

The Relationship Between Interactive Diversification and Financial Sustainability of Informal Financial Groups in Kirinyaga County, Kenya

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ABSTRACT

IFGs across the globe and especially in developing countries have struggled to maintain financial sustainability. This could be attributed to overreliance on single stream of income causing inadequate cash flow and liquidity problems. Under-diversification and adverse investment decisions further worsen the problem. Theoretically, income diversification enhances performance by decreasing volatility in uncertain economic conditions. The underlying assumption is that prudent diversification strategy eliminates risks. However, empirical evidence reveals conflicting findings on the relationship between diversification and performance suggesting that diversification alone is inadequate. This study evaluated the relationship between interactive diversification and financial sustainability of informal financial groups (IFGs) in Kirinyaga County, Kenya. The study targeted 60 non-rotating IFGs with 806 members registered with the County Department of Social Services Kirinyaga County. Primary data was collected using a questionnaire and responses corroborated with key informant interviews. The data was analyzed for descriptive and inferential statistics using STATA software. Specifically, descriptive statistics included measures of central tendency and dispersion while inferential statistics drew from correlation and multiple linear regressions. The study established an insignificant inverse relationship between diversification and financial sustainability. However, on interaction diversification had a significant relationship with financial sustainability. While the interaction with financial training had a significant positive effect ($\beta = .0991$, $p = 0.000$), interacting with fiscal management yielded a significant negative effect ($\beta = -.0557$, $p = 0.000$). In conclusion, financial sustainability is enhanced by the interactions between diversification & financial literacy training while strengthening the interactions between diversification & fiscal management through contingency planning, regular review of strategy, cash flow management, and appropriate budgetary allocations.

Keywords: Diversification, Interaction, Sustainability, Informal Financial Groups.

INTRODUCTION

Background of the Study

Informal financial groups (IFGs) continue to play a crucial role of improving financial inclusion, particularly among low-income households. These grassroots financial ecosystems are fundamental in fostering community-based economic resilience through savings mobilization and provision of microcredit. However, their financial sustainability and long-term viability remain challenging, often undermined by limited diversification strategies. Diversification is the process by which firms engage in a range of business activities (Githaiga, 2021). It derives from the fundamental premise of portfolio theory through the layman's expression "don't put all your eggs into one basket." The rationale is expanding into a business-related or unrelated, which doesn't react negatively to economic downturn similar to the core business activity (Reinholtz, Fernbach & De Langhe, 2021).

While diversification is widely acknowledged as a strategic safeguard against economic shocks, its isolated influence on the sustainability of IFGs produces mixed results. In the 1960s, diversification was perceived as a value-creating strategy. Most of the studies conducted then are generalized as premium diversification model (Benito-Osorio, Colino & Zúñiga-Vicente, 2015). They reveal a positive linear relationship between diversification and firm performance. However, this trend reversed in the 1980s with several studies concentrating on the adverse effects of diversification showing that diversification destroys firm value (Hoechle, Schmid, Walter & Yermack, 2012; Maudos, 2017). The mixed results suggest that diversification alone is insufficient. Its effectiveness, rather, may be dependent on the existence of complementary capabilities. Such interaction, where diversification is not just a standalone strategy but a dynamic practice influenced by managerial and financial knowledge, has received inadequate scholarly attention. This paper examines the relationship between interactive diversification and financial sustainability of informal financial groups highlighting how fiscal management practices and financial literacy training amplify and mediate the benefits of diversification. By considering diversification as an interactive rather than a linear construct, we seek to provide deeper insights of the pathways to financial resilience in informal financial systems.

Statement of the Problem

The role of informal financial groups (IFGs) as a socioeconomic development tool meant to broaden financial access has been acknowledged worldwide. IFGs provide credit to low-income households who are presumed as high-risk borrowers by the contemporary financial institutions. While their goal is serving as many low-income households as they possibly could, this is achievable if only they remain financially sustainable. Despite their importance in socio-economic development, most informal financial groups experience liquidity and cash flow problems resulting from overreliance on interest income. Their greatest impediment is undercapitalization which could be attributed to overreliance on meager member savings and poor investment decisions. This has led to unsustainable services and subsequent premature disintegration of several groups. About 25% of informal financial groups disintegrate prematurely as a result of default and liquidity problems (Malkamäki, 2015). Unsustainable IFGs are incapable of supporting the poor in the long run since they eventually cease operations. Although convention knowledge dictates that income diversification enhances performance, past empirical studies have produced contradicting results indicating that diversification in isolation is insufficient. The current study therefore was an attempt to examine the relationship between interactive diversification and financial sustainability of non-rotating IFGs in Kirinyaga County.

Objective of the Study

The objective of the study was to evaluate the relationship between interactive diversification and financial sustainability of non-rotating IFGs.

The study was guided by the following hypothesis:

Ho: There is no significant relationship between interactive diversification and financial sustainability of non-rotating IFGs.

THEORETICAL FRAMEWORK

The resource-based theory or resource-based view (RBV) considers a firm as a collection of resources and capabilities (Miller, 2019). The theory is grounded on the argument that an organization strategy is dependent upon resources and capabilities within its reach. DeVised from Wernerfelt (1984) seminal article, strategic management scholars proposed the resource-based explanation of firm performance and heterogeneity. Resources refer to stocks of available factors owned or controlled by a firm and include both tangible and intangible components (Jawed and Siddiqui, 2019). Capability, on the other hand, is the ability of a firm to utilize its resource to influence the desired end. According to RBV, firms have diverse resources and varying levels of capabilities. Miller (2019) posits that the survival of an organization is dependent on its ability to build on its skills and create new resources. Firms are likely to perform better with sufficient resources and higher capabilities (Nason & Wiklund, 2018).

Merely possessing superior resources cannot realize a competitive advantage for an organization. Rather, it is how the organization makes the best use of its capabilities, resources and infrastructure (Alexy, West, Klapper & Reitzig, 2018). Resources are considered valuable if they empower a firm to devise and implement strategies to improve performance or mitigate impending threats (Kero & Bogale, 2023). The RBV explains firms' heterogeneity in strategy and performance through internal characteristics. The primary reasons for diversification are apparent benefits arising from the utilization of unexploited productive capacity, capability build-up, risk reduction through diverse portfolio and broader target market.

Financial literacy training and fiscal management are strategic intangible resources that form organizational capabilities. By embedding strong fiscal management and financial literacy training as core organizational capabilities, institutions strengthen their internal resource base. This enables them to leverage resources effectively, make better diversification decisions and achieve sustainable financial performance aligning with the Resource-Based Theory.

EMPIRICAL REVIEW

Mathuva (2016) explored 212 deposit-taking SACCOs in Kenya for the influence of revenue diversification on financial performance and financial performance over the period 2008-2013. Financial performance drivers included capital base, size, loan to assets, cost-income ratio and leverage. The study findings reveal that increasingly depending on non-interest income results to higher returns. Further, SACCOs with more diverse revenue streams experienced higher returns volatility. The study offers empirical evidence on the size and possible regulatory influences in the relationship between financial performance and revenue diversification. The study found diversification benefits to be limited in licensed SACCOs revealing revenue diversification to be beneficial to smaller SACCOs. This suggests the necessity to be cautious with the diversification strategy adopted as SACCOs grow since it influences stability of returns and financial performance. Reliance on secondary data, however, presents a methodological limitation relating to measurement of performance. The absence of qualitative insights may limit understanding of the contextual factors that affect performance.

Musoke and Immaculate (2020) examined the effect of training on financial sustainability of enterprises (Small and Medium) in Kampala that included manufacturing, retail, wholesalers and restaurants. The research design deployed was correlational cross-sectional survey with data collection instrument being questionnaire and interview guides. Respondents comprised microfinance and SMEs employees, and entrepreneurs. Data was analyzed using descriptive, linear regression, Pearson correlation and narrative analyses. The study found out that training affect financial sustainability of Small and Medium Enterprises. The study recommends that training should cover all areas of business. Whereas the study links training to financial sustainability, it ignores contextual and training-specific factors and therefore is lacking in comprehensive multifactor approach. The current study adopts a context-based approach which is more holistic and dynamic to help understand effectiveness of financial literacy training.

Gui-Diby (2022) conducted an assessment of fiscal management and financial performance in 86 countries between the years 2005 to 2019. He notes that electing uninformed leaders lacking accurate knowledge of current and medium-term program implications impact negatively on performance. Further, he observes that lack of transparency allows for creative accounting by financial managers reducing effectiveness of fiscal rules. The study concludes that availability of information and internal audit improve fiscal performance. Although the study persuasively links financial management practices to improved fiscal balances, its narrow methods and focus lead to unanswered questions. These methodological and contextual gaps were addressed through robust methods and context-specific investigation to understand how interactions would drive financial sustainability for the informal financial groups.

The Conceptual Framework

This study investigated interactive diversification and financial sustainability of IFGs. The framework comprised diversification, financial literacy training and fiscal management as the independent variables. Pair-wise interaction was considered where the financial literacy training and fiscal management were used to predict potential outcome on financial sustainability. This is illustrated in Figure 1.

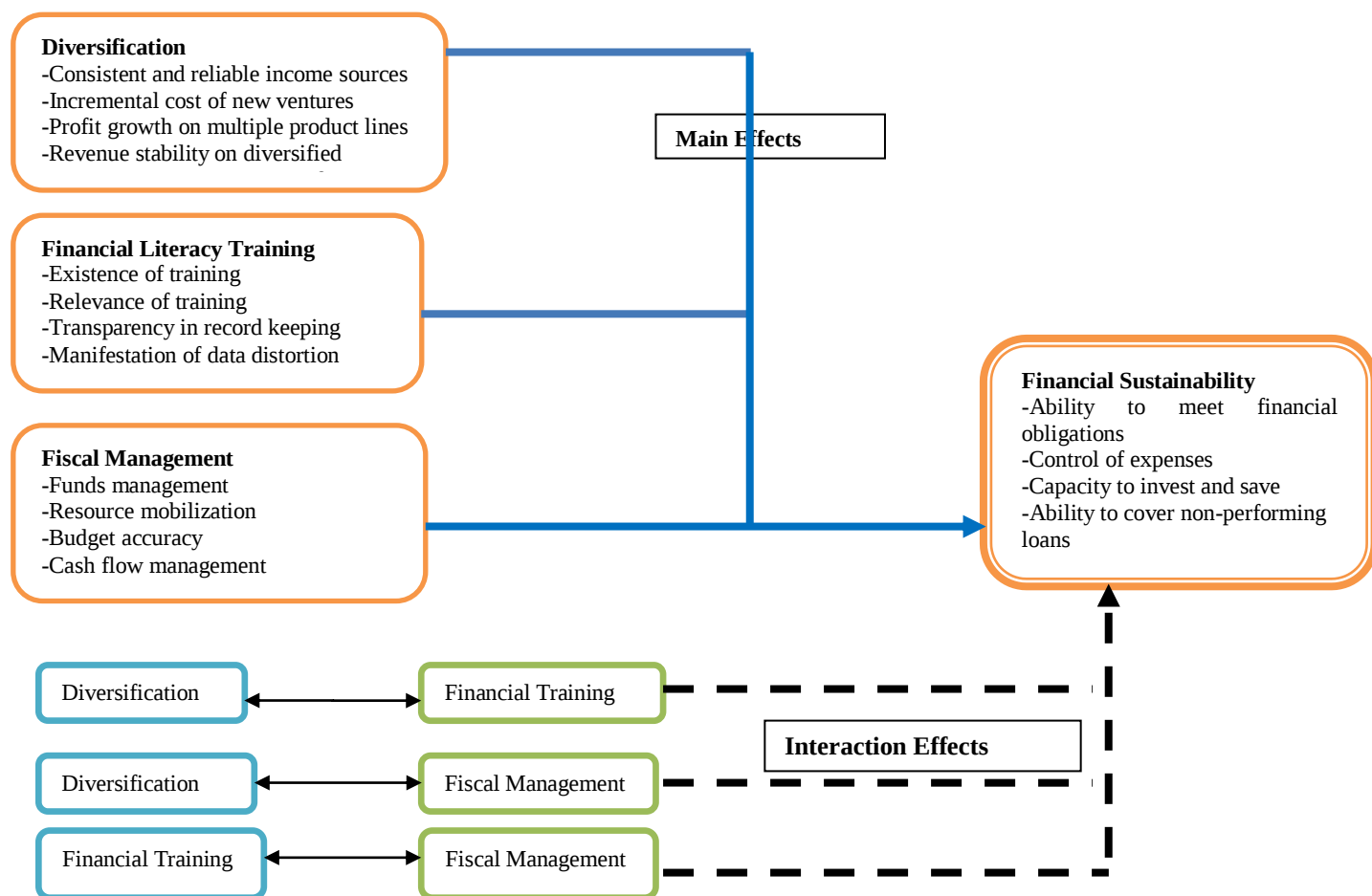


Figure 1: The Conceptual Framework

DATA AND METHODOLOGY

The Research Design

The study adopted a mixed method descriptive research design. Quantitative research entails measurement of variables through a numerical system, analyzing the measurements using statistical, computational or mathematical techniques while reporting associations and relationships among studied variables. Conversely, qualitative research is primarily exploratory and entails non-numerical data that can be observed and recorded. It helps provide insights into the problem and to develop hypotheses or ideas for potential quantitative research (Mugenda, 2013).

The Target, Sample Size & Sampling Technique

The study targeted 60 non-rotating IFGs with 806 members registered with department of social services in Kirinyaga County and that have been in existence for over three years. Firms that have operated for at least 3 - 5 years are associated with greater financial stability and long-term survival (Murphy, 2018). The study was conducted in Kirinyaga owing to the county's high population and poverty levels. A combination of stratified, purposive, simple random sampling and census was employed to sample 424 respondents. Questionnaire was used as the main data collection instrument attaining a response rate of 76.2% (n=323). Key informant interviews were used to corroborate responses from the questionnaires. Key informants included Community Development Associations (CDAs) officials and County Social Services Officer.

Data Collection

This study used primary data. Data was collected through questionnaires and key informant interview guides. The questionnaires were both closed and open-ended based on likert scale and covered all the variables under study. Specific objectives were addressed through the structured questions whereas subjective responses were

obtained via open ended questions. Key informants included four Community Development Associations (CDAs) officials and one County Social Services Officer.

Data Analysis

Data was first coded with each response being assigned a number for ease of analysis. The coded variables were entered into a data matrix worksheet for transfer to the data analysis and statistical STATA software. Clean up was done to detect duplication, missing data and inconsistencies. Data was then subjected to descriptive and inferential statistics. Specifically, descriptive statistics included measures of central tendency and dispersion while inferential statistics made use of correlation, multiple linear regressions and hypothesis tests. Regression analysis was performed to establish extent to which independent variables do predict change in dependent variable. It was used to predict how strong the relationship between independent and dependent variables is.

Regression Analysis

The analysis for the main effects-plus-interaction model would normally take the functional form;

$$y = a_0 + a_i \sum_{i=1}^n x_i + \frac{1}{2} b_i \sum_{i=1}^n \sum_{j=1}^m x_i x_j$$

Where;

Y = Financial sustainability of informal financial groups in Kirinyaga County

X_{ij} , $i, j = 1, 2, 3$ represents interaction between variables diversification, financial literacy training and fiscal management respectively.

FINDINGS

Descriptive Statistics

The descriptive statistics presented were for diversification strategy. The respondents were asked to indicate their level of agreement with various statements using 1-5 likert scale where 1 is strongly disagree, 2 is disagree, 3 is neutral, 4 is agree and 5 is strongly agree..

Descriptive Statistics for Diversification:

From Table 1, a significant majority (M=4.353, SD=0.780) believed that diversification contributed positively to profitability, though some respondents viewed its benefits with caution. Increased revenue diversification was found to increase market value by positively effecting profitability. Most respondents agreed that diversification helped mitigate risk (M=3.855, SD=0.569) emphasizing its role as a risk management strategy.

Table 1: Agreement with Statements on Diversification

	Mean	Std. Dev.
Diversification increases profitability	4.353	0.780
Diversification decrease exposure to risk	3.855	0.569
Costs of diversification outweighs returns	2.025	0.764
Revenue from other businesses helps meet group operational costs	4.276	0.793
Diversification facilitates the group to meet demand for loans	3.985	0.560
Overreliance on group savings leads to insufficient funds	4.910	0.286
Returns from other investment ventures have increased over the years	4.065	0.478
Average	3.924	0.3261

Most respondents disagreed, indicating that diversification was generally viewed as cost-effective ($M=2.025$, $SD=0.764$). This emphasizes the importance of investment strategy bringing out the need for project evaluation as a means of cost management. A big number of participants ($M=4.276$, $SD=0.793$) agreed that revenue from other businesses had helped meet operational costs. Most respondents believed that the groups were self-sustaining in terms of covering its costs because they generated enough revenue to cover expenses. This high consensus highlighted diversification's role in sustaining operational expenses. Diversification facilitated meeting loan demand as ($M=3.985$, $SD=0.560$) agreed. A majority believed that diversification enhanced the group's capacity to meet loan demands. This indicates that revenue from diversification was considered as a strategy to improving group asset base. Overreliance on group savings led to insufficient funds as most respondents as majority ($M=4.910$, $SD=0.286$) agreed on this. Respondents recognized that savings alone may not suffice, underscoring the need for diverse revenue streams. Returns from other ventures had increased over the years as ($M=4.065$, $SD=0.478$) agreed; indicating a positive view of returns from diversified investments, though there was room for improvement. The average mean and standard deviation for diversification strategy was ($M=3.924$, $SD=0.3261$).

Correlation Analysis

This study adopted the Pearson correlation coefficient to test significance and presence of correlation. The findings in Table 2 shows that financial literacy training had a very weak negative correlation with financial sustainability of non-rotating IFGs at 95% confidence level ($r= -0.0191$; $p<0.05$). The variable was significant.

Table 2: Correlation Results

		Diversification	Financial literacy training	Fiscal management	Financial sustainability
Diversification	Pearson Correlation	1.000			
	Sig. (2-tailed)				
	N	323			
Financial literacy training	Pearson Correlation	.4555**	1.000		
	Sig. (2-tailed)	.000			
	N	323	323		
Fiscal management	Pearson Correlation	.2901**	.3808**	1.000	
	Sig. (2-tailed)	.000	.000		
	N	323	323	323	
Financial sustainability	Pearson Correlation	.6505**	-.0191**	.1004**	1.000
	Sig. (2-tailed)	.000	.000	.000	
	N	323	323	323	323

** . Correlation is significant at the 0.05 level (2-tailed).

The negative correlation could result from training which is theoretical and not aligned to the real needs of informal financial groups thus turning unproductive despite incurring expenses to train. In some cases, the training may disrupt traditional group dynamics or practices that were previously effective, for instance time spent in training that could spent on income generating activities to improve sustainability. This suggests that financial literacy programs must be practical, context-specific, and coupled with continuous mentorship to positively influence financial sustainability outcomes. Diversification strategy, on the other hand, had a moderate positive correlation with financial sustainability of non-rotating IFGs at 95% confidence level ($r=0.6505$; $p<0.05$). Fiscal management strategy had a very weak positive correlation with financial sustainability of non-rotating IFGs at 95% confidence level ($r= 0.1004$; $p<0.05$). The positive correlation could

be associated with fiscal management practices such as budget cuts that positively impact financial sustainability in the short-term by ensuring solvency.

Regression Analysis:

From the findings in Table 3, diversification had an inverse relationship ($\beta = -.0562$) with financial sustainability. The relationship was insignificant. The negative relationship may occur when informal financial groups spread their resources too thin across multiple ventures without adequate capacity, knowledge, or risk assessment. Diversifying into unfamiliar or unprofitable areas can strain finances, reduce focus, and expose the group to higher risk. Additionally, diversification without clear strategic planning may lead to mismanagement, internal conflicts, or poor investment returns. In the context of non-rotating informal financial groups, limited capital and expertise make it challenging to manage diverse activities effectively, suggesting that focused, well-informed investments may be more beneficial than broad, uncoordinated diversification efforts.

Financial literacy training negatively impacted financial sustainability by 40.85% ($\beta = -.4085$; $p=0.000$). Mismatch between training and practice can lead to no improvement. This may arise in the case participants are trained but lack resources to effectively implement whatever has been taught to diversify income. Additionally, members may be trained on entrepreneurship but choose sole proprietorship as opposed to setting up investment projects as a group. The cost of training in this case, where there is no direct return to the group, may negatively affect sustainability. Training may also lead to overconfidence prompting members to engage in speculative businesses that are high risk. Besides, majority of the respondents noted that training fees impact group profitability. Training programs need to be cost effective and justified by value in terms of returns.

Fiscal management had an inverse significant relationship with financial sustainability ($\beta = -.5833$; $p=0.000$). The inverse relationship could be attributed to tighter fiscal controls that may prompt reduced investment therefore negatively affecting capacity which is a critical aspect of financial sustainability. Risky investment behavior resulting from overconfidence may have led to wrong or failed investments causing cash flow problems. This may further have caused low liquidity where groups were unable to meet immediate short term financial requirements. Further, diversification entails increased set up and operational costs which could increase cost of doing business thus impacting sustainability negatively.

Diversification had an inverse relationship with financial sustainability decreasing it by 5.62%. However, an interaction between diversification and financial literacy training enhanced financial sustainability by 9.91%. The findings agree with the study by Mouna & Jarbou (2015) that associate appropriate diversification with financial literacy training. The increase could be attributed to high confidence from training leading to speculative investment in high-risk portfolio. Portfolio theory shows that investments with greater potential for loss generally offer the possibility of higher profits as per risk-return tradeoff. Training may have equipped individual members with skills to engage in sole proprietorship thereby improving their loan repayment rates. Most of the respondents indicated that their groups undertook unrelated diversification. The increase in sustainability could therefore be attributed to spreading of risks across diverse portfolio. The findings concur with Awiti, Mburu and Gathaiya (2021) whose study found a direct relationship between non-related diversification and financial sustainability.

The interaction of diversification with fiscal management significantly decreased financial sustainability by 5.57%. The decrease on interaction with fiscal management could result from tighter fiscal controls that may prompt budget cuts and reduced investment therefore negatively affecting capacity which is a critical aspect of financial sustainability. Excessive cost-cutting without strategic consideration can undermine key capabilities. In addition, the decline could result from cash flow management problems where groups realize negative cash flows due to failed or wrong investments. Adversarial business decisions may increase operational costs which might not be recouped through the generated returns. Inability to determine financial performance due to poor record keeping could also contribute to hidden losses thereby affecting financial sustainability. Diversification can heighten financial resilience. However, poor fiscal management normally undermines such success. Overextension and insufficient budget allocation influence project implementation

Table 3: Regression results

Model		Unstandardized Coefficients		z	P > z
		B	Std. Error		
Main Effect	(Constant)	3.8224	.3419	28.57	.000
	Diversification (D)	-.0562	.1215	-.46	.644
	Financial literacy training (FLT)	-.4085	.0719	-5.67	.000
	Fiscal Management (FM)	-.5833	.0519	-11.24	.000
	D*D	-.0256	.0048	-5.37	.000
	D*FLT	.0991	.0216	4.59	.000
	D*FM	-.0557	.0085	-6.59	.000
	FLT*FLT	-.0155	.0154	-1.00	.316
	FLT*FM	.0160	.0113	1.41	.158
	FM*FM	.2357	.0007	348.6	.000

Results were substituted as follows:

$$Y = 3.8224 - 0.0562X_1 - 0.4085X_2 - 0.5833X_3 - 0.0256X_{11} + 0.0991X_{12} - 0.0557X_{13} - 0.0155X_{22} + 0.0160X_{23} + 0.2357X_{33}$$

Where;

Y = Financial sustainability of informal financial groups in Kirinyaga County

X_1 = Diversification

X_2 = Financial Literacy Training

X_3 = Financial Management

X_{ij} , $i,j = 1, 2, 3$ represents interaction between variables diversification, financial literacy training and fiscal management respectively.

Financial sustainability= 3.8224 – 0.0562(Diversification) – 0.4085(Financial literacy training) – 0.5833(Fiscal management) –0.0256(Diversification*Diversification) + 0.0991(Diversification*Financial literacy training) – 0.0557(Diversification*Fiscal management) – 0.0155(Financial literacy training*Financial literacy training) + 0.0160(Financial literacy training*Fiscal management) + 0.2357(Fiscal management*Fiscal management).

Test of Hypothesis

The null hypothesis:-“*There is no significant relationship between interactive diversification and financial sustainability of non-rotating IFGs in Kirinyaga County*” was tested as shown in Table 4.

Table 4: Marginal Effect of Interaction

Cross-variable Interaction	Main	Interaction	% Change	Impact on Sustainability	P > z	Null Hypothesis
DS*FTS	-0.4085	0.0991	9.91%	Increase	0.000	Rejected
DS*FMS	-0.0562	-0.0557	5.57%	Decrease	0.000	Rejected
FMS* FTS	-0.4085	0.0160	1.60%	Increase	0.158	Fail to reject

Ho: There is no significant relationship between interactive diversification and financial sustainability of non-rotating IFGs.

Diversification had an inverse relationship with financial sustainability decreasing it by 5.62%. However, an interaction between diversification and financial literacy training significantly enhanced financial sustainability by 9.91% ($p=0.000$). The interaction between diversification and fiscal management significantly decreased financial sustainability by 5.57%. While the interaction with financial literacy training would lead to an increase in sustainability, interacting with fiscal management led to a decrease in sustainability. The decline in sustainability could be attributed to stringent fiscal controls in the form of reduced investment and budget cuts. Stalled investment projects could lead to the inability to sufficiently anticipate and plan for cash needs leading to cash flow and budget problems. Resource acquisition, allocation and usage would be effective if leaders are conversant with budgeting and cash flow management.

The null hypothesis that interactive diversification has no significant relationship with financial sustainability was therefore rejected and the study concluded that the interaction of diversification strategy with financial literacy training and fiscal management has a statistically significant relationship with financial sustainability.

DISCUSSIONS OF THE FINDINGS

Diversification strategy had a moderate positive correlation with financial sustainability ($r=0.6505$; $p<0.05$). The findings established an insignificant inverse relationship between diversification and financial sustainability ($\beta=-.0562$). This is in contrast to the study by Talel, Asienga & Githaiga (2024) who found that diversification enhances financial sustainability. Theoretically, diversification can have both positive and negative impacts. The inverse relationship was attributed to failure to conduct risk assessment on investment ventures leading to costs of diversification outweighing returns.

Upon interaction with fiscal management, the effects of diversification become significant. The decline could be attributed to the group characteristics in terms of liquidity risk where groups may fail to meet short term financial obligations. Further, diversification increases operational costs which might not be recouped through the generated returns. This may result from adversarial business decisions. Poor record keeping could also contribute to the decline in that it's impossible to determine financial performance of a business without appropriate records. The finding supports the views that institutions that diversify without proper fiscal planning and without liquidity buffers often experience cash flow problems (Central Bank of Kenya et al., 2021).

Interaction with financial training was however positive. The findings agree with the study by Mouna & Jarboui (2015) that associate appropriate diversification strategy with financial literacy training. The increase in sustainability is attributed to the fact that majority of the respondents were trained in entrepreneurship and were in agreement that training in entrepreneurship improved group revenue. Most of the respondents indicated that their groups undertook unrelated diversification. The increase in sustainability could therefore be attributed to spreading of risks across diverse portfolio. The findings concur with Awiti, Mburu and Gathaiya (2021) whose study found a direct relationship between non-related diversification strategy and financial sustainability.

CONCLUSIONS AND RECOMMENDATION

Adopting diversification led to a reduction in financial sustainability. However, the interaction between diversification and financial literacy training had a positive significant effect on financial sustainability. The study concludes that integrating diversification with financial literacy training equips individuals with skills necessary to create balanced portfolio that match risk tolerance and financial goals. Pairing diversification with financial literacy training is a crucial risk strategy for improved individual and institutional financial resilience. Diversification benefits may only be fully achieved when individuals understand its principles through training. Without financial literacy, it may be misapplied or misunderstood.

The interaction between diversification and fiscal management reduced financial sustainability. The decline was significant. Incorporating diversification with fiscal management is critical in promoting stability, strategic

flexibility and financial sustainability. Whereas fiscal management deals with the planning, allocation and control of financial resources, diversification guarantees that such resources are not reliant on single source. Diversification without regard for effective fiscal management can unintentionally create dependencies while increasing risks. By integrating strategic diversification into forecasting, budgeting and risk management, institutions can improve resilience, adapt to the constantly changing environment while maintaining operational continuity. When poorly integrated or misaligned, diversification and fiscal management may inadvertently lead to a decline in financial sustainability. Basically, diversification is a powerful strategic tool for sustainability but only if well aligned and integrated into effective fiscal management. In the absence of a thoughtful alignment, risk planning and oversight, diversification may lead to resource strain, inefficiencies and instability.

The study recommends that informal financial groups align diversification efforts with fiscal strategy and core mission by undertaking mission-alignment and cost-benefit analyses. Integrating diversification risks into fiscal planning through build-up of risk buffers and reserves will assist caution groups during economic downturns. Adopting fiscal practices such as contingency planning and pilot programming where phase expansion is executed gradually would help groups mitigate exposure to risks. Policy makers should design training programs that integrate diversification initiatives with comprehensive and robust financial literacy training to ensure group members have the skills, knowledge and resources necessary to effectively and sustainably manage multiple revenue sources

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