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Sustainable Rural Financing and Microfinance Initiatives in Malawi: A Narrative Review and Policy Implications

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Abstract
The goal of this article is to providea comprehensive narrative review of rural finance and microfinance initiatives in Malawi, with a focus on policy development and economic outcomes. The paper examine actor of finance provision and the mechanisms they employ. Assesstheimpact on key outcomes like financial inclusion, household welfare, institutional sustainability, and resilience to unforeseeable shocks such as COVID-19 as well as climate change. Theexaminationshows the rapid scale-up and positive welfare effects of community-based savings groups (VSLAs), the mixed performance of government-led credit schemes dueto governance issues, and the evolving role of formal MFIs in rural outreach and digital finance. It then identify critical gaps in financial literacy, regulatory coordination, andimpact evaluation, and propose a conceptual model linking multi-stakeholder inputs to development outcomes/goals. Finally,policy suggestions were given emphasizingon depoliticizing of public schemes, integrating digital innovations, strengthening group and institutional capacity, and designing shock-responsive financial products to sustain rural financial inclusion in Malawi.

Keyword: Micro-financing, Rural financial inclusion,, Microfinance institutions, Fintech, Digital loans

I.Introduction

Malawi is a developing country with a majority population situated in rural area,with over 80 percent of population relying in smallholder farming as (Chirwa & Matita, 2020; Njaya et al., 2018). The rural population faces a wide range of challenges,one of them being inadequate provision of formal financial access among rural household whichfalls behind showing that only two-thirds of rural adults held a bank or microfinance accountby 2023, (Malawi govt, 2024). This shortfall constrains farmers' capacity to invest in productivity maximizing inputs, manage seasonal risk, as well as smooth consumption, factors that are contributing to an endless cycles of poverty (Mtei & Mkama, 2021).

In order to resolve finance access issues in the rural, a number of stakeholders like government agencies, non-governmental organizations (NGOs), and microfinance institutions (MFIs)have be active introducing initiatives like credit schemes, community savings groups, as well as financial-literacy programs, that have lead to the rapid expansion of village savings and loan associations (VSLAs) yielding robust group-level capital accumulation and welfare gains (Banda & Kaphuka, 2022; Kambewa, 2020). However, the emerging of some challenges threatens existence to these initiatives. For instance, government-led credit programs have exhibit low repayment rates and governance weaknesses (Phiri & Banda, 2019), while formal MFIs, though experimenting with digital delivery channels, struggle to achieve sustainable rural outreach (Mumba et al., 2023).

Finance provision initiatives are also under constrains by the uncertainty external shocks. For example, the COVID-19 pandemic disrupted supply chains and income flows, prompting emergency liquidity interventions by both NGOs and government bodies (Tchale & Keyser, 2021). In rural areas where agriculture is the only important economic activity to support livelihood of the society, climate change can have negative consequences. Increase in frequency of droughts and floodsattributable to climate changeheightened demand for flexible, shock-responsive financial products (Zama & Likongwe, 2022).Yet evidence on the resilience-enhancing effects of existing finance initiatives remains scattered and often sector-specific, impeding policy coordination.

Despite numerous case studies of individual programs, there is no comprehensive narrative that (1) analyze cross-sector evidence on financial inclusion, welfare impacts, institutional sustainability, and shock-responsiveness; (2) situates findings within an integrated conceptual framework; and (3) translates lessons into actionable policy

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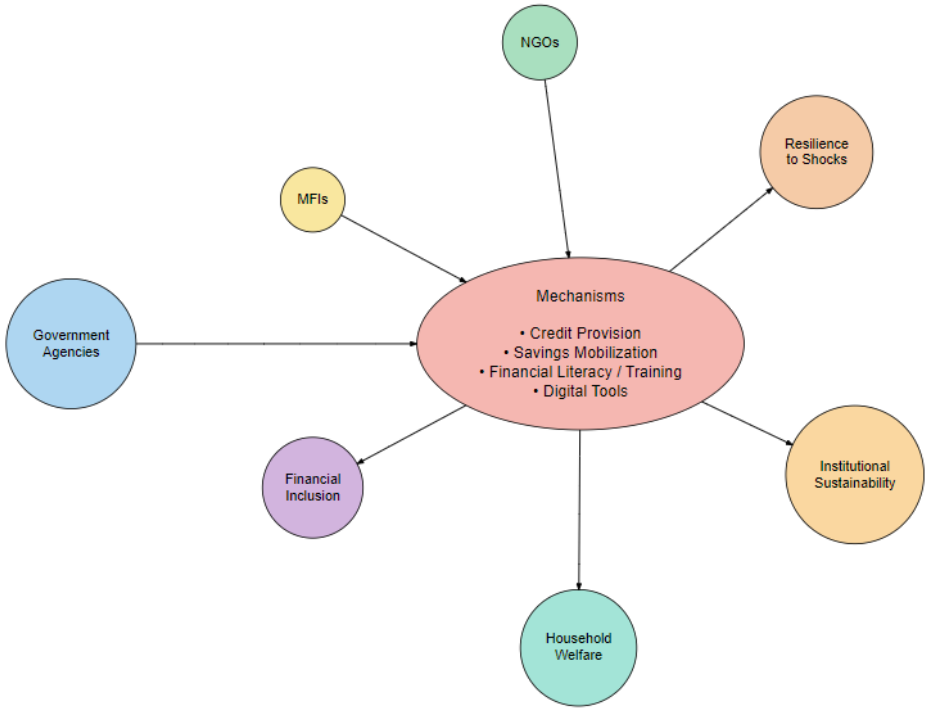
recommendations tailored to Malawi's dispersed, climate-vulnerable rural economy.

Addressing this gap is critical for interconnecting stakeholder efforts and directing scarce resources toward the most effective interventions (World Bank, 2022).This study fills this void through a narrative review of rural and microfinance initiatives in Malawi.We employ a conceptual model (Figure1) that links three actor groups—government, NGOs, and MFIsto core mechanisms and key outcomes.

1.1. Conceptual Framework

The framework posits that key actorsthe Government agencies like ministries and central bank, NGOs like development agencies as well as charitable organizations, and private MFIs should deliver various mechanisms of access like loans, savings programs, financial literacy training which will in turn influence outcomes like financial account ownership, income growth, and the ability of institutions to sustain services. For example, government programs can offer subsidized credit or rural banking, NGOs often foster savings groups and training, and MFIs provide loan products tailored to small farmers. This approach can help in addresing someof current development issues like Malawi's National Financial Inclusion Strategy whichaimsto improve financial inclusion of adultsby ensuring that 95% of adults have financial account by 2028 in Malawi(Malawi gvt, 2024).

Fig. 1. Conceptual model of rural finance



II.Rural Financing and microfinance initiatives stakeholder

2.1 Government-Led Rural Finance Initiative

2.1.1 State-owned funds and banks

Historicallythe government has financed rural development via specialized agencies. For example, the Malawi Rural Finance Corporation(MRFC) and Malawi Rural Development Fund (MARDEF),provided credit to farmers and small businesses, often at subsidized rates. By the 2010s, these micro-credit agencies were the largest formal financial provider of small loans in Malawi with combined total 268,000 clients by 2021(Malawi gvt, 2024), more than all private MFIs combined which accounted 189,000 clients at deposit-taking MFIs.

However, performance has been weak. Studies show that these public programs suffer from misalignment of incentives and low repayment. In

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their analysis of Malawi's public micro-credit schemes, Zidana and Nkhoma (2024) find that politicians view them as vehicles for patronage and votes, rather than mechanism set to achieves poverty reduction intended objective(Zidana & Nkhoma, 2023). Officials often align with political interests, while donors have little influence. As a result, government-run credit programs remain ineffective and have drawn criticism for distorting markets(Zidana & Nkhoma, 2023).Table 1 summarizes the coverage and scale of Malawi's main rural finance providers.

Table 1. Coverage and Scale of Rural Finance Providers in Malawi

Provider Type	Scale Metric	Value	Source
Government Agencies	MRFC + MARDEF clients served	268 000 (100% rural)	IFAD Supervisory Report 2024
NGO-supported CBFOs	Rural persons accessing community-based services	1 022 220	IFAD Supervisory Report 2024
	Community-group count	19 000 groups	IFAD Supervisory Report 2024
Deposit-taking MFIs	Institutions	4	RBM Annual Report 2021
	Rural branches	12	RBM Annual Report 2021
	Active clients	189 000	RBM Annual Report 2021
Mobile Money	Financial inclusion rate (adults with an account)	74 % (up from 34 % in 2014)	FinScope 2023

2.1.2 Policy and institutional reforms

The Government of Malawi has played a leading role through policies and development funds. Early efforts include the National Strategy for Financial Inclusion (NSFI) I & II (2010–2020) and the new NSFI III (2024–28)(Malawi gvt, 2024). These strategies set ambitious targets such as ; formal financial inclusion to 95% of Malawian adults by 2028 and emphasize synergies between finance, agriculture, and social protection. The Reserve Bank of Malawi (RBM) and Ministry of Finance have also spearheaded reforms: for example, a Financial Sector Development Strategy (2018–2030) and passing the Financial Services Act (2019) and Microfinance Act (2010) to regulate MFIs and cooperative. These laws allow for licensing of deposit-taking MFIs , and created a credit reference bureau (amended 2016) to improve borrower information(Malawi gvt, 2024).

2.1.3 Financial infrastructure expansion

On the credit side, Government of Malawi has increasingly sought to leverage the private sector. Recent policy encourages commercial banks to extend rural outreach through agent banking rather than direct government lending. In agriculture,

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government supports subsidized loans via schemes like Farm Input Subsidy Program and Targeted Input Program, though these often focus on inputs rather than micro-enterprise credit. The Reserve Bank of Malawi also participates in development initiatives like FARMSE by IFAD to link farmers to finance. On the regulatory side, reforms aim to allow MFIs and Savings And Credit Cooperative Organization (SACCO)s wider outreach under the Financial Services Act. The NSFI III specifically calls for coordination across sectors like finance, agriculture and ICT to boost rural inclusion.

Government initiatives have been central but mixed ineffectiveness in Malawi. Financial inclusion has been improving (FinScope,2023), by 2023 74% of adults had a financial account and increase from 34% in 2014, but rural–urban gaps still persist and institutional constraints remain. Public micro-credit agencies operate at scale but often fail to reach the poorest productively. Financial inclusion strategies recognize these challenges, prioritizing digital channels and partnerships to complement state programs. Going forward, policy debates emphasize depoliticizing credit programs and deepening reforms like credit bureaus and electronic payments to strengthen outreach while preserving sustainability.

2.2 NGO-Supported Savings and Credit Groups

2.2.1 Village Savings and Loan Associations (VSLAs)

NGOs have promoted self-help groups which are know as VSLAs, as an entry point into financial services for the rural poor. By 2025, dozens of NGOs like CARE, World Vision, Concern, Oxfam, and local partners support many VSLA groups across Malawi. These are savings-led groups where members pool deposits and lend to each other, with minimal external funding. Peer-reviewed evidence confirms thatVSLAs can significantly boost inclusion and outcomes. For examplestudy show that promoting VSLAs in Malawi improved account access, smallbusiness investment,and women's empowerment(Dean Karlan, 2013). In drought-affected villages, VSLA presence led to better household food security and income, indicating resilience to shocks. Likewise, qualitative studies in Africa have long noted that trust-based village banks enhance social capital and risk sharing(Chidimbah Munthali et al., 2022).

2.2.2 Women's empowerment and business outcomes.

The CARE evaluation found that household businesses grew more where VSLAs were active(Dean Karlan, 2013). Members reported using group savings to buy seeds, fertilizer, or stock for shops. In particular, women benefited: VSLAs gave them more control over income and credit, aligning with findings that savings groups can reduce gender gaps indecision-making(Dean Karlan, 2013). A cross-country review highlights these dynamics: by pooling resources, vulnerable households can smooth consumption and invest in livelihood activities, without strict collateral requirements.

2.2.3 COVID-19 impacts on VSLAs

The COVID-19 pandemic posed new challenges. A recent study (Munthali et al. 2022) on Malawi's VSLAs finds that the pandemic disrupted group operations and sharply reduced members' incomes.Lower-income households saw incomes drop over 50% by early 2021. Meeting restrictions and illness meant many VSLA groups paused or cut back activities. Predictors of VSLA sustainability during COVID included higher share contributions and frequent meetings before thecrisis(Chidimbah Munthali et al., 2022). In other words, groups with stronger initial cohesion fared better. The pandemic underscored that informal groups like VSLAs can be powerful buffers for the poor, but they need linkages to formal support (e.g. digital tools, social protection) to survive shocks).

2.2.4 Recent innovations and challenges

A new trend has emerged whereby NGOs and donors have begun digitizing VSLA operations through mobile apps for savings management to improve record-keeping and reach. UNCDF and others are piloting digital wallets for VSLA members. These innovations promise scale, but uptake is uneven due to low digital literacy in rural areas. Implementation challenges also include group governance and training: research notes many community groups struggle with bookkeeping and risk non-repayment if not well-trained. In summary, VSLAs remain a cornerstone of Malawi's rural finance landscape, delivering grassroots credit and savings mobilization. Evidence shows positive impacts on inclusion and livelihoods, but sustainability depends on continuous support and adaptation, especially amid uncertain shocks like covid-19(Chidimbah Munthali et al., 2022).

2.3 Private Microfinance Institutions (MFIs) and Cooperatives

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2.3.1 Sector composition

The private sector in microfinance includes licensed MFIs that requires consumer to make deposit first to gain eligibility status to access the credit and those that do not require deposits, credit-only NGOs, and formal cooperatives (SACCOs). As of 2021, Malawi had four deposit-taking MFIs serving 189,000 clients, plus 11 non-deposit-taking MFIs. In addition, 50 licensed public microcredit agencies served 268,000 clients. SACCOs add another 170,000 members. MFIs have grown moderately, with informal moneylenders and agency banking boosting outreach. Women constitute a high share of MFI clients (58% in deposit-taking MFIs)(Malawi gvt, 2024).

2.3.2 Outreach to rural areas

Private MFIs and banks have experimented with various delivery models to reach remote communities. Notably, Opportunity International Bank of Malawi (OIBM) pioneered branch-less banking via mobile "banking vans" starting in 2007. Independent evaluators report that within a few years OIBM became a leading rural lender. A study by Ferguson finds that OIBM made a significant growth to become the top credit provider in target regions, with FINCA (an NGO-MFI) and MRFC as nearest competitors(Michael Ferguson, 2011). Customers valued OIBM for respectful service and convenience of cash delivery, though consistent account use remained a challenge. The success of the banking-van model also spurred other providers to expand rural outreach (for example, FDH Bank and NBS Bank increasing agent networks).

2.3.3 Institutional sustainability

Commercial MFIs balance social and financial goals. Several charge interest rates averaging 30–40% annually , which has drawn criticism. Regulatory reforms aim to cap or regulate lending terms, but enforcement is limited. One study notes that some microloan programs, especially subsidized ones, experienced high default rates due to lenient recovery policies. On the whole, deposit-taking MFIs report positive growth, whereas many small NGOs operate at break-even with donor support. SACCOs face challenges of capitalization and require technical support. The Malawi Microfinance Network (MAMN) and FinScope surveys indicate that although formal sector penetration has risen, many loans to SMEs still come from informal lenders (katapila moneylenders)(Malawi gvt, 2024).

2.3.4 Innovation and partnerships

MFIs have also innovated by bundling credit with non-financial services. For example, CUMO Microfinance (started by Concern Universal) links loans to agricultural extension and business training. The Rural Finance Corporation has dabbled in weather index insurance (with IFAD support). The upcoming Farm Income Diversification Project (FARMSED) and partnerships with NGOs aim to tie microfinance to market linkages. Despite these efforts, a recent qualitativeanalysisconcludedthat private MFIs generally opt to disengagement with government, preferring a level playing field to avoid subsidy distortion(Zidana & Nkhoma, 2023). Thus, public policy has shifted toward empowering MFIs (through rural finance credit lines and capacity building) rather than running programs directly.

III.Impact of microfinance on livelihood and welfare

3.1 Poverty reduction and business growth

Evidence on microfinance impact on poverty is mixed globally, and Malawi is no exception. Several studies in Malawi assess how access to credit or savings affects household welfare. For example, an econometric study using nationally representative data found that formal credit access improved household food security (by enabling investment in inputs and diversification), whereas informal credit often coincided with greater vulnerability(Asaki et al., 2024). The CARE/IPA VSLA trial noted stronger business investment by VSLA members(Dean Karlan, 2013), but consumption impacts were modest on average. Nonetheless, qualitative accounts consistently report that group savings provide a safety net for critical expenses like school fees as well as health care that might otherwise drive households into debt.Table 2 presents selected quantitative effect estimates from key evaluations.

Table 2. Microloans impact estimates

Study	Outcome	Effect Estimate	Source

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Ksoll et al. (2016)	Household consumption	+12.4 % ($p < .05$)	Journal of Development Economics
	Meals per day	+0.3 meals/day ($p < .01$)	Journal of Development Economics
Karlan et al. (2017)	Women's business profits	+US$50 /month ($p < .05$)	IPA CARE evaluation report
Munthali et al. (2022)	Income drop during COVID-19	−52 % (lowest quintile VSLA members) vs −35 % (non-members)	BMC Public Health

3.2 Farm productivity

Agriculture dominates rural livelihoods. Microfinance programs often target farmers with loans or savings for inputs. A 2018 evaluation (Malawi FinScope for MSMEs) reports that 60% of microfinance clients used loans for agricultural purposes and households that accessed credit opt to diversify crops and invest in fertilizers to maximize yields and have more after-sale benefits. In drought scenarios, credit combined with savings groups enabled better coping: the CARE study found that in villages hit by drought, VSLA households had higher food security than non-member(Dean Karlan, 2013). Similarly, linking index insurance pilots to microfinance loans is an emerging practice to protect farmers against climate shocks. On balance, the literature suggests that improved financial access can raise household income and smooth consumption, but the gains depend on continuous access, sound business plans, and external conditions like market prices and weather.

3.3 Institutional sustainability outcomes

Financial inclusion is also seen in institutional terms. For NGOs and MFIs, sustainability means covering costs and scaling operations. The trend has been positive: between 2016 and 2020 financial inclusion rose whereby banks, MFIs and mobile wallets expanded reach of service. However, gaps remain, rural-urban disparitieshighlight uneven progress standing at 67% financial inclusion in rural areas vs 93% in urban. The rise of mobile money has been a game-changer: by 2020 there were 70,000 mobile money agents across Malawi, mostly concentrated in urban areas, facilitating millions of transactions(Margarete Biallas, 2021). Notably, studies show active mobile money use can reallocate labor and increase savings among smallentrepreneurs(Aggarwal et al., 2020).Overall, trends indicate increasing financial penetration for low-income Malawians, but institutional resilience is untested against future crises.

IV.Implementation challenges of rural financing initiatives

4.1 Political economy and governance

A major challenge is politicization of public programs and weak governance. It has been known that public micro-credit often serves patronage, undermining credit discipline, malpracticesthat have lead to loan defaults and fiscal losses whereby some of micro finance providers frequently needed recapitalization. Similarly, regulatory overlap has caused fragmentation of micro-financing system, this can be observed in the situation where multiple agencies like RBM and Ministry of Finance, had parallel credit schemes without coordination. and reports warningabout lenient loan collection policies in the state programs eroding loan repayment culture, this lead to civil society observers calling for transparency and stakeholder dialogue to reform these schemes(Zidana & Nkhoma, 2023).

4.2 Operational and capacity constraints

Rural finance faces practical hurdles: sparse populations make delivery costly, and many clients lack collateral or financial literacy. Group-based methods and mobile agents help, but require intensive training and monitoring. For instance, the OIBM case study noted that many new clients rarely used accounts, individuals wereonly signing up for the "status" of being banked(Michael Ferguson, 2011). This suggests a gap between nominal access and actual use of services. Similarly, the mobile money research found that while nearly all treated entrepreneurs opened accounts, only a subset used them for savings, not

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transfers(Brailovskaya et al., 2021) – indicating more support is needed to translate access of financial services into behavior change.

4.3 Financial literacy and technology

Low literacy and digital skills can hinder adoption of new products. Interventions in Malawi show that light-touch financial education improves repayment of digital loans, but aggressive marketing without information leads to over-borrowing and default(Brailovskaya et al., 2021). Debt traps from unregulated digital lenders (charging 10% fees on 15-day loans) are a concern. Broadband/agent network gaps also limit fintech outreach: as of 2020 only 15% of Malawians had internet access(Margarete Biallas, 2021), so most digital services still rely on SMS/USSD. Trust is another issue: customers may distrust formal channels, preferring known community lenders. Efforts to integrate informal katapila lenders via formal networks are nascent but have yet to scale.

4.4 Uncertainty shocks

The Unforeseeable shocks like climate change and healthy issues like pandemics have negatively impacted productivity of financial initiative. For instance,lockdown during COVID 19 and economic contraction have hit micro-enterprises and farmers, reducing demand for loans and straining repayments. At the same time, restrictions accelerated interest in digital channels for remittances and commerce. The IFC/World Bank report notes that Malawi implemented measures like waiving mobile fees to boost digital transactions during COVID. Financial institutions also offered loan moratorium to clients. Evidence suggests mobile money use surged in 2020(Margarete Biallas, 2021). While such measures built resilience, they also increased risk exposure for lenders. Recent surveys (IFC) warn that ongoing inflation and climate shocks remain threats.

This show how complex it is toimplementeffective rural finance interventions in Malawi and successes like expanding outreach of financial services and fostering VSLA memberships still coexist with problems of under-utilization, repayment default, and inequity. Many studies stress that multi-dimensional support is needed: combining credit/savings with training, market linkages, and social safety nets. Further, coordination among actors is key for example, linking VSLA groups to formal banks or mobile platforms to ensure continuity. Policy recommendations consistently call for promoting group-based approaches (VSLAs, SACCOs) while facilitating links with financial providers, and building consumer protection like credit bureaus and disclosure to safeguard clients.

V.Digital finance innovations and resilience arised by microfinance initiatives

5.1 Mobile money and fintech

Malawi's digital finance sector has grown rapidly. By 2020 there were 2.5 million active mobile money accounts(Margarete Biallas, 2021), and banks launched mobile wallets like FDH MyBucks and most popular mobile wallet TNM Mpamba. Evidence shows that such tools can improve financial behaviors: mobile money recipients in Blantyre shifted labor to farming which helped in increased their savings. Notably, one study found that mobile money accounts were primarily used as savings vehicles rather than for frequent transfers(Aggarwal et al., 2020). This suggests digital platforms can deepen inclusion if designed as basic deposit and saving tools.

5.2 Digital credit risks

The rise of uncollateralized digital loans has had mixed effects. Early evidence from Malawi indicates strong demand but also high risk: for example, only 38% of short-term digital loans were repaid on time in one study, with many borrowers rolling over or defaulting(Brailovskaya et al., 2021),subjected to high to higher fees and low transparency means that many consumers are unaware of such costs. Financial literacy campaigns modestly improved repayment rates in trials, but aggressive marketing of digital credit led to spikes in default.This can proven to be consequential onregulatory side as it has to face the challenge of balancing innovation with consumer protection.

5.3 Resilience to shocks

Digital finance also contributed to resilience during crises. The COVID-19 experience showed that governments and households rely more on electronic transfers and savings in emergencies. For example, digital channels have enabled urban migrants to send remittances home even when travel was restricted. Mobile money platforms also facilitated government cash transfer programs in other African countries; while not yet widespread in Malawi, interest in e-vouchers and mobile payments is growing. On the institutional side, MFIs and banks that had invested in digital infrastructure fared better in service continuity. The conceptual model suggests that digital mechanisms strengthen both inclusion and resilience: by reducing transaction

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costs and allowing easier saving, they cushion households against shocks.

5.4 Climate adaptation

Beyond financial innovations, Malawi's resilience agenda increasingly intersects with rural finance. Index-based insurance pilots like weather index insurance for maize, have been interconnected with microloans to protect farmers from drought. These schemes are still nascent, but with potential for scaling up with mobile delivery. Additionally, savings groups are receiving training on climate-smart agriculture, indicating a trend of integrating finance with livelihood adaptation. Overall, future-oriented policies emphasize that financial inclusion itself is a component of climate resilience – accessible savings and credit can help farmers recover faster from floods or crop failures, as already observed with VSLA members in drought conditions(Dean Karlan, 2013).

VI.Conclusions and Policy Implications

There has be a mixed progress in Malawi's rural finance in the past decade. Formal financial inclusion has risen substantially and NGO-led savings groups have proliferated, yielding recognizable gains in women's empowerment and business activity. Private MFIs have innovated by implementingbranch-less banking andmicro-insurance pilots, contributing to micro-enterprise finance. Governmentefforts on financial inclusion , regulatory reformshave created foundation of new frameworks, even-though public credit programs struggle with governance challenges.

Gaps and opportunities: Major gaps remain for the poorest rural households, who still rely mainly on informal networks and moneylenders. The high rate of non-use of accounts indicates a need for interventions on demandside on issues like literacy and trust-building. Research underscores that access alone is not enough: effective use of credit/savings depends on education, complementary support like training as well as market access, and responsive regulation. Policy should continue focusing on linking VSLAs to formal savings accounts thus help in develop and strengthen trust with rural consumers.

Forward-looking recommendations: Enhancing resilience to future unforeseeable shocks like pandemics, climate change must be integral to rural finance policy. This can be achieved by designing uncertainty-responsive programs like providing a flexible loan repayments and leveraging technological developments by enforcing adoption and application of mobile wallet cash transfers and e-insurance. Study results suggest that digital finance can amplify financial inclusion, but requires safety measures. Regulators should put much effort in expanding reach of payment systems while safeguarding security of the system by enacting fintech guidelines, this will ensure support of innovation while protecting consumers.

Governance reform is critical. Stakeholders must refrain from depoliticizing public credit schemes and establish a harmonized oversight of MFIs. If these reforms take hold, Malawi's rural finance system can become more inclusive and sustainable, contributing to poverty reduction and economic growth. The conceptual model outlined here suggests that synergy among actors – combining governmental strategy, NGO outreach, private innovation, and digital tools – is the pathway to achieving robust financial inclusion and improved livelihoods across Malawi's rural landscape.

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