



Research Article

The Impact of Financial Literacy on Agricultural Loan Utilization Among Smallholder Farmers in Ntchisi District, Malawi

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Abstract

The paper emphasizes the significance of financial knowledge in the adoption of smallholder agricultural loans in Ntchisi District, Malawi. The authors suppose that it is the financial instruments that are essential to improving the agricultural productivity of smallholder farmers, who are quite dependent on credit. Nonetheless, these farmers have major problems such as insufficient access to formal financial institutions, high interest rates, bureaucratic delays, and poor financial literacy.

With a mixed-methods research design, the study integrates quantitative survey-based and qualitative interview-based research to evaluate the financial knowledge and loan utilization behavior of the farmers. The results show that there is a strong positive relationship between financial literacy and sound loan management. Increased financial literacy of farmers results in better borrowing habits, loan terms, and timely loan repayments. About 60% of the farmers were trained on financial literacy skills, mainly on budgeting and loan management, which increased their confidence that they had in financial matters. Nonetheless, most of them are still in need of financial literacy, which implies that specific training interventions are required. The paper names multiple barriers to accessing credit, like stigma and high interest rates that block the ability of farmers to obtain financing and adversely affect agricultural productivity. Suggestions are made to improve financial literacy education, to improve loan application procedures, and to increase the effectiveness of agricultural extension workers in conducting financial training. Generally, the study suggests the inclusion of financial literacy initiatives in developing agricultural activities and enhancing local economic growth, and eventually livelihoods and food security levels in the area.

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KEYWORDS: Financial Literacy, Agricultural Loans, Smallholder Farmers, Ntchisi District, Economic Development

1. INTRODUCTION

1.1 Background

The agricultural sector can be described as an important aspect of the Malawi Economy, especially for the smallholder farmers who are largely dependent on monetary aspects to improve their productivity. Ntchisi District is home to many farmers who rely

on agricultural loans to fund their farming activities. Yet, they are faced with great troubles in the form of poor access to formal financial institutions, high interest rates, scarring red tape, and financial unawareness. Financial literacy refers to the knowledge and skills that are required to help people make sound financial decisions, such as knowing what is in a loan,

effective budgeting, and loan repayment. This is very important to the farmers as they can now operate within the financial systems and make use of loans to produce to the best of their abilities.

1.2 Significance and Role of the Article.

This paper will examine how financial literacy influences the use of agricultural loans by smallholder farmers in Ntchisi District, Malawi. By analyzing the link between financial knowledge and loan management, the study aims to identify obstacles that limit loan use. The lessons from this study can educate policymakers and agricultural extension services. It will highlight that financial literacy is critical in improving agricultural productivity and economic growth in the region.

1.3 OBJECTIVES OF THE RESEARCH

The main aim of the study is to examine the influence of financial literacy on access and use of agricultural credits among smallholder farmers in Ntchisi District. The goals include: Determining the financial literacy of the farmers. Examining trends in agricultural loan usage. Learning about the relationship between loan management practice and financial literacy. Identifying knowledge gaps that may lead to tailored financial literacy interventions. Recommending ways for policymakers and extension agencies to boost financial literacy efforts.

1.4 Scope of the Discussion

This study uses a mixed-methods research design, combining quantitative surveys and qualitative interviews. This produces a complete picture of financial literacy and loan usage among smallholder farmers. The results will show how financial literacy and agricultural loan use interact. Customized financial education programs can then help farmers overcome barriers. The research aims to support sustainable farming and improve the lives of smallholder farmers in Ntchisi District.

2. LITERATURE REVIEW

2.1 Theoretical Framework:

The research is based on the Theory of Planned Behavior (Ajzen, 1991), which constructs the behavior of an individual as determined by his intentions, which are shaped by his attitude, subjective norms, and perceived behavioral control. This concept is applicable in the interpretation of the effect of financial literacy on the use of loans by farmers. This theory proposes that the intent of the farmer to use the borrowings depends on how the farmers feel about financial literacy, the social norms of borrowing, and how efficiently they believe they can deal with the financial products.

2.2 Review of Related Literature

Earlier research proves that there is a positive relationship between agricultural productivity and financial literacy (Lusardi and Mitchell, 2014). When farmers are financially literate, they tend to adopt good financial practices like budgeting, saving, and making knowledgeable investment choices. This not only

increases their productivity in their respective farms, but it also helps in the stability of the economies of their communities at large. Nevertheless, there are still considerable gaps in the literature concerning the precise issues encountered by farmers in Ntchisi District, especially with reference to the level of financial literacy and the behavior of loan utilization.

It has been found that with low financial literacy, someone may not manage loans properly and default rates may be higher, which will eventually affect agricultural productivity and food security (Kumar & Singh, 2021). Lack of financial knowledge, which is required by farmers, can make it difficult to comprehend the loan conditions, resulting in mismanagement and financial problems. Moreover, researchers have also established different obstacles to financial literacy that comprise poor access to financial education, cultural beliefs related to borrowing, and bureaucratic difficulties in obtaining loans (Chirwa et al., 2016). Such obstacles generate a financial exclusion cycle that negatively affects the ability of farmers to exploit the available financial resources.

Besides this role of technology in promoting financial literacy, it is also receiving some attention, especially in rural regions where traditional ways of education might not be as effective. Possible solutions to the issue of the financial literacy gap among farmers have also become mobile banking and digital financial literacy programs (Aker et al., 2016). Such innovations have the potential to equip farmers with advanced information and systems that can help them make informed decisions related to finances, hence enabling them to access and utilize their loans appropriately. Through technology, the agricultural stakeholders will be able to increase financial literacy and enable farmers to increase their economic resilience and output.

3. MAIN CONTENT / DISCUSSION

3.1 Explanation of Key Concepts

Financial Literacy: Financial literacy can be defined as the capacity to comprehend and effectively apply other financial skills, i.e., personal financial management, budgeting, and investments. For smallholder farmers, it includes knowledge in terms of loans, interest rates, repayment terms, and agricultural input budgeting. Farmers should have financial literacy so that they make sound decisions that can result in better agricultural productivity and financial stability. **Agricultural loans** are financial products that are targeted at assisting farmers to buy inputs, including seeds, fertilizers, and equipment to grow crops. Such loans may be imperative for the smallholder farmers who tend not to have capital to inject into their activities. It is also important to comprehend the terms and conditions of these loans and utilize them well, and pay on time. **Smallholder Farmers:** Smallholder farmers operate small plots of land that are operated by an individual or family that mostly using family labor in agricultural production. Such farmers find themselves in a lot of difficulty in accessing financial resources, and this may restrict them from investing in their farms and be able to better their livelihoods.

3.2 Supporting Evidence Analysis

The outcomes of the research reveal that there is a high positive relationship between financial literacy and the proper use of agricultural loans by smallholder farmers in Ntchisi District. In the statistical analysis, it was found that farmers who were more financially literate had better loan management practices, which resulted in better loan repayment behaviors and reduced default rates. An example is that, when farmers were aware of the loan terms, they were likely to be in a position to negotiate good conditions that eventually improved their financial results. A large percentage of the respondents (60%) reported having undergone some sort of financial literacy training, which was mostly on budgeting and loan management. This training has been referred to as higher confidence in handling financial issues. Nonetheless, even under this training, the issue of financial literacy among many farmers remains a problem; this is why specific and extensive educational programs are required.

Supporting Data

- **Survey Results:** A 100% response rate was obtained in the survey, which means that there was great participation amongst farmers. The respondents indicated that 37% of the respondents were in the range of 26-35, and thus they were more likely to be young and hence more inclined to adopt new financial habits.
- **Loan Utilization Patterns:** 13 of 45 farmers stated that they had previously taken loans in agricultural loans, which is an indication of the obstacles they encounter in obtaining credit.

3.3 Case Studies and Examples

Various examples of the influence of financial literacy on agricultural loan usage can be found using the following case studies:

1. Case Study: Farmer A

Farmer A, on his part, was consulted on whether he was able to better manage the allocation of funds to inputs due to his participation in the financial literacy program. He cited; Consequently, he has been able to increase his production by 30 percent by acquiring a loan on seeds and fertilizers. His victory is a good indication of how money literacy can result in the decision to invest better and to have a better agricultural output.

2. Case Study: Farmer B

On the contrary, Farmer B had never undergone financial training and could not understand the conditions of his loan deal. He experienced problems with repayments, thus defaulting. The case is an example of the adverse impacts of financial illiteracy that confirms the necessity of educational interventions.

3. Community Engagement Case Study.

The local nongovernmental organization, which is called the Farm Concern International, started a program that involved

financial literacy, with a series of practical lessons on loan applications. The participants also indicated that they were now more confident to go to the financial institutions, and as a result, loan applications by trained farmers were now 40 percent higher than they were before the program.

3.4 DISCUSSION OF THE FINDINGS

The implications of the results of this study for the agricultural policy and financial inclusion initiatives are important. Through financial literacy, the stakeholders will be able to empower the smallholder farmers with financial decision-making abilities that will eventually address the problems of agricultural productivity and economic sustainability.

Policy Recommendations

- **Tailored Training Processes:** designing financial literacy trainings based on the needs and issues of the smallholder farmers in Ntchisi District. The programs must integrate the local agricultural practices and financial products to make them relevant.
- **Technology:** Take advantage of mobile technology and online platforms to distribute the materials of financial education. This measure can also increase access, especially to remote farmers.
- **Community Engagement:** Establish collaborations with the local leaders and bodies to gain trust and motivate people to invest in financial literacy programs. Involvement of the community members would also aid in overcoming cultural beliefs that inhibit borrowing and the use of loans.

4. FINDINGS / OBSERVATIONS

The discussion generated several important insights that can be summarized in the following way.

The research demonstrates some important facts about the effect of financial literacy on the use of agricultural credit among the smallholder farmers in the Ntchisi District, Malawi:

1. **Positive Correlation between Financial Literacy and the Loan Utilization:** There is a solid positive relationship between financial literacy and effective use of loans. Farmers who are more financially literate will be in a better position to comprehend the loan terms, have a good budget, and be able to make repayments on time.
2. **Training and Its Effect:** About 60 percent of the surveyed farmers have undergone financial literacy training on budgeting and loan management. This training helps them greatly in boosting confidence in financial issues and better borrowing habits, as well as loan management practices.
3. Although this has been trained, the farmers are still experiencing significant barriers to loan acquisition, such as high interest rates, bureaucratic hurdles, and cultural biases towards borrowing. These obstacles are impediments to the successful implementation of the money available.
4. The number of respondents who had borrowed agricultural loans was only 13 out of 45, which shows that, despite the

training, most farmers are not willing or cannot borrow credit.

5. The results indicate that it is important to have more specialized financial literacy programs that can cater to the needs and problems of smallholder farmers in the area.

4.2 Statistical Analysis or Results.

The statistical information about the survey data is as follows: The quantitative analysis of the survey data gives the following statistics:

Response Rate: The survey recorded a 100% response rate, which is a good indicator of the participation of the targeted participants.

- **Demographic Insights:** The respondents were mostly younger (37-54) years of age, with most of them aged between 26–35 years, which is a good indication of a younger demographic that might be more open to learning and new financial habits.
- **Financial Literacy Assessment:** The statistical analysis revealed that the financial literacy scores had a significant correlation ($p < 0.05$) with the effective loan utilization. There was a correlation between increased financial literacy and responsible borrowing, plus a reduction in default rates.
- **Loan Management Behaviors:** Farmers who acquired financial literacy showed enhanced awareness about the terms of the loan, which resulted in a more efficient way of managing and using loans.

4.3 Qualitative Insights

The statistical results were complemented by additional qualitative information obtained in interviews and focus group discussions:

- **Perceived Barriers:** Farmers said that they were confused about the loan agreements and perceived to be risk-averse when it comes to borrowing. Most of them wanted better guidance and assistance on the way through the loan application process from the financial institutions.
- **Cultural Attitudes:** Cultural beliefs on borrowing played a big role in determining how farmers would borrow. There are those who mentioned that they would prefer self-financing, though they recognize that loans could also have a beneficial impact on improving agricultural productivity.
- **Access to Information:** The unavailability of credible financial information was also a common theme. It has been noted by many farmers that financial institutions did not make efforts to explain loan products, which made them lack knowledge and confidence in taking loans.

These findings highlight the role of increasing the financial literacy of smallholder farmers and eliminating those systemic obstacles that reduce their access to agricultural loans. The stakeholders can empower farmers to borrow efficiently by enhancing financial education and providing a better borrowing environment, which in the end will lead to increased agricultural productivity and economic stability in the region.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Key Findings

This paper has identified the importance of financial literacy in improving the rate of use of agricultural loans by smallholder farmers in Ntchisi District, Malawi. Key findings include:

- **Positive Effect of Financial Literacy:** Financial literacy level is positively and significantly correlated with good loan management practices. Financially literate farmers would be able to make better borrowing choices and repay their loans on better terms.
- **Training and Confidence:** About 60 percent of the farmers have been trained in financial literacy and mostly in budgeting and loan management. This training has played a major role in enhancing their self-confidence when it comes to dealing with financial issues.
- **Loan Access Barriers:** Some of the most notable barriers to loan access, even after the training, are high interest rates, bureaucracy, and cultural beliefs about borrowing. Agricultural loans have actually been taken up by a very low percentage of the farmers, which proves that the obstacles to accessing them are still a pressing problem that should be solved. The results also suggest the need to focus on specific financial literacy interventions that would not only contribute to the improvement of knowledge but also aim to mitigate the structural challenges that do not allow people to use loans effectively.

5.2 Future Research and Recommendations

In accordance with the findings of this research, it is possible to make the following recommendations:

1. **Personalized Financial Literacy Training Programs:** Design small-scale financial literacy training programs that are based on their needs and current issues. Such programs are expected to incorporate local farming practices and monetary products.
2. **Technology use of mobile and other digital platforms** to push financial education information. The strategy can make access more accessible, especially to those farmers in far-flung regions, and offer timely access to information on financial products and services.
3. **Community Engagement:** Build strong relations with the local leaders, non-governmental organizations, and local organizations to form trust and motivate them to be involved in financial literacy programs. It is also possible to involve the community to break through cultural norms that prevent borrowing.
4. **Long-term Support Mechanisms:** instituting continuous support to the farmers who have undergone financial literacy

training. This may involve mentorship programs, follow-up workshops, as well as availability of financial advisors who can help with loan applications and management.

5. Lobby for policy amendments that will ease access to loans, including a reduction of interest rates and simplification of loan applications. Meeting policymakers may allow development to create a more favorable financial situation among smallholder farmers.

6. Future Research: Future researches need to be done on longitudinal research that evaluates the long-term effects of financial literacy measures on the loan use and agricultural yield. Also, the research on the effectiveness of different education methods and the impact of technology on improving financial literacy would be beneficial.

Through such recommendations, the stakeholders will be able to increase the financial literacy and loan use among the smallholder farmers in the Ntchisi District, which will eventually lead to increased agricultural productivity, economic stability, and food security in the area.

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