were between the age ranges of 30 to 39 years while 1 participant was in the age bracket of 70 – 80 years age ranges.

Table 1 Indicates the age ranges count and percentages.

<table>
<thead>
<tr>
<th>Age Range (Years)</th>
<th>Count(n)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-29</td>
<td>21</td>
<td>28</td>
</tr>
<tr>
<td>30-39</td>
<td>27</td>
<td>36</td>
</tr>
<tr>
<td>40-49</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>50-59</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>60-69</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>70-80</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
<td>100</td>
</tr>
</tbody>
</table>

This finding shows that promoting GSLAs in rural communities can assist to economic development as it is attracting the youths who are a majority of the Malawi society and can reduce idle youths that are often dependent on the elderly for daily livelihood. Owing the fact that they
are energetic they can raise money for contribution in their GSLAs through casual labor at the beginning and later use loans accessed from the GSLAs to start up small businesses thereby creating employment for themselves and others. This can also contribute to reduced substance abuse which many idle youths engage in due to idleness as well as crime rate.

Figure 1, is a pie chart indicating the age range percentages

4.2 GSLA methodology contribution towards participation in financial services

All respondents to the study indicated that GSLA methodology assisted them to participate in financial services through provision of savings and loans facilities. A cross tabulation of the financial services participation per gender showed that there are more women in GSLAs than men. Table 2 depicts respondents by gender accessing financial services through GSLAs.
Table 2: Respondents Accessing Financial Services by Gender

<table>
<thead>
<tr>
<th>Gender</th>
<th>Savings Mobilization</th>
<th>Accessing Loans</th>
<th>Other1</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>M</td>
<td>8</td>
<td>6</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>F</td>
<td>60</td>
<td>50</td>
<td>5</td>
<td>115</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>56</td>
<td>6</td>
<td>130</td>
</tr>
</tbody>
</table>

1 Financial management, social support, small scale business

From the table, saving mobilization was decidedly the common financial services attained from GSLA methodology by female members of the communities with 68 replies followed by accessing loans with 56 female replies and while other services that include financial management, social support and small scale business accounted for 6 replies. This points to the fact that since most females participate in GSLAs, there is high likelihood of improved household welfare as most women will use the proceeds from the GSLAs for use at home than males who may use proceeds for entertainment. And also the fact the girls marry earlier than boys, it shows that most the female participants were either married or had children to look after. Thus, the GSLA contributes to family wellbeing to a large extent

4.3 GSLA methodology contribution to livelihood quality

The study revealed that GSLA Methodology has tremendously contributed to livelihood quality as respondents indicated that they were able to; (i) access financial resources (25%), (ii) farm inputs access(40%), (iii) payment of fees (14%), (iv) starting up businesses (19%) and other livelihood enhancement measures including acquisition of livestock, clothes and other household items accounting for 2%. Table 3 below indicates how GSLA contributed towards livelihood enhancement.
Table 3: Livelihood Quality Enhancement through GSLAs

<table>
<thead>
<tr>
<th>GSLA contribution to livelihood improvement</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to resources in times of distress</td>
<td>40</td>
<td>25</td>
</tr>
<tr>
<td>Ease to access farm inputs</td>
<td>63</td>
<td>40</td>
</tr>
<tr>
<td>Other1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Pay fees for children</td>
<td>22</td>
<td>14</td>
</tr>
<tr>
<td>start up off farm business</td>
<td>30</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>158</td>
<td>100</td>
</tr>
</tbody>
</table>

*1Bought livestock, clothes for children and assorted household items*

From the table above it can be seen that access to loans for acquiring farm inputs is high seconded by accessing resources in time of emergencies. This shows that as most of the respondents are small holder farmers, access to loans for agricultural production is high on the agenda of livelihood quality as most of them consider food security as a number need. However, use of GSLA loans to startup businesses coming third strengthens the argument that besides farming, rural community dwellers would like to diversify as a means of a safety net in the event of failure of crops and also for keeping themselves economically busy during off farm season as Malawi has one rainy season but also while waiting for the crops to mature they depend on small scale businesses to support their families. Arguably, therefore it means that GSLAs contribute to a less stressful life style in the rural communities as GSLAs provide support to meet emergencies which is second as a measure for quality livelihoods.

**Figure 2** below is a graphical (bar graph) representation showing how GSLAs contributed to livelihood enhancement of the rural people of Salima based on the interviewed sample of GSLA participants.
4.4 Means through which interviewees came to know about GSLAs.

The study also explored how GSLA participants came to know about GSLAs. It was revealed that 31% were exposed to GSLAs through volunteer community facilitators that are trained to promote the methodology, while 16% knew the methodology through programme extension workers, 35% learned from fellow community members who were already participating in the GSLAs and 18% came to know about GSLAs through radio programme called Maso Mphenya Pachitukuko that the Malawi Lake Basin Programme runs to promote its interventions through Zodiac Broadcasting Station every Saturday from 6:45 pm.

The following table below is a summary of means through which community members indicated they came to know about GSLA methodology.
Table 4: Means through which the participants knew GSLAs

<table>
<thead>
<tr>
<th>How they know about GSLA</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Through community facilitators</td>
<td>28</td>
<td>31</td>
</tr>
<tr>
<td>Through extension workers</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>Through fellow community members</td>
<td>31</td>
<td>35</td>
</tr>
<tr>
<td>Through radio</td>
<td>16</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>89</td>
<td>100</td>
</tr>
</tbody>
</table>

From table 4 above, a graph in figure 3 below was plotted to show variations in the means of getting to know GSLAs by community members.

The above information presents the means through which community members got to know about GSLAs. As it can be observed, most members got to know about GSLAs through fellow community members. This supports the idea that peers learn better from peers as they are able to inquire more about the benefits of any rural livelihood intervention. From this information it important therefore to strengthen use of community village agents supported by extension workers to bring about awareness in communities as they community members are likely to be more comfortable to hear and ask questions from fellow community members, while is a better means of initial awareness creation as most communities rely on radio for information and entertainment.

Figure 3, GSLA means of propagation
4.5 Number of GSLA participants that were trained or not trained formally in GSLA as a means of financial services delivery

From the interviewed community members in the study, 69% indicated that they did not receive formal training in the methodology, but came to practice through learning from other community members that were already in GSLA groups while 31% indicated that they had received formal training in GSLA methodology either by the extension workers or volunteer community facilitators. Regardless of the training, they all indicated that they found the methodology convenient as it is located in their localities and controlled by themselves on how services should be delivered.

Table 5: Number of people who were trained in GSLA methodology

<table>
<thead>
<tr>
<th>Training in GSLA</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>52</td>
<td>69</td>
</tr>
<tr>
<td>Yes</td>
<td>23</td>
<td>31</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
<td>100</td>
</tr>
</tbody>
</table>

The study has revealed that 69% of the respondents participating in GSLAs did not receive formal training only started their savings and loan activities after observing their friends doing and got oriented by community village agents how to conduct their meetings. This revelation shows that there is a demand for a methodology among the rural communities in that they would go on to indulge in with either self-learning or simplified training approach. However, there is a likelihood of danger if the untrained groups do not have a constitution to guide them. This can manifest itself during sharing out time at the end of the cycle as some members may feel cheated if they do not understand the sharing methodology.

From table 5 above, a graph in figure 4 below was plotted to show percentage of respondents based on access to formal GSLA training.
4.6 Percentage of respondents that have acquired various assets as a result of GSLA Participation

From the interviewed community members in the study, 8% indicated that they were able to buy bicycles for domestic use and business called Kabaza (bicycle taxis), 17% acquired pieces of furniture, 32% used loans from GSLA to facelift their houses in areas putting a cement floor, replacing grass thatched roofs with iron sheets and replacing wooden window panes with glass among others, 14% indicated that they used funds accessed at GSLA to guy goats for business and food security as goats are the most popular livestock in the district which has a good percentage of Muslim population, 4% bought oxcarts for ferrying farm produce of their own and also for renting purposes at fee to fellow community members, 15% indicated that they used either loans or part of their share out money to buy a radio so that they should be able to access information for farming and family entertainment and 10% indicated that they were able to buy TV sets that operate using solar energy for entertainment and information access.

The following table 6 below is a summary of assets that GSLA members acquired using fund accessed in GSLAs.
Table 6: Percentage of people that have acquired specific assets

<table>
<thead>
<tr>
<th>Assets Acquired</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bicycle</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Furniture</td>
<td>21</td>
<td>17</td>
</tr>
<tr>
<td>House improvement</td>
<td>40</td>
<td>32</td>
</tr>
<tr>
<td>Goat</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>Ox-cart</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Radio</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>TV Set</td>
<td>12</td>
<td>10</td>
</tr>
</tbody>
</table>

4.7 Number of respondents accessing loans from local loan sharks after getting involved in GSLA

From the interviewed GSLA participants, all indicated that ever since they started participating in GSLAs, they stopped getting assistance from local loan sharks. Further inquiry revealed that this was so because they found the loans sharks to be exploitative as at the end of the repayment of their loans they never got a share of the profits as is the case in the

Figure 5, Percentage of people that acquired various assets as a result of participation in GSLA
GSLA where at the end of the cycle members share the profit so realized through lending each other proportionally. The proportional share out based on the savings a members has in the GSLA motivated participants to regularly save so as to increase their shareholding in the group, while at the same time increasing the size of the loan fund that can be accessed by members. Further analysis showed that as members continued to be part of the GSLA; the loan size a member would request from the group kept growing, meaning that the demand for loans increased.

**Table 7: Number of respondents that accessed loans from Loan sharks after GSLA**

<table>
<thead>
<tr>
<th>Loans from loan sharks</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>75</td>
</tr>
<tr>
<td>Yes</td>
<td>0</td>
</tr>
</tbody>
</table>

Since the onset of GSLA participation, all participants (n=75) refrained from accessing loans from local loan sharks and the following were stated reasons in verbatim;

- “GSLA provide soft loan with small interest unlike local sharks who charge exorbitant interest”
- “All the money they need is in form of loans is provided through GSLA hence no need to borrow from outside”
- “The procedures at money lending institutions are laborious, let alone loan sharks whose conditions are so tough and non-negotiable”

This informs the existing desire for financial services especially loans by community members from sources that they can control and have trust in. The fact that loan sharks were an alternative for loan access confirms that access to financial services for rural people is low due to stringent conditions that financial services put in place that place the poor in the peripheral of financial formal services. Accordingly, promotion for community based financial systems is a sure way to promote access to financial services that can have a positive effect on the participants.
CHAPTER 5

SUMMARY OF KEY FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Age Range of GSLA Participants

The results of the study show that the participation of the methodology has a majority of youths than the elderly as a means of accessing financial services. This is an indication that GSLA methodology has potential to inculcate a savings culture in the youth which if well nurtured it can lead to a future financially literate rural community if rolled out on a large scale. This is can be basis for rolling out other community based interventions that depend on independence other than aid recipient culture that is rampant in most Malawi society. Following the cultivated culture of self-reliance as manifested in mobilizing resources of their own as the source of loans, other than asking for external loan sources, paints a bright future for generations to come since majority are youths.

5.2 Number of participants in GSLAs by Gender

On gender, study results show that majority of the participants are female and as stated above of youthful age. As women are more concerned with house household wellbeing, promotion of GSLA can in the long run contributed to making women take control of resources and responsibilities at household level thereby leading to reduced wastage of resources that will be mobilized. Women leadership will start to emerge from these groups as a proxy benefit as the likelihoods of most women to take up leadership position is high based on the higher percentage of their participation.

5.3 Contribution of GSLA towards livelihoods

The study revealed use of funds for selected few indicators of improved livelihoods and the results presented the following order; acquisition of farm inputs, resources to meet emergencies, source of start-up capital for off farm businesses, paying fees for children and assets acquisition. This shows that GSLA participants are able to prioritize their needs based on
areas where they often fall short of financial resources to undertake such an activity. This shows that farm inputs like seed and fertilizer top the list in terms of calling for resources use followed by having a readily available fullback position when emergences hit them. This fall back position resides in the social fund of the GSLA that they contribute to meet emergencies.

5.4 Means through which participants came to know GSLAs

When asked to mention how they came to know about the GSLA, commonly called village bank (bank m’khonde), results indicate that a majority of them came to know about the concept and its benefits through fellow community members, followed by sensitization by community facilitators who are part of the community, then through radio programme that Malawi Lake Basin sponsors and lastly through programme field officers. This is not a surprise as indicated by the high number of un trained GSLAs which were self-forming through copying from their friends. This also means that field officers should concentrate on training more community facilitators as they ranked second as a source of information about GSLAs and should be capacitated to able to train new groups other than just creating awareness.

5.5 Number of GSLA Participants formally trained

The results of the study show that there are more un trained GSLAs as compared to trained ones. This means that after awareness creation by community facilitators, community immediately went ahead to form groups and went into practice without waiting for formal training by field officers. Therefore as indicated above the community facilitators should be capacitated to be able to train other groups. However, caution need to be taken as to assess the capacities of the community facilitators as not all may be able to train others adequately. Therefore filed officers need to know the capacities of the facilitators so that quality is not compromised while seeking to achieve higher numbers of trained GSLAs.

5.6 Asset Acquisition

The results of the study show that GSLA members acquired some assets following this order: house improvement, furniture, radio, livestock
mainly goats, television sets, bicycles and ox carts. This indicates that participation in the GSLAs helped members to acquire basic household assets through either loans or their end of cycle share out. Dwelling on the use of the end of cycle share out shows that GSLA members plan how to use their savings plus interest earned to acquire essential household items that improve their quality of life. By extension, assets acquired during one cycle can be used as a cushion, a form of long term saving, in the event of facing unbearable shocks they can sell the assets in order to overcome an emergency in a waste case scenario. Assets accumulation therefore brings peace of mind if situations demand their use to solve domestic problems.

5.7 Number of GSLA participants accessing loans from loan sharks

The study revealed that ever since community members started to participate in GSLAs they, completely stopped getting loans from local loan sharks. This revealed that rural communities do understand that they are often taken advantage of because of their lack of possession of financial resources and therefore are always at the mercy of the few well off community members who extend credit at exorbitant interest rates while pushing them further into poverty as they end up working in order to service loans if no options are available. To break this vicious cycle, participation in GSLA with a possibility of sharing part of the interest paid on the loans they obtain become a turning point, drifting away from the poverty line.

5.8 Summary of Conclusions and Recommendations

The analysis of the findings of this study show that the GSLA component has an effect on the livelihoods of MLBP beneficiaries in that participating community members showed reduced dependency on local sharks for financial services especially access to credit. It can also be concluded that the trickle effect out of this activity is evident in assets acquisition. Another evidence of spillover effect of GSLA methodology can be seen in how members copy from each other to start up GSLAs after seeing benefits than accrue to members that are members of GSLAs. This argument is further strengthened by the high number of GSLA members that indicated that they learned from fellow community
members about GSLAs as compared to other means of getting to know GSLAs. Other measures of effect on the rural livelihoods is improved quality of life which respondents indicated as access to finance to procure farm inputs since a majority are smallholder farmers, source of fees for school children, source of capital to start off farm businesses and acquisition of household items. Further evidence as proxy measure of effect on livelihoods in rural areas is a large number of women participating in GSLAs which is an indication of how families at large are benefiting from GSLAs as in rural areas women bear the burden of family wellbeing. GSLA methodology of financial services delivery, combined with other programme activities such as study circles and adult literacy contribute a huge potential to transform the lives of those who need it most (the vulnerable groups of poor rural communities). According to SCC Strategy for 2007 – 2011, titled “New steps in the right direction” it states that, “in poor communities there is usually a lack of satisfactory financial services. Services of this type are very important also for poor people. Making it possible for people with limited resources to be able to save and borrow money is essential for development. We consider that it is necessary to mobilize local capital to promote rural development and to achieve change. Experience shows that the ability to mobilize capital in local communities is often greater than expected. One major advantage is that the institutions are owned locally by their members. These owners are interested in developing their own communities. We see savings and credit activities as an important instrument in our work with rural development and the realization of adequate housing. It is also important in an effort to improve equality between women and men, since it engages a large proportion of women who thereby gain access to capital for investments different forms of production and trade.”

5.9 Conclusions

The analysis of the findings of the study show that the GSLA component within the MLBP in Salima has contributed significantly to livelihood improvement of the target groups. It can also be concluded that the trickle effect out of this activity combined with other programme activities hold a huge potential to transform the lives of those who need it most (the vulnerable groups of poor rural communities). For a better understanding of livelihood enterprises besides financial matters that include savings and access to credit, study circles a locally based self-learning methodology should be enhanced.
5.10 Recommendations

- Financial services are not a panacea for rural poverty reduction or livelihood enhancement, but a necessary ingredient that supports identified enterprises.
- While placing financial services in the hands of the rural poor using local structures such as GSLAs, this should be coupled with knowledge transfer (technology transfer) in enterprise management through study circles and adult literacy. This can be a response to addressing low financial literacy levels.
- Financial literacy study materials should be produced in the study circle format so that they can be used by GSLA participants as a way of enriching financial knowledge in rural communities.
- To stimulate local community economies idle community members who include the youths should be encouraged to participate in GSLAs so that financial services should trigger startup of small scale off farm businesses so that a majority of idle community members engage in productive activities. Sources of money for the present idle community members could be casual labor that they can engage into. As they accumulate savings and start to access credit from GSLAs they can start to engage in small scale businesses and let go of casual labor engagement and become self-reliant.
- Due to high percentage of untrained GSLA members, organizations promoting GSLAs/VSLAs should hasten to provide training to self-forming groups to avert trouble that may arise in groups especially during sharing out time. This can be done by identifying capable community facilitators to be able to conduct training while field officers can come later to assess for quality control.
- Since more GSLA participants are women, like in other countries in the literature review, a percentage of the leadership positions should be reserved for women.

5.11 Observable Challenges of GSLA Methodology

Results through focus group discussions and interviews with key informants revealed the following challenges which were cited as being associated with operating and participating in GSLAs;
Slow savings mobilization and Safety

GSLA members operate in cycles that do not last more than a year. At the end of each cycle, members share all the financial assets of the group and start over saving in the next cycle. At the beginning of a new cycle, which normally at the beginning of the year, members are unable to access loans as the loan fund is small, save for the social fund which is supposed not to be shared out and members can only access zero interest from the social fund for emergencies. As the new cycle begins, it was reported that savings growth is slow and this makes members of the GSLA to miss business opportunities that may arise as they wait to build the loan fund to start giving out loans. To go round this problem, some GSLAs that have been operating for a number of cycles agree to make a lump sum contribution during sharing out so that at the beginning of the new cycle they have a sizeable amount for the loan fund. However, for new GSLAs, the waiting to build up the loan fund result in some members dropping out. Safety of funds is another challenge the groups face as they freeze giving out loans close to the end of the cycle and members are only encouraged to repay outstanding loans in preparation of the share out period. There are reported incidences where thieves have stolen the cash box from the box keeper after knowing that there is a lot of money in the box. This has resulted in GSLAs losing their money through theft.

Lack of savings growth

The fact members at the end of the cycle sharing out they decide in some cases to make lump sum contributions from their share out for the coming season it shows that members recognize they need to grow their savings so that the loan fund is available every time they need to access loans. This presents an opportunity for development agencies to promote growth of financial cooperatives (SACCOs) so that rural community members should be taught the importance of only sharing the profit and leaving the capital intact.

SACCO Failures

While the challenge presented above on lack of savings growth can have a solution in SACCO promotion, stakeholders indicated that the SACCO idea is not known in rural areas but members are hesitant to opt for
SACCO because of the experience some of them had we failed SACCOs. For instance, in Salima districts a community based SACCO failed and members lost their savings and this pauses as a threat to promotion of new a SACCO.

**Varied GSLA Implementation Practices**

While different promoting development organizations have opted for different names for the group based savings and loans association they all are modeled around the popular village savings and loans association model. The name change does not matter as they intention is the same to bring financial services to both rural urban people that are excluded by the formal financial services sector. Some of the name that is popular in Malawi are village bank, group savings and loans association and banki m’khonde. As earlier explained the model is simple and easy to understand and receives overwhelming acceptance in communities. Based on these, development agencies wishing to attract participation of local communities have embedded the model in their various interventions. However the challenge comes in when different development agencies enter a community and modify the implementation strategy with an aim of attracting participation. Some of the notable variations are; payment of honorarium to community facilitators/village agents by an institution other than the groups being mobilized, distribution of the GSLA kit for free to group other than requesting the interested group to pay for the kit, promoting an all women GSLA programme so that it suits in the women empowerment intervention thereby sidelining men and variations in record keeping system while some promote symbol based, others promote figure based record keeping. These variations may confusion communities and negatively affect financial inclusion. Therefore it would be good for development partners operating in the same area to agree on uniform implementation so that community members benefit from the intervention.

**High interest rates**

It was noted that in most GSLAs the interest on loans was very high charged per month starting from 20% per month. As members get small loans, this may not be felt but as start to require bigger loans, the interest rates are not manageable, which makes some not to borrow from the
group and this results into accumulation of idle funds in the communities which puts the box keeper at risk for possible attacks by thieves. Apart from outside thieves cases have been reported whereby children of a box keeper took money from box through making a hole at the bottom of the cash box.

**Extending loans to non-members**

As the principle of the GSLA dictates, each group at the beginning of a new cycle may consider adjusting the share value and service charge on loans (interest), and these changes are effected in their constitution. In some cases due to a growing desire to share more at the coming cycle members agree to raise the interest on loans. Such change eventually results in most members preferring to be saving only and not getting loans. Once the GSLA has too much liquidity, members decide to extend loans to non-members who do not subscribe to the constitution of the group. This has, and can result in members losing money as the non-member may not be able to repay the loan even if such a non-member had a member guarantor.

**Withdrawal of Savings**

Sampling of some members passbooks showed that at some periods of the year they were withdrawing part of their shares, which is allowed in the GSLA methodology, but the reason for withdraws of part of their savings was due to the fact the groups did not encourage members to bring to meetings items such as farm produce or chickens that would have been sold to some members of the group and their by making it easy for every member to be able to save after selling a chicken or a basin full of beans at the meeting place. This could be an area of further exploration so that members that do not have cash, can bring to the GSLA meeting their goods for sale thereby enabling them to save and limit share withdrawal which in a way reduces the size of the loan fund.

**Control over Savings**

While the study has revealed that there are more women in GSLAs than men, some chiefs confided to the study team that during sharing out ceremonies, men are seen to be close to the end of cycle event and information has it that after when participating women get their part of
the group investment, it is the husbands that decide how to use the money. This brings the impression that empowerment of women through GSLAs should not only stop at participation in GSLAs activities but also should to control over the resources. This can be dressed through mainstreaming gender in the GSLA training so that women learn how to take control of their resources and this can also assist or entice men to join GSLAs which can eventually result in an all-inclusive financial services intervention in terms of gender in rural communities.

Lack of information and understanding
As reported in the findings of the study, more GSLAs did not undergo formal training which means that while they have the GSLA kit (cash box, ledger, and passbooks), issues of constitution development and other important aspects for successful GSLA are either not available or not properly done. This can be the cause of some groups extending loans to non-members, inflexibility of conditions of operations as most untrained groups just do the practice through copying from other groups that are trained.

5.12 Proposed Area of future Research
Following this study a possibility of clustering GSLAs in a particular locality should be an area of future research to find out how GSLAs can lend each other money in the event of excess liquidity in one and high loan demand in the other. This can present a better understanding of GSLAs can cooperate and can possibly be a good hypothesis for SACCO formation through amalgamation of GSLAs without dismantling their individual identity. A study on this would assist in proving guidance on the mechanisms of inter GSLAs lending thereby facilitating financial intermediation at the local level. For fear of failure and distortions, GSLAs in one village can be studied, and based on the findings consider rolling out.
Selected few stories that follow in this chapter are among so numerous yet to be told testimonies of how GSLAs have changed lives of people in Malawi in both rural and urban areas who are largely excluded from the formal financial services sector that is dominated by the commercial banks. These testimonies, not only exhibit livelihoods transformation but also present a step towards financial services inclusion.

6.1 A New Chapter for Anamira in Mangochi

Anamira belongs to a GSLA in Mangochi. Before joining GSLA, she had financial problems which jeopardized her day to day welfare. Her life was characterized with food insecurity, failure to send her children to school, lack of land to build a proper house, sleeping on a mat. She says she had the zeal to do business but it was difficult to actualize it due to lack of capital. She could hear on the radio that commercial banks lend money to those who want to start business the conditions attached to loan access were prohibitive. “It was difficult for me to go to commercial banks because they demanded collateral and tagged high interest rates which were very prohibitive taking into consideration that I was poor,” recalls Anamira.

Breaking the cycle of poverty was no easy task; however, after joining the GSLA, she was able to borrow money which she invested in her intended fish business. Like a Swahili proverb “Do not despise small beginnings”, after being involved in her business for some years since 2007, now she can leap the fruits of her diligence. She is able to send her children to school, she has installed her house with solar electricity, she has bought a plot where she will construct a house for her family members, she has bought dining and sofa sets. “I am living a better life now because of GSLA and I thank Malawi Lake Basin Programme for introducing GSLA in our area.”
Above all, she has managed to buy a 1-tone pick up vehicle using funds she realized from her business. “This is a dream-come-true; I have managed to buy a vehicle which I put on hire.” I am a living testimony of the goodness of GSLA,” concludes Anamira.

6.2 Group Savings and Loan: A solution to the Unbanked

Mable Zilankhulani is one of the people who have benefited from Group Savings and Loan Association (GSLA) within the MLBP in Mangochi district. She is a member of Tidziwane club, in Mazeze village, Mbwadzulu EPA in Traditional Authority Nankumba in Mangochi district. The club is made up of 11 women. “We are guided by common interests and volunteerism such that no one is forced to join GSLA.”

“At first it was difficult to access loan from commercial banks as they demanded collateral and staged high interest rates which were prohibitive. However, with the introduction of GSLAs by MLBP, we are able to access loans from within the group that we have formed voluntarily. We then payback at an affordable interest rate,” narrates Mable.

This is why MLBP introduced GSLA to people of Mangochi district to inculcate the culture of saving. GSLA is a concept where members of
a self-selected group voluntarily form a savings and loan group where they save money, through purchase of shares. The savings are invested in a loan fund from which members can borrow, repaying with a service charge added (interest).

Mable ventured into fish business using capital of MK 50,000 from GSL in 2007. She has been re-investing part of the earnings since 2007 which led her business to grow tremendously. “I have just realized MK725,000.00 from recent fish sales. My life has really transformed and I thank MLBP for introducing GSL concept to us,” explains Mable. She has bought solar panel and has installed electricity in her house. She has also built a new burnt brick walled house.

GSLA seems to be the most attractive concept for many to join the Clubs because it provides them with financial power through savings and access to loans even in the absence of commercial banks. Through GSLAs, community members have learnt the importance of saving the little they earn for future use, a thing that has given them the financial power and an improved livelihood for their homes and communities.

6.3 Savings Build Resilience, Capacity and Confidence

A story of Ellen Makwiti

On the onset of Malawi Lake Basin Programme in 2006, targeted bene-
ficiaries doubted their ability to build savings as capital base for their livelihood enterprises. SACCO membership idea to most of them was a distant dream as they felt they would not be able to buy shares in a financial cooperative. With the advisory role of MUSCCO on financial services provision on the programme, Group Savings and Loans Association model was introduced to teach community members the habit of regular savings in small groups as capital and access of credit based on self-designed conditions for self-reliance took off on a slow but steady trend as SACCO precursor. Seven years on, the model has won community members minds and they are ready to form their own SACCO by bringing together all the GSLAs on the programme. This is a big picture. At individual level in the course of period countless individuals have stories to tell of how GSLA involvement has assisted them. One such community member is one Ellen Makwiti, whose story is testimony that rural people can save and accumulate wealth.

46 year old Mrs Ellen Makwiti is a member of Chikondi GSLA group with 17 members all women under Msangu Cluster, from Kachere village, T.A Maganga; Salima District. During the year 2012 end of the cycle share-out, Ellen got K55, 208.00 from a pool of K400, 000.00 which the group had accumulated at the end of the cycle.

At the onset of the 2012 cycle, Ellen Makwiti pledged to buy an ox with the money she would get from her share out and she exactly did that. Working hand in hand with her husband Mr. Laliyo Makwiti, Ellen accomplished her mission by buying an ox at K52, 000.00 in November, 2012.

Ellen Makwiti is a woman who would always want to accomplish whatever she plans at the beginning of every cycle. In 2011 she had planned to open a cassava garden with the money realized from the GSLA. Now she is a proud owner of a three acre garden of cassava and she is intending to sell it in September, 2013. Ellen is a mother of six and two grandchildren and despite having such a big family; the household is food secure due to her involvement in a GSLA. Access to credit at the group enables her to be able to meet household emergencies, and has learned how to plan her finances for future investment.

During the current 2013 cycle, she has over K20, 000.00 in shares and her plans as shared by the husband, Laliyo is to buy a second ox and an oxcart with the money realized from the savings and cassava sales. This is testimony to that fact that when empowering women, men involvement is critical so that envisaged plans should be shared with the husband for support.
A picture depicting Mrs. Ellen Makwiti and her ox.

Mrs. Ellen Makwiti in her Cassava garden.
6.4 Group Savings and Loans Associations and SACCO Development

Commencement of GSLA as financial services delivery model

Malawi Lake Basin Programme (MLBP) incorporated development and provision of financial services under the business development component through GSLAs as SACCO (financial cooperatives) precursors to service and serve Malawians who are excluded by the formal financial sector who are a majority of the programme. While the programme started its interventions in 2006, financial services commenced in 2008 building on strong farmer organizations that were organized between 2006 and 2007. The primary purpose of a Group Savings and Loans group is to provide simple savings and loan facilities in a community that does not have access to formal financial services. GSLAs have been used as SACCO precursors and or strengthen group lending in SACCOs for farmer groups.

Five year GSLAs trend on Malawi Lake Basin Programme
Suitability of GSLAs to rural communities that include small scale farmers

GSLAs are apt for rural communities because of a number of reasons that include the following:

- Convenience
- Member controlled
- Accrual of benefits to the users who are also savers – profit so realized go back to the group members, unlike in the bank where profits are shared by non-users (investors)
- Flexibility and ability to set rules by the communities themselves on how their rural bank should operate.
- Manageable conditions to save and borrow
- Access – since GSLAs operate in rural communities access is easy as compared to formal providers that located in towns and cities
- Social collateral – since group members know each other, and borrow from their own mobilized resources, enforcement of rules is easy

**GSLAs pave way to SACCO formation**

After successful implementation of GSLAs as financial services model for the rural communities for five years, in 2012 time was ripe for GSLAs on the programme to be linked to form a financial cooperative called MUFUNA SACCO named after three local consortium members of the MLBP, In the formation of the SACCO, the programme has contributed
towards initial staff support, equipment and funding training sessions that have led to production of relevant policies that are required to form a SACCO.

Impact of GSLAs on Lives of people: From their own words

Tigwirizane I GSLA Group

Estere Ezala is 21 years old, married with three (3) children. She only attended primary (elementary) school up to standard three (3). She joined Tigwirizane I GSLA during its formation in July 2009. It is an all women group with 16 members at present. With the small sums of money she realizes from selling labour, Estere decided to join this group in order to assist her save so that she could buy some small scale livestock and also secure 5kg maize seed and 25kg of Urea fertilizers for maize production.

As a member who has tested some fruits of the activity through loans and sharing out, she has the following testimony to share with her fellow members of the group; she got a total of MK11,930.00 at the sharing out stage which she used to pay for labour (weeding and banking) on a 0.2 hectare of maize garden where she expects to harvest at least 600kg. She also managed to buy a she goat at MK5,500.00 which has already produced one young. The other money left amounting to MK3,430.00 was finally used to buy clothes for her family members a thing not commonly done by women amongst the communities in Likongwe Village.

Despite the achievements so far highlighted, Estere had one main challenge during the first cycle. She failed to access enough income from produce sales because the agricultural markets offered very low prices hence unreliable. As such she had to sell labour with her friends like drawing water for moulding bricks in order to do her savings.

Estere Ezala is very proud of herself with what she has benefited from being a member of the group. She is very much in support of the model and she recommends it with her own example. She believes GSLA is really for the benefit of the members in the village because interest rate charged on borrowers at 20% per month is shared amongst the members. She is also happy with the fact that control of all undertakings is in their own hands which gives them a chance to decide on when to share out. Access to loans is not complicated and time consuming, it is almost instant.
**Tikondane Mwachilolo GSLA Group**

Ethel Chanza is 32 years old, married and has five children. She only attended primary (elementary) school up to standard seven (7). She joined Tikondane Mwachilolo GSLA group during its formation in April 2008. The group is comprised of two (2) men and nineteen (19) women totaling to 21. With the small sums of money she realizes from her roasted groundnuts business, she decided to join this group in order to assist her save for an all year kind of investment and also buy 50kg of basal and top dressing fertilizers for maize production.

Being a group member, she has been assisted to borrow with a purpose and also select profitable Income Generating Activities (IGAs) for continued savings. She thinks the more she saves, the bigger she can borrow for bigger and better IGAs.

From the money she saved, Ethel now owns a bicycle hiring business, very common in Salima District because she managed to buy a second hand bicycle at MK6, 000.00. The business brings her MK150.00 on daily basis translated into MK3, 900.00 a month. She was also able to buy some kitchen utensils, one big plastic basin.

Ethels’ husband was not supportive during the first cycle; she had an uphill task to find money for her savings mobilization. Actual support came after the first sharing out because she used all the proceeds to buy inputs especially fertilizers which could not be possible had it been that she had not joined the group. Low income levels was Ethels’ main challenge during the second cycle because agricultural produce was getting very low prices on the market making it difficult for her to find means for saving as per her plans.

As a beneficiary of the programmes’ intervention, she applauds the activity so much. She believes GSLA gives members easy access to savings and loans facility. It also empowers individual members to believe in themselves for solving some economic problems within their households without looking for outside assistance. The activity itself is a business for the group through the interest charged on borrowers.
CHAPTER 7
FINANCIAL LITERACY A COMPONENT OF FINANCIAL EMPOWERMENT LEADING TO IMPROVED LIVELIHOODS

Smallholders can reap great benefits from acquiring skills in basic financial education. Financial education refers to the set of skills and knowledge that allow individuals to plan and manage their money. This chapter will cover basic financial concepts. Specifically, these tools will enable smallholder farmers to make good financial choices regarding income, expenses, saving, and borrowing. Through the creation of a budget, farmers can track their cash flow, identify patterns in both income and expenses, explore ways to reduce unnecessary expenses, and plan for future needs. Examining savings strategies and options will help farmers take the steps towards building assets for a future investment and becoming less vulnerable to economic shocks. Knowledge on financial instruments and loan sources provides insight into available financial tools, enabling farmers to select the tools that are most appropriate for their needs. This manual aims to help the field agent; help groups of farmers learn how to better manage their money.

This manual provides the basic tools that enable farmers to make informed financial decisions. This manual helps participants to examine and make decisions regarding their finances. The manual is made up of three key sections. Each section is comprised of three to five separate lessons.

1. Goals, Income, Expenses, and Budgeting covers the concept of how to create a budget by understanding income and expenses. Especially for farmers it is important to cover seasonal fluctuations of money flowing in and out of the household. The field lesson plans cover the following four lessons:

- Seasonal calendar
- Establishing goals
- Understanding income and expenses and creating a budget
- Different types of expenses and reviewing a budget
2. Saving introduces the importance of savings and some tools to help participants save money. The field lesson plans cover the following three topics:

• Choosing where to save
• Creating a savings plan
• Saving for emergencies

3. Borrowing discusses the concept of debt and the relationship between manageable levels of debt and income. The field lesson plans cover the four following topics:

• Key concepts of borrowing
• How to calculate the real cost of loans to decide when to use your money or borrowed money
• How to analyse your ability to take on a loan, and
• Tools to examine different options for borrowing money as well as how lender evaluate loan applications

This material is designed to be introduced to savings groups during their first cycle in months 9-12 (of a 12 month cycle) during the time that is generally referred to as the “maturity stage.” This is the time when the agent support is lightest as the savings groups prepare to manage on their own. It is therefore recommended to cover only lessons 1 to 4 during this period. The remaining lessons would then be introduced during their second cycle (months 13-15 for the 3 lesson on savings and months 16-19 for the 4 lessons on borrowing) such that the lessons on savings and borrowing will coincide with the periods when savings and lending becomes important again and when some individual group members might begin to consider external borrowing.
GLOSSARY OF KEY TERMS

Accumulating Savings and Credit Association
An Accumulating Savings and Credit Association or ASCA is a locally managed, informal group, where members save regularly, borrow from the group savings, and repay the loans with interest.

Achievable
Achievable means that the actions to be taken will allow you to reach your goal.

Agricultural Bank
Agricultural banks are financial institutions that provide loans to commercially viable smallholder farmers and other value chain actors.

Assets
Any physical item that you own is an asset. Examples are cash, money owed to you, animals, land, a house, etc.

Bad loan
A bad loan is when the borrower will not earn enough from the business investment to repay the loan.

Balloon payment
A balloon payment in when the entire loan principle is repaid in one lump sum at the end of the loan term.

Borrower
A borrower is the person that receives the loan.

Budget
A budget is a summary of estimated income (money in) and expenses (money out) for a specific period of time (such as a week, month or year).

Business expenses
Business expenses are all expenses that are incurred in running a business.

Capacity
The ability of the borrower to repay his/her loan in full and on time.
Capital
Capital in this case is the value of a person’s net worth (difference between your assets and what you owe).

Character
Character is a person's reputation. It indicates if he or she borrows and repays on time.

Collateral
Collateral is an item of value (property or assets) that a borrower pledges for a loan and which can be taken and sold if the borrower cannot repay the loan.

Commercial bank
A commercial bank is a formal financial institution that generally serves a wealthier clientele.

Cost
Cost is the price and fees associated with the savings or loan mechanism.

Credit Union
Credit Unions are legally registered, member-owned, and member-governed savings and credit associations that were primarily developed to empower poor communities to manage their own financial resources. These are often called a Savings and Credit Cooperative or SACCO.

Declining balance
A declining balance is the method by which the interest amount to be paid decreases as the loan principal is repaid.

Default
A default is when a borrower does not repay a loan.

Deficit
A deficit is when expenses are greater than income.

Emergency fund
An emergency fund is a special savings fund that is only used to pay for unexpected events or emergencies.

Equal instalments
An equal instalment is where the amount borrowed is repaid in periodic instalments of equal amount.
Expense
An expense is the money you spend.

Flat interest rate loan
A flat interest rate loans is when the interest amount remains for each instalment the same for the duration of the loan.

Formal financial institutions
Formal financial institution are institution that regulated by the government and the central bank and provide a wide variety of financial services; such as loans, checking, saving, and insurance services.

Goals
Goals are what you want to achieve (your vision) in the future.

Good loan
A good loan is a loan that can be repaid on time by the borrower.

Grace period
Extra period of time a lender gives a borrower between when the borrower receives a loan and when the borrower must start making loan repayments.

Group loans
A group loan is a loan taken by the entire group and for which all members are jointly responsible to ensure it is repaid on time.

Guarantee
A guarantee is a pledge, such as collateral, which guarantee repayment.

Guarantor
A guarantor is a person who pledges repayment in case of default by the original borrower.

Household expenses
Household expenses are expense incurred in managing the household. Examples are food, clothing, housing, etc.

Income
Income is the money that flows into your household.
**Indirect costs**

Indirect costs are costs that are

**Informal**

Informal means that the activity is not formally registered.

**Informal financial services**

Informal financial services are all financial transactions (loans and deposits) that take place outside government regulation or supervision.

**Input Credit**

Input credit is a short-term form of finance whereby farmers buy agricultural inputs and/or services that do not require immediate payment to the input supplier.

**Input supplier**

An input supplier is a vendor that sell inputs; such as seeds, fertilizers, and chemicals.

**Interest**

The amount of money that the borrower pays to the lender for the use of the loan. This payment is in addition to paying back the loan principal amount.

**Lender**

A lender is a person or institution that provides a loan.

**Liquidity**

Liquidity is the ease in which assets can be converted into cash.

**Loan**

A loan is something that you borrow for temporary use under a promise to repay at a certain timeframe in the future.

**Loan disbursement**

A loan disbursement is when the lender gives the loan to the borrower.

**Loan repayment**

A loan repayment is when a borrower makes a payment towards his or her loan.
**Loan term**
The period of time that the borrower has to use the loan and repay it. Long-term goals are things that we want to accomplish that will take more than 2 years to achieve.

**Measurable**
Measureable means that there are milestones in place to assess your progress towards achieving your

**Medium-term goals**
Medium-term goals refer to goals that we want to achieve over the next 1-2 years.

**Microfinance Institutions**
Microfinance institutions or MFI are regulated financial institutions that are designed to work with households that have little or no collateral and have smaller borrowing capacity than clients of commercial banks.

**Moneylenders**
Moneylenders are individuals that offer small loans that may or may not require collateral at high interest rates.

**Needs**
Needs are expenses that are absolutely necessary, such as food and shelter.

**Outstanding loan principal**
Outstanding loan principle is the amount of the original loan that remains to be repaid.

**Principal**
The original amount of the loan.

**Profit**
Profit is the gain received from an investment and which is greater than the expenses or amount invested.

**Realistic**
It can be achieved given your available resources, which include time, money, support from others, environmental factors, etc. Different goals may have different requirements.
Remittances
Remittances are cash received from an external source. In most cases a family member who is living and working outside the community.

Repayment Schedule
A repayment schedule shows when interest and principal payments are due and the amount to be paid at each instalment.

Risk
Risk is the potential for loss.

Rotating Saving and Credit Association
A Rotating Saving and Credit Association or ROSCA, sometime referred to as a merry-go-round, or tontine, are saving groups where each group member save a specific amount at a set (daily, weekly or monthly) interval and which member receive in turn the amount for that interval, until all members have received a turn.

S.M.A.R.T.
S.M.A.R.T. is the acronym for something that is specific, measurable, achievable, realistic, and time bound.

Savings
Savings it the putting aside of money so that it can be used in the future.

Savings group
A savings group is a group made up of members whose objective is to save their money together over a period of time.

Savings in assets
Savings in assets means to keep saving in goods, such as animals, jewellery, stored grain, or any other asset.

Savings plan
A savings plan is by which a person sets a savings goal and works to achieve it.

Season
A season is a distinct period of the year characterized by particular conditions of weather, temperature, or events.
**Seasonal calendar**
A seasonal calendar is a cyclical pattern of the different seasons of the year during which farmers earn differently.

**Seasonal Income**
Seasonal income is a type of cyclical earning pattern whereby one earns money only during some parts of the year.

**Short-term goals**
Short-term goals are the things we want to achieve over the next 1-2 months.

**Specific**
Specific means that it has a clearly defined value.

**Surplus**
Surplus is the money remaining when income is greater than expenses.

**Time bound**
Time bound means that it has a specific timeframe or deadline.

**Unexpected expense**
An unexpected expense is something for which we cannot anticipate it occurring. The most common expense would be for an illness or a loss due to fire, flooding, or theft, for example.

**Wants**
Wants are optional purchases, such as buying a soda or grilled meat at the market that are not absolutely essential.

**Warehouse receipt**
A warehouse receipt is a certificate that shows that you have a particular good of a specified quality and quantity stored in a specified location.
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