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Determinants of Banking Non-Usage among Micro, Small and Medium Enterprises in Malawi: Evidence from a Convergent Mixed-Methods Study

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Abstract—Despite sustained efforts to expand financial inclusion across Sub-Saharan Africa, many Micro, Small and Medium Enterprises (MSMEs) continue to operate outside the formal banking system. Limited participation in formal banking constrains enterprise growth by reducing access to savings, credit, payment services, and other financial products that support business development. While previous studies have identified several determinants of financial inclusion, evidence explaining banking non-usage among MSMEs in low-income countries remains limited and has largely relied on either quantitative or qualitative approaches in isolation. This study examined the determinants of banking non-usage among MSMEs in Lilongwe City, Malawi, using a convergent mixed-methods design.

Quantitative data were collected from 434 MSME owners through a structured questionnaire and analysed using descriptive statistics, Chi-square tests, and hierarchical logistic regression. Qualitative data were obtained through in-depth interviews with 30 purposively selected entrepreneurs and analysed thematically. Integration of the two datasets enabled statistical findings to be interpreted alongside entrepreneurs' lived experiences.

Overall, 81.4% of MSMEs did not use formal banking services. Financial literacy was the most consistent predictor of banking participation across all regression models. Enterprise registration and business size were also associated with increased banking use, whereas collateral requirements were the only institutional barrier independently associated with non-use of banking. Gender, trust in banks, and bank charges were not statistically significant in the final model. Qualitative findings confirmed that entrepreneurs generally perceived banks as safe institutions but identified collateral requirements, complex documentation procedures, and limited understanding of banking processes as major barriers. Many, therefore, relied on informal financial mechanisms, including village savings groups, supplier credit and family networks, to meet short-term business financing needs.

The study concludes that banking exclusion among MSMEs is primarily shaped by the interaction among financial capability, enterprise formalisation, and institutional lending practices, rather than by demographic characteristics or distrust of financial institutions. The study recommends the need for financial literacy interventions, collateral reform, MSME-responsive banking products and stronger enterprise formalisation initiatives.

Keywords: Banking non-usage; Financial inclusion; MSMEs; Financial literacy; Collateral; Enterprise registration; Informal finance; Malawi.

I. INTRODUCTION

Financial inclusion supports economic growth by enabling enterprises to save, access credit, manage risks, and participate in formal markets (Demirgüç-Kunt et al., 2022). MSMEs form the foundation of private sector activity across Sub-Saharan Africa,

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yet many continue to face financial constraints that limit productivity, innovation, and growth (International Finance Corporation [IFC], 2023). Although banking infrastructure, branch networks, agency banking, and digital financial services have expanded, formal banking participation among MSMEs remains uneven. A substantial proportion of entrepreneurs continue to rely on informal financial arrangements despite the availability of regulated financial institutions (Alliance for Financial Inclusion [AFI], 2022; World Bank, 2022).

Malawi presents a particularly important context for examining this challenge. MSMEs contribute significantly to employment, household income and economic resilience, but many enterprises remain financially excluded despite national efforts to expand access (FinMark Trust, 2019; Reserve Bank of Malawi [RBM], 2021). This suggests that physical access to financial institutions has not necessarily translated into effective use of banking services.

Existing literature suggests that financial literacy, education, enterprise registration, business size, collateral requirements, documentation, transaction costs, and loan-processing procedures are potential determinants of financial inclusion (Allen et al., 2016; OECD, 2023; Berger & Udell, 2006; Beck et al., 2005; Stiglitz & Weiss, 1981; Zins & Weill, 2016). However, much of the existing evidence relies exclusively on either quantitative (using household or enterprise survey data) or qualitative methods (exploring entrepreneurs' experience without examining the statistical significance of the different determinants). As a result, limited attention has been given to how measurable characteristics interact with entrepreneurs' lived experiences, particularly in low-income countries where formal and informal financial systems coexist.

This study addresses this gap by adopting a convergent mixed-methods design that integrates hierarchical logistic regression with qualitative thematic analysis to examine banking non-usage among MSMEs in Lilongwe City, Malawi. Rather than considering quantitative and qualitative evidence independently, the study combines both forms of evidence to explain not only which factors are statistically associated with banking non-usage but also how entrepreneurs themselves perceive and experience these barriers. This integrated approach provides a more comprehensive understanding of financial exclusion than would be possible through a single methodological perspective.

The study addresses that gap by integrating hierarchical logistic regression with qualitative thematic analysis to examine banking non-usage among MSMEs in Lilongwe City. It makes three contributions. First, it provides evidence from a relatively under-researched low-income African economy where published evidence remains comparatively limited. Second, it integrates quantitative and qualitative evidence to explain the mechanisms underlying banking exclusion. Third, it identifies practical policy recommendations for governments, regulators and commercial banks seeking to improve financial systems to meet the needs of MSMEs.

II. Literature Review

II.I. FINANCIAL INCLUSION AND BANKING PARTICIPATION AMONG MSMES

Financial inclusion refers to the availability and effective use of affordable, appropriate, and sustainable financial products and services provided by formal financial institutions (Demirgüç-Kunt et al., 2022). Although early financial inclusion initiatives primarily focused on expanding physical access to banking infrastructure, contemporary perspectives increasingly emphasise actual utilisation of financial services and their contribution to economic well-being (Allen et al., 2016; OECD, 2023). Consequently, financial inclusion is more than the existence of financial institutions or account ownership; it's about the active use of savings, credit, payment and insurance products that support productive economic activity.

For MSMEs, formal banking supports access to credit, improves financial record keeping, strengthens business credibility and supports participation in increasingly digital economies (IFC, 2023). Formal bank accounts also enable enterprises to separate business and personal finances, improve cash management and establish financial histories that may enhance future borrowing opportunities (Berger & Udell, 2006). Consequently, increasing banking participation among MSMEs has become an important

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policy objective in many developing economies seeking to stimulate entrepreneurship, employment creation and private sector growth.

Despite these recognised benefits, banking participation remains lower among small enterprises than among larger firms, particularly in Sub-Saharan Africa (AFI, 2022; Demirgüç-Kunt et al., 2022). This suggests that increasing physical availability of financial services alone is insufficient to achieve meaningful financial inclusion among entrepreneurs.

II.II. DETERMINANTS OF BANKING NON-USAGE

Financial literacy is consistently associate with financial inclusion because it improves entrepreneurs' ability to understand financial products, compare alternatives and complete banking procedures to help make informed financial decisions (OECD, 2023). Education may similarly improve comprehension of financial information, although it does not eliminate institutional barriers. Conversely, limited financial literacy may discourage entrepreneurs from approaching financial institutions because banking processes appear complicated or unfamiliar (Bongomin et al., 2017). Financial capability contributes not only to financial knowledge but also to confidence in interacting with formal financial institutions, thereby influencing actual utilisation of banking services (OECD, 2023).

Enterprise characteristics also influence financial inclusion. Registered enterprises are generally more likely to obtain banking services because registration provides evidence of legal identity and organisational legitimacy. Larger enterprises may also appear more stable and creditworthy to lenders (Beck et al., 2005, Berger & Udell, 2006).

Institutional practices can further limit participation. Banks often require collateral to manage information asymmetry and minimise credit risk (Stiglitz & Weiss, 1981). These requirements may exclude viable MSMEs that lack conventional assets despite operating potentially viable businesses. This challenge is particularly pronounced among MSMEs operating in low-income economies where business assets frequently consist of movable property, inventory or informal trading activities rather than titled land or fixed infrastructure. Documentation, transaction costs and lengthy approval procedures may create additional burdens for enterprises with limited administrative capacity (IFC, 2023). Consequently, entrepreneurs may choose informal financial mechanisms that provide greater flexibility despite offering fewer long-term business development opportunities.

II.III. FORMAL AND INFORMAL FINANCIAL SYSTEMS

Formal and informal financial systems frequently operate simultaneously, providing entrepreneurs with complementary sources of business finance depending on the nature of financial needs (Schindler, 2010; Sievers & Vandenberg, 2007). Village savings and loan associations, rotating savings groups, supplier credit, family lending and community-based borrowing offer rapid access to relatively small amounts of capital, usually with limited documentation and collateral requirements (Burkett & Sheehan, 2009).

However, informal financial systems also possess important limitations, which include expansion limitations, productive investment and long-term investment (Sievers & Vandenberg, 2007). Understanding banking non-usage, therefore; requires examining why MSMEs prefer informal banking services despite the greater financing capacity and business development benefits of formal banking.

II.IV. THEORETICAL PERSPECTIVE

This study is informed by three complementary theoretical perspectives. Information Asymmetry Theory explains lenders' reliance on collateral and screening mechanisms (Stiglitz & Weiss, 1981). Financial Inclusion Theory emphasizes that meaningful inclusion requires affordability, accessibility, financial capability, and suitable products, not merely physical access (Demirgüç-Kunt et al., 2022). Institutional Theory further suggests that organisational behaviour is shaped by formal rules, regulatory systems and institutional norms (Scott, 2014). Enterprise registration, documentation requirements, and compliance procedures therefore influence entrepreneurs' interaction with formal banking institutions because these institutional arrangements determine eligibility for financial services. Collectively, these theoretical perspectives explain how individual

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capabilities, enterprise characteristics and institutional practices interact to influence or shape banking participation among MSMEs.

II.V. RESEARCH GAP AND STUDY CONTRIBUTION

Three important gaps motivate this study. First, evidence on banking participation among Malawian MSMEs remains limited and underdeveloped. Second, previous studies have often separated quantitative measurement from qualitative explanation. Third, research has largely focused on financial inclusion rather than on the specific reasons' enterprises remain outside formal banking. This study addresses these gaps by integrating hierarchical logistic regression with qualitative thematic analysis to explain banking non-usage among MSMEs in Malawi. By combining statistical evidence with entrepreneurs' experiences, the study contributes to a more comprehensive understanding of financial exclusion and generates evidence capable of informing policies designed to expand formal banking participation among MSMEs in low-income economies.

III. METHODOLOGY

III.I. RESEARCH DESIGN AND STUDY AREA

This study used a convergent mixed-methods design. Quantitative and qualitative data were collected during the same phase of the research, analysed independently, and integrated during interpretation (Creswell & Plano Clark, 2018). The design was selected because banking participation among MSMEs is influenced by measurable socio-economic and enterprise characteristics as well as entrepreneurs' perceptions and experiences that cannot be fully captured using a single methodological approach. Integrating quantitative and qualitative evidence, therefore, enabled the study to identify statistically significant determinants of banking non-usage while simultaneously explaining how these determinants were experienced by entrepreneurs. The study was conducted in Lilongwe City, the commercial and administrative capital of Malawi. Lilongwe hosts a diverse concentration of MSMEs operating across various sectors, making it an appropriate setting for examining banking participation among small businesses.

III.II. SAMPLING AND DATA COLLECTION

The quantitative survey comprised **434 MSME owners**, using a multistage sampling approach. The qualitative component involved in-depth interviews with 30 purposively selected entrepreneurs representing different business sectors, banking experiences, and enterprise characteristics. Interviews continued until thematic saturation was achieved, with no substantially new themes emerging during subsequent interviews (Patton, 2015).

Structured questionnaires measured demographic characteristics, enterprise characteristics, banking behaviour, financial literacy, and perceptions of institutional barriers. Semi-structured interviews explored entrepreneurs' experiences with commercial banks, reasons for using or avoiding formal banking, and suggestions for improving financial inclusion among MSMEs.

III.III. VARIABLES AND ANALYSIS

The dependent variable was banking non-usage, defined as the absence of an active formal bank account used for business purposes. Independent variables covered socio-economic variables, gender, enterprise sector, registration status, employee numbers, turnover, financial literacy, collateral requirements, trust, and bank charges.

Quantitative data were analysed using Stata 18, using descriptive statistics, Chi-square tests, and hierarchical logistic regression. Four models were estimated in a sequence: socio-economic characteristics, demographic characteristics, enterprise-level variables, and institutional barriers. Model adequacy was assessed using the Hosmer-Lemeshow goodness-of-fit test, while multicollinearity was examined using Variance Inflation Factors (VIFs**)** (Wooldridge, 2019). Qualitative data were transcribed, coded, and analysed thematically before integration with the quantitative findings and during interpretation.

III.IV. ETHICAL CONSIDERATIONS

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Ethical principles guiding research involving human participants were observed throughout the study. Ethical approval was obtained from the relevant institutional ethics committee before data collection. Participation was voluntary and based on informed consent. Confidentiality was maintained by removing personal identifiers and using anonymous respondent codes. Quantitative data were stored securely and used solely for academic purposes.

IV. RESULTS

IV.I. RESPONDENT CHARACTERISTICS AND BANKING PARTICIPATION

A total of 434 MSME owners participated in the quantitative survey, with male entrepreneurs at 58.5%, while females accounted for 41.5% of respondents. Most business owners were between 18 and 40 years of age (83.5%), indicating that entrepreneurship within Lilongwe City is largely driven by economically active young adults. Educational attainment was modest, with approximately 53% having secondary education and 29% having primary education, and only 17% possessing post-secondary qualifications.

The enterprises were predominantly micro-businesses. Nearly 98% employed fewer than five workers, and 84% were unregistered. Service enterprises constituted almost half of all businesses, followed by retail and trade activities. Only 18.6% of respondents actively used formal banking services, whereas 81.4% did not. Qualitative accounts indicated that owners of small, informal businesses often viewed banking as relevant only after the enterprise had expanded.

Table 1: Characteristics of Respondents

Characteristic	Category	n (%)
Gender	Male	252 (58.5)
	Female	179 (41.5)
Age	18–30 years	191 (44.3)
	31–40 years	169 (39.2)
Education	Primary	120 (29.2)
	Secondary	218 (53.0)
	Diploma or higher	73 (17.8)
Business Registration	Registered	69 (15.9)
	Not registered	365 (84.1)
Employees	0–4	426 (98.2)
Banking Status	Bank user	80 (18.6)
	Non-user	351 (81.4)

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The qualitative findings reflected these descriptive patterns. Respondents frequently described operating businesses that generated modest and irregular incomes, making formal banking appear unnecessary during the early stages of enterprise development.

IV.II. DETERMINANTS OF BANKING NON-USAGE

Hierarchical logistic regression was employed to identify factors independently associated with banking non-usage. Variables were entered sequentially according to the conceptual framework, beginning with socio-economic characteristics before incorporating demographic, enterprise-level, and institutional variables.

Diagnostic tests indicated that the final model adequately fitted the observed data (Hosmer-Lemeshow $\chi^2 = 7.19$, $p = 0.516$), while the mean Variance Inflation Factor (VIF = 2.48) suggested that multicollinearity was not a concern. The results are summarised in Table 2.

Table 2: Hierarchical Logistic Regression Predicting Banking Non-Usage among MSMEs

Variable	Model 1	Model 2	Model 3	Model 4
Primary education	2.461***	2.524***	1.000	0.936
Secondary education	1.866***	1.968***	1.172*	1.282
Diploma/Certificate	0.220	0.269	0.287	0.338
Financial literacy	-2.067***	-2.046***	-1.476***	-1.692***
Male	—	-0.400	-0.422	-0.201
Manufacturing	—	—	0.978	1.049
Other sectors	—	—	3.095*	2.315
Retail/Trade	—	—	-0.109	0.120
Services	—	—	1.405*	1.425*
Registered business	—	—	-3.662***	-2.810***
5–20 employees	—	—	-3.044***	-3.197***
Collateral barrier	—	—	—	0.756*
Trust barrier	—	—	—	0.039
Bank charges	—	—	—	0.123

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Notes: Robust standard errors were estimated. Reference categories were bachelor's degree or higher, agriculture sector, unregistered enterprises, and enterprises employing fewer than five workers. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$.

IV.III. FINANCIAL LITERACY AS THE STRONGEST PREDICTOR

The interviews reinforced the quantitative results. Entrepreneurs commonly reported that they had a limited understanding of baking procedures, loan requirements, and application processes. The stability of this relationship suggests that financial capability influences banking participation independently of enterprise characteristics or institutional barriers.

IV.IV. ENTERPRISE FORMALISATION AND BANKING PARTICIPATION

Enterprise registration emerged as one of the strongest enterprise-level predictors within the regression models. Registered businesses were significantly less likely to remain outside the formal banking system than unregistered enterprises.

Similarly, enterprise size demonstrated an independent association with banking participation. Businesses employing between five and twenty workers were considerably more likely to utilise formal banking services than micro-enterprises employing fewer than five workers. Respondents consistently associated enterprise growth with increasing demand for formal financial services.

IV.V. INSTITUTIONAL BARRIERS TO BANKING PARTICIPATION

The final regression model demonstrated that collateral requirements constituted the only institutional barrier independently associated with banking non-usage. Although respondents frequently mentioned bank charges and trust during interviews, these variables did not remain statistically significant after controlling for other explanatory factors. Collateral requirements were discussed consistently across interviews regardless of business sector.

IV.VI. INFORMAL FINANCE AS AN ADAPTIVE STRATEGY

Although banking participation remained relatively limited, entrepreneurs described extensive use of informal financial mechanisms to finance business operations. Village savings groups, supplier credit, advance customer payments, and borrowing from relatives were widely reported as important sources of working capital. Respondents generally preferred informal finance because it was perceived as faster, more flexible, and less dependent upon documentation or collateral.

Importantly, respondents did not necessarily regard informal finance as superior to formal banking. Rather, they viewed informal financial systems as practical responses to institutional barriers limiting access to commercial banks.

IV.VII. INTEGRATION OF QUANTITATIVE AND QUALITATIVE FINDINGS

The mixed-methods analysis demonstrated substantial convergence between the quantitative and qualitative findings. Variables identified as statistically significant within the regression models were consistently reinforced by entrepreneurs' experiences during qualitative interviews. Financial literacy, enterprise registration and collateral requirements emerged as common explanatory factors across both datasets, while the absence of a significant relationship between trust and banking participation was similarly reflected in respondents' accounts.

Table 3: Integrated Mixed-Methods Findings

Quantitative Result	Qualitative Evidence	Integrated Interpretation
Financial literacy remained significant across all models.	Entrepreneurs described uncertainty regarding banking procedures and loan applications.	Financial capability influences both knowledge and confidence to engage with formal banking.

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Quantitative Result	Qualitative Evidence	Integrated Interpretation
Registered businesses were more likely to use banks.	Registration increased business legitimacy and facilitated banking relationships.	Enterprise formalisation supports financial inclusion.
Collateral remained statistically significant.	Entrepreneurs consistently reported lacking acceptable collateral despite operating viable businesses.	Conventional lending practices continue to exclude many MSMEs.
Trust was not statistically significant.	Most respondents regarded banks as safe institutions but criticised lending requirements rather than institutional integrity.	Banking exclusion reflects structural barriers rather than distrust.
Extensive reliance on informal finance.	Savings groups, supplier credit, and family networks were widely used for working capital.	Informal finance functions as an adaptive response to limited formal banking access.

Overall, the integrated findings indicate that banking non-usage among MSMEs is best understood as the product of interacting individual, enterprise, and institutional factors rather than any single constraint. Financial capability enhances entrepreneurs' readiness to engage with formal financial services; enterprise formalisation strengthens eligibility for banking relationships and institutional lending practices, particularly collateral requirements, which continue to limit participation among otherwise viable businesses.

V. DISCUSSION

V.I. BANKING NON-USAGE AMONG MSMES: BEYOND PHYSICAL ACCESS TO FINANCIAL SERVICES

This study sought to explain why a substantial proportion of MSMEs in Malawi remain outside the formal banking system despite sustained national efforts to expand financial inclusion. The findings demonstrate that banking non-usage among Lilongwe's MSMEs reflects the interaction of financial capability, enterprise formalisation, and institutional lending practices. In this case, inclusion requires that entrepreneurs possess both the capability and opportunity to use financial services that meet their business needs (Allen et al., 2016; World Bank, 2022).

From a theoretical standpoint, these findings support Financial Inclusion Theory, which argues that meaningful inclusion depends upon effective use of financial services rather than availability alone (Demirgüç-Kunt et al., 2022). The study therefore extends existing evidence by demonstrating that banking exclusion in Malawi reflects constraints operating simultaneously at individual, enterprise, and institutional levels.

V.II. FINANCIAL LITERACY AS THE MOST CONSISTENT DETERMINANT OF BANKING PARTICIPATION

Financial literacy was the most stable predictor across all models and was supported by accounts describing uncertainty and limited confidence when dealing with banks. Unlike educational attainment, whose influence diminished after enterprise characteristics were introduced, financial literacy consistently reduced the likelihood of banking non-usage even after controlling

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for demographic, enterprise, and institutional variables. This suggests that financial capability constitutes an independent determinant of banking participation among MSMEs.

The persistence of financial literacy across successive regression models indicates that entrepreneurs' ability to understand financial concepts, evaluate banking products, and navigate financial procedures plays an important role in shaping banking behaviour. While education may facilitate the acquisition of financial knowledge, the findings suggest that financial capability itself exerts a more direct influence on entrepreneurs' willingness and ability to engage with formal banking institutions.

V.III. ENTERPRISE FORMALISATION AS A GATEWAY TO FINANCIAL INCLUSION

Another important contribution of this study concerns the relationship between enterprise formalisation and banking participation. Business registration emerged as one of the strongest predictors of banking participation in the hierarchical regression models, remaining statistically significant even after socio-economic characteristics and institutional barriers were considered. Similarly, enterprise size demonstrated an independent association with banking participation, indicating that larger businesses were substantially more likely to utilise formal banking services than micro-enterprises.

V.IV. COLLATERAL REQUIREMENTS AS A STRUCTURAL MECHANISM OF BANKING EXCLUSION

Collateral requirements emerged as the only independently significant institutional barrier. The qualitative evidence suggests that many entrepreneurs operate viable businesses but lack the required immovable assets, titled land and buildings, despite the fact that most MSMEs operate using movable assets such as inventory, machinery, tools, and working capital.

V.V. TRUST WAS NOT THE PRIMARY BARRIER TO BANKING PARTICIPATION

One of the more unexpected findings of this study concerns the role of trust in formal banking institutions. Although trust is frequently identified within the financial inclusion literature as an important determinant of financial participation, perceived trust in banks did not remain statistically significant after controlling for socio-economic, enterprise and institutional characteristics. This finding suggests that entrepreneurs' decisions regarding banking participation were influenced more strongly by practical institutional constraints than by distrust of financial institutions themselves.

The findings are important and can influence new policy development. Initiatives aimed solely at increasing public confidence in commercial banks are unlikely to substantially improve financial inclusion if structural lending barriers remain unchanged. Rather, strengthening financial inclusion requires simultaneous attention to institutional trust and practical accessibility.

V.VI. INFORMAL FINANCE AS AN ADAPTIVE RATHER THAN COMPETING FINANCIAL SYSTEM

Another important contribution of this study concerns entrepreneurs' continued reliance on informal financial mechanisms. Informal finance consequently serves as an adaptive mechanism, such as savings groups, SACCOs and commercial banks may provide pathways through which entrepreneurs gradually transition into formal financial systems while retaining the flexibility associated with community-based finance.

V.VII. THEORETICAL CONTRIBUTION OF THE STUDY

This study contributes to the growing financial inclusion literature by providing empirical evidence that banking non-usage among MSMEs is best understood as the outcome of interacting individual, enterprise, and institutional factors rather than the consequence of a single barrier. While previous studies have frequently examined determinants of financial inclusion independently, the present study demonstrates that entrepreneurs' financial capability, enterprise formalisation and institutional lending practices jointly influence participation in the formal banking system.

The study first extends Information Asymmetry Theory (Stiglitz & Weiss, 1981) by demonstrating that collateral requirements continue to function as an important mechanism through which financial institutions manage lending risk. However, the findings

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further suggest that conventional collateral practices may inadvertently exclude economically viable MSMEs that possess productive businesses but lack immovable assets recognised by commercial banks.

Second, the findings strengthen Financial Inclusion Theory by illustrating that financial inclusion should be conceptualised as effective utilisation of financial services rather than mere physical access to financial institutions. Although Malawi has expanded banking infrastructure and implemented successive financial inclusion policies (Reserve Bank of Malawi, 2021), the findings indicate that entrepreneurs continue to experience exclusion because institutional products and lending requirements remain insufficiently aligned with the operational characteristics of MSMEs.

Third, the study contributes to Institutional Theory (Scott, 2014) by demonstrating that enterprise registration functions as an institutional signal that influences entrepreneurs' legitimacy within formal financial systems. Registered enterprises were significantly more likely to participate in formal banking because registration enhanced organisational credibility and facilitated compliance with banking requirements. However, institutional legitimacy alone was insufficient where collateral constraints remained. This finding suggests that institutional reforms designed to promote enterprise formalisation should be accompanied by corresponding reforms within financial institutions if improvements in financial inclusion are to be realised.

Methodologically, this study also contributes to the literature through its application of a convergent mixed-methods design. Previous studies examining financial inclusion in developing countries have predominantly relied on either econometric analysis or qualitative inquiry. The mixed-methods approach provides a richer understanding of banking non-usage than would have been achieved through either quantitative or qualitative methods independently. This methodological contribution is particularly relevant for future studies examining complex socio-economic phenomena characterised by interactions between institutional structures and human behaviour.

VI. POLICY IMPLICATIONS

The findings of this study have important implications for financial institutions, policymakers and development partners seeking to promote financial inclusion among MSMEs in Malawi and similar low-income economies. The results indicate that policies focusing exclusively on expanding physical banking infrastructure are unlikely to substantially reduce banking exclusion unless accompanied by interventions addressing financial capability, enterprise formalisation and institutional lending practices.

VI.I. IMPLICATIONS FOR COMMERCIAL BANKS

Commercial banks should reconsider lending models that rely predominantly on conventional fixed-asset collateral when assessing MSME creditworthiness. Although collateral remains an important mechanism for managing lending risk, excessive dependence on immovable property disproportionately excludes entrepreneurs operating viable businesses without titled assets. Banks should therefore develop alternative collateral mechanisms, including movable asset lending, credit guarantees and cash flow-based assessment.

Financial institutions should also simplify loan application procedures and improve communication with entrepreneurs. The qualitative findings indicate that many MSME owners perceived banking processes as unnecessarily complex and intimidating. Developing simplified documentation, providing dedicated MSME banking officers and offering practical financial guidance could improve entrepreneurs' willingness to engage with formal banking systems.

VI.II. IMPLICATIONS FOR GOVERNMENT

Government institutions responsible for MSME development should strengthen programmes promoting enterprise formalisation while reducing administrative barriers associated with business registration. Since enterprise registration significantly increased banking participation, policies encouraging registration may indirectly contribute to improved financial inclusion.

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In addition, national financial inclusion strategies should prioritise financial capability development alongside financial access. - Expand practical financial literacy programmes focused on banking procedures, savings, borrowing and financial management i.e., bookkeeping, financial planning, bookkeeping, loan application procedures and business financial management. Integrating such training into entrepreneurship development programmes could strengthen entrepreneurs' readiness to engage with formal financial institutions.

VI.III. IMPLICATIONS FOR THE RESERVE BANK OF MALAWI

As the primary financial sector regulator, the Reserve Bank of Malawi has an important role in promoting inclusive financial systems. The findings suggest that future financial inclusion strategies - Introduce simpler, MSME-responsive banking products with proportionate documentation and transparent procedures.

The Reserve Bank may also consider strengthening regulatory incentives supporting innovation in SME lending, including digital credit assessment, alternative credit scoring models and greater use of movable collateral frameworks. Expanding financial sector data on MSME lending would further enable monitoring of financial inclusion progress beyond simple account ownership indicators.

VI.IV. IMPLICATIONS FOR DEVELOPMENT PARTNERS

Development partners supporting private sector development in Malawi should consider integrating financial capability interventions within broader enterprise development programmes. Training entrepreneurs in financial management, record-keeping and banking procedures may improve the effectiveness of business development initiatives by increasing entrepreneurs' readiness to utilise formal financial services.

Development partners may also facilitate partnerships between commercial banks, Savings and Credit Cooperatives (SACCOs), Village Savings and Loan Associations (VSLAs) and other community-based financial organisations. Such partnerships could strengthen enterprise formalisation programmes by reducing registration costs, simplifying processes and linking registration to financial services.

VII. CONCLUSION

This study examined the determinants of banking non-usage among MSMEs in Lilongwe City, Malawi, using a convergent mixed-methods approach integrating hierarchical logistic regression with qualitative thematic analysis. The findings demonstrate that banking exclusion remains widespread despite national efforts to expand financial inclusion. More importantly, the study shows that banking non-usage cannot be explained solely by demographic characteristics or limited physical access to banking infrastructure. Rather, exclusion reflects the interaction between entrepreneurs' financial capability, enterprise formalisation and institutional lending practices.

Financial literacy emerged as the most consistent determinant of banking participation across all hierarchical regression models, indicating that entrepreneurs possessing greater financial capability were substantially more likely to utilise formal banking services. Enterprise registration and business size also increased participation, suggesting that organisational development enhances integration into formal financial systems. Among institutional variables, collateral requirements remained the only statistically significant predictor of banking non-usage after controlling for socio-economic and enterprise characteristics. Conversely, trust in banks and perceptions regarding bank charges did not independently influence banking participation, indicating that entrepreneurs generally regarded banks as legitimate institutions but encountered practical barriers limiting access.

The qualitative findings enriched these statistical relationships by revealing how entrepreneurs experience financial exclusion in practice. Respondents consistently described collateral requirements, complex documentation procedures and limited understanding of banking processes as major obstacles to banking participation. Consequently, many relied on village savings

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groups, supplier credit and family networks to satisfy immediate financing needs while recognising the long-term benefits of formal banking.

Collectively, the findings suggest that improving financial inclusion requires a shift from policies focused primarily on expanding banking access towards interventions addressing the quality, accessibility and suitability of financial services for MSMEs. Strengthening financial literacy, promoting enterprise formalisation, reforming collateral frameworks and encouraging MSME-responsive banking products represent complementary rather than competing strategies for expanding financial inclusion.

The study contributes to the financial inclusion literature by integrating quantitative and qualitative evidence within a single analytical framework and by providing context-specific evidence from Malawi, a country where empirical research on banking non-usage among MSMEs remains limited. Future research should extend this work by examining banking participation across multiple regions of Malawi, investigating digital financial services as pathways to financial inclusion and evaluating the long-term effectiveness of policy interventions designed to reduce banking exclusion among MSMEs.

DECLARATIONS

ETHICS APPROVAL AND CONSENT TO PARTICIPATE

Ethical approval for the study was obtained from the relevant institutional ethics review committee. Participation was voluntary, and informed consent was obtained from all participants prior to data collection.

CONSENT FOR PUBLICATION

All participants consented to the anonymous use of their responses for academic publication.

AVAILABILITY OF DATA

The datasets generated and analysed during the current study are available from the corresponding author upon reasonable request, subject to institutional ethical requirements.

FUNDING

The authors received no external funding specifically for this research.

CONFLICT OF INTEREST

The authors declare that they have no competing interests.

AUTHOR CONTRIBUTIONS

The corresponding author conceived the study, collected and analysed the data, interpreted the findings and prepared the manuscript. All authors reviewed and approved the final version of the manuscript.

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