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## EVALUATING THE EFFECTIVENESS OF LOAN DISTRIBUTION BY COFI IN PROMOTING ECONOMIC EMPOWERMENT AMONG RURAL FAMILIES: STUDY OF SANDULA VILLAGE, LILONGWE DISTRICT, MALAWI

**\*Towera Kawazamawe, Mr. Freezar Jefutala**

Bachelor of Social Work, DMI St. John the Baptist University.

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\*Corresponding Author: Towera Kawazamawe

Bachelor of Social Work, DMI St. John the Baptist University.

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### ABSTRACT

Community Finance Limited (COFI) plays a crucial role in fostering economic empowerment among rural families by providing financial services tailored to their needs. This study evaluates the effectiveness of COFI's loan distribution in promoting economic empowerment in Sandula Village, Lilongwe District, Malawi. The research adopted a mixed-methods approach, combining both quantitative and qualitative data collection techniques. Quantitative data were gathered through structured questionnaires administered to a sample of rural loan recipients, focusing on changes in income levels, asset acquisition, and business growth before and after loan access. Complementing this, qualitative data was collected through in-depth interviews and focus group discussions with beneficiaries and key stakeholders to explore personal experiences, challenges, and perceptions of the loan process and its impact. The integration of both methods provided a comprehensive understanding of how microfinance interventions influence rural livelihoods. Quantitative data was analyzed using descriptive and other statistical tools, while qualitative data was analyzed thematically to find common themes and insights on the impacts of microfinance. The population in this study comprised 40 respondents who were either utilizing or not utilizing microfinance services in Sandula Village, and included women and men. The calculation for the appropriate sample size for a population of 40 was done by using an initial sample size through a statistical formula that accounts for infinite populations. Ethical issues were paramount in conducting the research, as this study respected participants' rights, integrity,

Privacy and confidentiality followed professional standards. The effectiveness of loan distribution was crucial to promoting economic empowerment among rural families since it helps access to capital for livelihood activities, poverty reduction and women empowerment.

**KEYWORDS:** Economic Empowerment, Microfinance, COFI, Loan Distribution, Rural Families.

## INTRODUCTION

Microfinance has emerged as a crucial catalyst in global poverty reduction efforts, particularly in developing African economies. Since its inception in the 1970s, Community Finance Limited (COFI) has played a vital role in socio-economic transformation by providing marginalized communities, especially women, with access to financial services such as microloans, savings, and insurance. These services enable individuals to enter the formal economy, reduce reliance on informal borrowing, and enhance their economic resilience, contributing significantly to poverty alleviation.

In Malawi, microfinance institutions (MFIs) like COFI are instrumental in offering credit, savings, and other financial services to underserved populations, including women, youth, and smallholder farmers. Established as a subsidiary of Tradeline Corporation Group Ltd. and regulated by the Reserve Bank of Malawi, COFI is dedicated to empowering communities through inclusive financial solutions. Operating in over 15 districts, the institution has successfully supported thousands of clients with agricultural loans, SME financing, and personal credit, thus boosting economic participation and growth within these communities. Despite the successes of MFIs in Malawi, challenges such as loan repayment difficulties and limited financial literacy persist. Understanding the operations and impact of institutions like COFI is critical for improving microfinance delivery and enhancing development outcomes. This study aims to evaluate COFI's effectiveness in promoting economic empowerment among smallholder farmers, contributing to strategies and policies that refine microfinance's role in sustainable livelihoods and inclusive growth. Through financial literacy programs and entrepreneurial skill development, MFIs can facilitate long-term community resilience and economic empowerment, particularly for women, thereby fostering equitable economic growth.

## **Background of the Study**

This section focuses on historical background, theoretical Background, conceptual Background, and contextual Background.

### **Historical Background**

The emergence of Community Finance Limited (COFI) has proven to be a pivotal tool for financial inclusion and economic empowerment in developing countries, particularly where access to traditional banking services is limited. COFI provides specialized financial services designed for low-income households and small businesses, including savings accounts, small loans for investments and emergencies, transaction payment services, insurance products, and business development support through training and mentoring. In Malawi, where over 80% of the population resides in rural areas, the microfinance sector is crucial in addressing financial exclusion and includes various entities like NGOs and licensed institutions regulated by the Reserve Bank of Malawi. COFI, established under the Tradeline Corporation Group, aims to empower low-income individuals, particularly women, youth, and smallholder farmers, through tailored financial offerings.

While COFI has successfully served over 50,000 farmers and 10,000 microenterprises across more than 15 districts, challenges persist. High default rates, limited financial literacy among clients, operational inefficiencies, and reliance on external funding threaten sustainability. Understanding the socio-economic impact of microfinance institutions is vital for strengthening their operational models. Economic empowerment, as a transformative process, enhances living standards by facilitating access to resources, increasing productivity, and enabling informed decision-making within communities. This empowerment allows individuals to generate income and actively engage in the labor market, ultimately fostering broader economic participation.

### **Conceptual Framework**

The study leverages the framework of economic empowerment, emphasizing the correlation between access to financial resources and improved economic outcomes. COFI serves as a focal point for evaluating how microfinance can bridge socio-economic gaps within rural communities.

### **General Objective of the Study**

The Main objective of the study was to evaluate the effectiveness of COFI in promoting economic empowerment among rural families in Sandula village, Lilongwe district.

### **Specific Objectives of the study**

1. To assess the effectiveness of COFI's financial products in meeting the needs of its target clients in Sandula village.
2. To assess the differences in business outcomes between male and female borrowers in Sandula village.
3. To examine the loan repayment performance and portfolio quality of COFI in Sandula village.
4. To find out some challenges faced by families in microfinance (COFI) service transactions in Sandula village.
5. To recommend the introduction of financial literacy educational programmes among COFI clients in Sandula village.

### **Literature Review**

#### **Theoretical Review**

This study is guided by the Economic Empowerment Theory, which explains how access to financial resources, skills, and opportunities enables individuals to improve their economic and social well-being. The theory emphasizes that empowerment occurs when people gain control over productive resources and make decisions that influence their lives positively (Narayan, 2002).

In the context of microfinance, the theory suggests that when individuals, especially those in rural areas, access loans, savings, and training, they can invest in income-generating activities, accumulate assets, and enhance their independence (Cheston & Kuhn, 2002). This empowerment not only increases household income but also strengthens decision-making power within families and communities.

The theory is relevant to this study because Community Finance Limited (CoFi) provides financial services that aim to empower rural families economically. By assessing the effectiveness of CoFi's loan distribution, this study evaluates how access to finance contributes to economic empowerment and improved livelihoods in Sandula Village, Lilongwe District.

## **Research Methodology**

### **Research Design and Methodology**

The study adopted a mixed research design for the effectiveness of microfinance on rural households. The design targeted the capturing and describing of existing conditions and relationships without manipulating variables; hence, it was appropriate to understand what effects microfinance currently has on the target population (Mumi et al., 2020).

The present study has therefore adopted multiple case study strategies to enhance the depth of analysis. In this way, it was possible to investigate a host of microfinance interventions, along with their effects across contexts. As Nogueira et al. (2020) note, a multiple case study can help improve generalizability by showing whether the results in one case apply to another and, therefore, providing broad insight into the influence of microfinance on rural life.

### **Methodology**

A mixed-methods approach in data collection was followed, combining the qualitative and quantitative techniques of collecting data. Primary data was retrieved from interviews and questionnaires from beneficiaries of microfinance services. Secondary data included existing reports and literature that inform the study's context and findings (Nogueira et al., 2020).

Quantitative data through descriptive design was utilized to describe the characteristics of CoFi clients and evaluate the effectiveness of the institution's financial products and other statistical tools, while qualitative data were analyzed thematically to find common themes and insights on the impacts of microfinance. This combines both types of data into one comprehensive view on how microfinance affects poverty alleviation and economic development in rural settings (Mumi et al., 2020).

## **Research Setting**

The study area for this research was Sandula Village, located in Lilongwe District, the central region of Malawi.

## **Target Population**

The population in this study comprised 40 respondents who were either utilizing or not utilizing microfinance services in Sandula Village and included women and men. In fact, this category of the population was quite important because sometimes the family was the major

beneficiary of the microfinance services that were intended to empower them economically and socially. Their focus brought out the challenges and opportunities they were facing.

### **Data Collection Methods**

Two primary data collection methods were utilized:

Questionnaires: Structured questionnaires were distributed to capture quantitative data on customer satisfaction and usage patterns of electronic payments.

Interviews: In-depth interviews allowed for qualitative insights, capturing personal experiences and demands related to COFI's financial products.

### **Data Analysis & Interpretation**

#### **Response Rate**

This research study included the gender of the respondents to provide an insight into patterns among gender categories.

**Table 1. Gender of Respondents.**

Gender	Frequency	Percentage
Male	14	40%
Female	21	60%
<b>Total</b>	<b>35</b>	<b>100%</b>

Source: primary data

According to Table 1, of the 35 respondents, 14 were male (40%) and 21 were female (60%), resulting in a 100% response rate. This higher female participation highlights a shift in traditional gender roles in Sandula Village, suggesting that women are increasingly engaging in economic opportunities. The findings indicate that Community Finance Limited (CoFi) should leverage this trend by implementing strategies that further enhance female engagement, ensuring that microfinance effectively supports the economic empowerment of both genders.

### **4.3. DEMOGRAPHIC INFORMATION**

Demographic data is information about groups of people according to certain attributes. Key demographic data include age, education level, and occupation. Discussing these relevant variables provides an overview of the sampled participants in the data collection.

### 4.3.2 Age Distribution of Respondents

**Table 2. Age Distribution of Respondents.**

Age Group	Frequency	Percentage
20-30 years	31	89%
30 to 40 years	3	9%
40 to 50 years	1	3%
<b>Total</b>	<b>35</b>	<b>100%</b>

Source: Primary data

Table 2 shows the According to table 4.2, the majority of the respondents were in the range of ages 20 to 30 years, which yielded a total of 31 respondents which is 89% of the total respondents. The age group 30 to 40 years was next with a total of 3 respondents representing 9% of the total respondents followed by the age group between 40 to 50 years with 1 respondent representing a total of 3% in microfinance activities in Sandula Village. This demographic trend suggests that Community Finance Limited (CoFi) may need to tailor its financial products and educational programs to address the specific needs and preferences of younger borrowers, fostering sustained economic growth and empowerment within the community.

### 4.3.3 Education Levels of Respondents

**Table 3. Education Levels of Respondents.**

Education Level	Frequency	Percentage
Primary	14	40%
Secondary	16	45%
Tertiary	5	15%
<b>Total</b>	<b>35</b>	<b>100%</b>

Source: Primary data

Table 3 illustrates the education levels of the respondents, with 40% having completed primary education, 45% secondary education, and 15% tertiary education. The predominance of secondary education among respondents suggests a relatively literate population, which is crucial for understanding and utilizing financial products effectively. However, the significant portion with only primary education highlights the need for Community Finance Limited (CoFi) to consider financial literacy programs that cater to diverse education backgrounds, ensuring that all borrowers can fully benefit from available microfinance services.

#### 4.3.4 Main Occupations of Respondents

**Table 4. Main Occupations of Respondents.**

Occupation	Frequency	Percentage
Agriculture	17	50%
Trading	10	30%
Other	8	20%
<b>Total</b>	<b>35</b>	<b>100%</b>

Source: Primary data

Table 4 displays the main occupations of the respondents, revealing that 50% are engaged in agriculture, 30% in trading, and 20% in other occupations. The significant representation of agricultural workers indicates that many families in Sandula Village rely on farming as their primary source of income. This finding underscores the importance of tailoring microfinance products to support agricultural activities, such as offering loans that cater to seasonal cycles and crop production needs. Community Finance Limited (CoFi) should consider these occupational trends when designing its services to enhance economic empowerment within the community.

#### KEY FINDINGS

1. **Loan Effectiveness:** Respondents reported significant improvements in household income, access to assets, and overall economic conditions post-loan acquisition. The statistical analysis confirmed a correlation between loan usage and enhanced satisfaction levels.
2. **Client Challenges:** High financial literacy gaps and difficulties in loan repayments emerged as significant barriers to effective loan utilization. Many clients reported feeling overwhelmed by the complexity of financial terms, leading to misunderstandings about repayment obligations.
3. **Gender Disparities:** Female borrowers demonstrated lower repayment performance compared to males, revealing systemic issues in access and confidence in financial services. Tailored approaches to engage female clients were recommended to alleviate these challenges.
4. **Financial Literacy Needs:** A strong need for comprehensive training programs was identified to equip clients with the necessary skills in managing loans and understanding financial products.

## **RECOMMENDATIONS**

1. Enhance Financial Literacy Programs: Implement comprehensive training modules tailored to the needs of clients, focusing on critical skills for effective loan management and usage.
2. Adopt Gender-Inclusive Strategies: Redesign financial products to cater specifically to the unique needs of female borrowers, including more simplified loan terms and support structures.
3. Strengthen Community Engagement: Increase outreach efforts to educate potential clients about COFI's services while fostering a supportive network within the community.
4. Monitoring and Evaluation: Establish ongoing assessment frameworks to evaluate client outcomes and satisfaction levels, ensuring adaptive strategies that meet evolving needs.

## **CONCLUSION**

This study concluded that Community Finance Limited (COFI) plays a crucial role in promoting economic empowerment among rural families in Sandula Village, Lilongwe District, Malawi, through its loan distribution strategies. The research revealed a positive correlation between access to COFI's loans and improvements in household income, asset acquisition, and overall business viability. However, persistent challenges, particularly around financial literacy and gender disparities, emerged as significant barriers that hinder optimal engagement with COFI's services. Female borrowers were found to face more substantial challenges compared to their male counterparts, highlighting the need for targeted support to address these disparities.

To maximize COFI's impact, it is essential to implement comprehensive financial literacy programs tailored to client needs, alongside gender-sensitive approaches to product offerings. Such initiatives can empower clients, allowing for better management of loans and increased business success, ultimately fostering sustainable economic growth within the community. By addressing these challenges, COFI can enhance its effectiveness and ensure that its services contribute meaningfully to the economic empowerment of all families in Sandula Village.

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