

Making Access Possible



Malawi

Creating a pervasive infrastructure through partnerships to enhance the quality and depth of financial inclusion in Malawi

National Strategy for Financial Inclusion

2015–2020

PARTNERING FOR A COMMON PURPOSE

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through evidence-based country diagnostics and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial

inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level.

At country level, the core MAP partners collaborate with Government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP Malawi represents a partnership between the

United Nations Capital Development Fund (UNCDF), the Centre for Financial Regulation and Inclusion (Cenfri) and FinMark Trust for the Development of a Strategic Framework for Financial Inclusion in Malawi.

The cover symbol

Through the MAP programme, we hope to effect real change at country level and see the impact of financial inclusion on broader national growth and development.

The cover graphic features the Adenium, a flower synonymous with Swaziland.

The flower symbolises growth and development while the circle represents inclusive growth. Each flower is an example of the successful growth in a unique environment. By combining the flower with the currency symbol of Swaziland we represent the characteristics of the country, linking financial inclusion with successful growth.



ABOUT MAP MALAWI

This roadmap document is produced as part of a series of documents in the Making Access Possible (MAP) Malawi initiative.

MAP Malawi was conducted at the formal request of the Government of Malawi, through the Ministry of Finance, to inform its ongoing financial inclusion agenda. It was agreed that the MAP study will form the basis for the development of a multi-stakeholder roadmap for financial inclusion. The MAP project is formally hosted by the Ministry of Finance, and a Steering Committee has been formed to oversee the diagnostic and roadmap development process.

The key research findings from the MAP diagnostic in Malawi are captured in the summary report (“Making Access Possible: Malawi Financial Inclusion Summary Report”, 2015) which summarises the main findings of a comprehensive

demand-side, supply-side and regulatory diagnostic (“Making Access Possible: Malawi Country Diagnostic Report”, 2015). The supply-side analysis covers payments, savings, credit and insurance, and utilises data from 75 stakeholder interviews with financial service providers, regulators and policymakers, published annual or interim financial statements and reports and data collected by supervisors. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by target groups. It draws from quantitative data provided by three FinScope surveys (FinScope Malawi Consumer Surveys 2008 and 2014, and FinScope Malawi MSME Survey 2012) and 46 qualitative immersive interviews.

Documents produced as part of the MAP Malawi initiative include: (1) Making Access Possible: Malawi Financial Inclusion Summary Report 2015, and

(2) Making Access Possible: Malawi Country Diagnostic Report 2015. The FinScope report “Summary report and presentation - Malawi FinScope Survey 2014” and the FinScope dataset are also available on request.

The roadmap synthesises the main findings and recommendations from the comprehensive diagnostic report and presents a way forward on the recommended priority areas for financial inclusion in Malawi.

MAP Malawi is funded by FinMark Trust.

The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri) to improve financial inclusion to improve individual welfare and support inclusive growth.

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EXECUTIVE SUMMARY

The Malawi Financial Inclusion Roadmap 2015 – 2020 lays out a vision for the enhancement of financial inclusion in Malawi, in order to support national objectives through employment creation, human capital development and improved household welfare. It is based on the diagnostic findings contained in the Making Access Possible: Malawi Country Diagnostic Report, 2015, which in turn draws on in-country research and interviews, demand-side analysis from quantitative data provided by the Malawi FinScope surveys, and 46 qualitative immersive interviews.

The Making Access Possible (MAP) Malawi research and programme has been conducted at the formal request of the Government of Malawi through the Ministry of Finance, in order to inform the financial inclusion agenda in Malawi.

The research shows that access is still a challenge in Malawi, with the level of formal financial inclusion being 34% which is below the regional average. Citizens are not yet broadly served by financial services and only 9.5% of adults use more than one formal financial product. The low levels of access are as a result of various factors, a major one being the low penetration of access infrastructure with Malawi scoring poorly against a regional financial infrastructure benchmark. Access varies significantly within segments, and salaried workers are substantially better served than other segments, while low income segments and women are less well served. A crucial role is being played by the informal sector which serves 25% of adults, mainly through the Village Savings and Loans Associations (VSLAs), especially among the low income.

The MAP analysis helps to prioritise those interventions that are likely to provide the largest impact for a given investment, and these are documented in the form of a roadmap, which provides a framework to define, prioritise, coordinate, measure and track these interventions.

In order to provide a vision and direction, a policy goal is proposed towards which supportive intervention logic is organized and monitored. The proposed goal for Malawi is as follows:

“Increase Financial Inclusion from 34% (2014 FinScope) to 55% by 2020, and reduce the excluded from 52% to 26%, to support growth and improve household welfare”.

The Roadmap proposes six immediate and urgent priorities to support this goal, namely (1). Expanding the reach of digital payments, (2). Expanding savings and investment opportunities, (3). Finance for MSME and agriculture, (4). Exploiting niche insurance opportunities to reduce vulnerability, (5) Consumer empowerment and education and (6) national coordination of financial inclusion.

These priority areas of action have been identified based on the most urgent customer needs and barriers identified in the MAP research, and will be implemented in the context of broader sector strategies, i.e. the Financial Sector Development Strategy and the Malawi Growth and Development Plan. Existing and ongoing financial inclusion initiatives are broadly complementary to the identified Roadmap priorities, and the implementation team will ensure that synergies are exploited in line with the Paris Declaration for Aid Effectiveness¹. However so far there has been limited coordination of donor initiatives, and the roadmap will provide a platform to improve coordination, and is well suited to do so as it continues to involve multiple stakeholders including donors during implementation.

It is envisaged that the proposed interventions will result in an increase in depth and quality of financial inclusion in Malawi, in order to increase citizen welfare, create economic growth, and hence meet national goals.

1 | Background

1.1 Malawi Financial Inclusion Roadmap - Introduction

In Malawi financial inclusion can aid national growth and welfare in a number of ways, notably by helping generate employment (by supporting farmers and MSMEs), developing human capital (financial services for access to education and to mitigate health risks), and by directly improving household welfare (products to support household needs, new technologies that reduce cost and improves access, financial services to mitigate households risks, and by aiding asset accumulation).

The purpose of the Malawi Financial Inclusion Roadmap is to assist the government and stakeholders to identify and implement actions that best improve financial inclusion, based on the research as documented in the diagnostic report. The diagnostic is based on the application of the MAP diagnostic and programming framework to support expanding access to, or consolidating the provision of, financial services for individuals and micro and small businesses.

The key research findings from the diagnostic in Malawi are captured in the comprehensive demand-side, supply-side and regulatory analyses (“Making Access Possible: Malawi Country Diagnostic Report”, 2015) prepared by the Centre for Financial Regulation and Inclusion (Cenfri). The diagnostic report and the accompanying summary (Malawi Financial Inclusion Summary Report, 2015) present a comprehensive analysis of the financial inclusion environment in Malawi. The analysis, which covers payments, savings, credit and insurance, utilises supply-side data from 75 stakeholder interviews with financial service providers, regulators and policymakers, published annual or interim financial statements and reports and data collected by supervisors. The analysis combines demand side data to understand access, usage, perceptions and attitudes of financial services by target groups. MAP draws on quantitative data provided by three

FinScope surveys (FinScope Malawi Consumer Surveys 2008 and 2014, and FinScope Malawi MSME Survey 2012) and 46 qualitative immersive interviews for the demand-side perspective.

This roadmap presents the main findings and recommendations from the diagnostic and presents a way forward on the recommended priority areas.

MAP Malawi was conducted at the formal request of the Government of Malawi via the Ministry of Finance, and is formally hosted by the Ministry of Finance, with the cooperation of the Reserve Bank of Malawi and other stakeholders. A MAP Steering Committee has been formed to oversee the MAP diagnostic and roadmap development process.

MAP Malawi has been funded by FinMark Trust.

1.2 Roadmap approach and methodology

Schematically the roadmap approach is shown in Figure 1. The roadmap is founded on priority areas identified

in the research, representing gaps and opportunities in the market which can have the largest positive impact on consumer welfare if appropriately addressed. Within the diagnostic report framework, each of the highlighted gaps and issues is analysed from the perspective of the user or potential user of the financial product or service, using the Making Markets Work for the Poor (M4P) approach. This approach identifies the stakeholders, structures, laws, regulations and customary relationships that underpin the product or service.

In order to provide a vision and direction, a policy goal (vision) is proposed towards which supportive intervention logic can be organized and monitored, indicating how the proposed interventions will contribute to the achievement of the goal and outcomes.

The final stage of the process is to build consensus from the key stakeholders for the interventions, and to place it in the format of a road map, including responsibilities and accountabilities and activities. Costs, timeframes and targets will be firmed up at the beginning of the implementation phase.

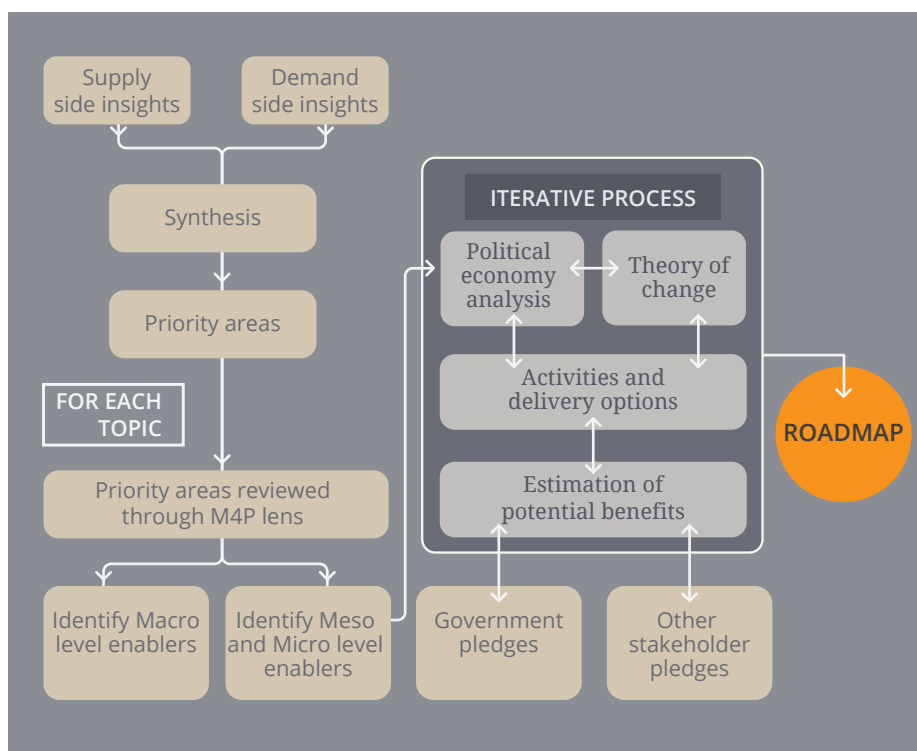


Figure 1: Roadmap approach

2 | Malawi Financial sector context

2.1 Country Context

Significant macro-economic challenges. Macroeconomic volatility in Malawi creates uncertainty, increases cost and reduces the value of financial products. Volatility in year-to-year GDP growth rates, an inflation rate in excess of 20%, a rapidly depreciating currency and an economy heavily reliant on primary commodities and therefore vulnerable to exogenous price shocks and natural disasters all contribute to a macro-environment of uncertainty and risk for financial service providers.

The high inflation rates also undermine the value of savings and the high lending rates make credit unaffordable for Malawians.

Inadequate infrastructure. There is inadequate provision of both physical and institutional infrastructure. The World Economic Forum (2014) ranked the overall quality of the country's infrastructure 118th out of 144 countries, with limited road and railway networks, limited financial service infrastructure compared to neighbouring countries, only 8.7% of Malawians having access to electricity (World Bank, 2010), the irrigation network reaching only 0.53% of agricultural land (World Bank, 2008) and the telecommunications network being frequently unreliable. The institutional infrastructure is similarly poor, with there being no central population register and as a result no national ID, and an ineffective judiciary where cases often take years to be settled, and even when they are, judgements are not infrequently ignored. Malawi is ranked 154th out of 189 countries for enforcing contracts.

The lack of both physical and institutional infrastructure drives up the cost of operations for financial service providers and makes it challenging to reach potential customers, particularly outside of urban areas where most physical infrastructure is located. It also has a direct impact on the cost for customers to access financial services.

85% of the population are estimated to live in the rural areas (FinScope 2014), making the lack of infrastructure in rural areas a key challenge for financial inclusion.

Poverty levels, limited education and health outcomes. Poverty, low education and health levels further shape Malawian society. FinScope 2014 estimates that 64% of Malawians earn less than MK20 000 per month (or less than \$1.5 per day at 1 USD = MK420), impacting adversely on educational attainment (76% of adults have primary school education or lower (FinScope 2014)), ability to pay for healthcare and making most financial products unaffordable for many Malawians.

Reliance on agriculture. Agriculture accounts for 32.1% of GDP, 80% of exports (Ministry of Finance, Economic Planning and Development, 2014) and 89% of adults are involved in farming or fishing (FinScope, 2014). The over-reliance on agriculture contributes significantly to the macroeconomic volatility. It also means that the majority of the population live on farms in rural areas, where there is limited infrastructure.

Increasing population pressure in rural areas is expected to continue to drive urbanisation and migration. A result of this trend will be increasing need for reliable money transfer services to send income back to dependents, and for a portfolio of financial services to meet the needs of dependents, frequently women, as the new heads of households.

Reliance on donors. There is a high reliance on donor funding, contributing a large portion of Government budget (37% in 2012, 12% in 2013). Suspension of direct budgetary support by key donors following misappropriation of substantial public funds (cashgate scandal) discovered in 2013 has contributed to shocks and uncertainty in the economy.

The two largest banks by number of customers, the Malawi Savings Bank (MSB) with 19% of customers and the Opportunity International Bank of Malawi (OIBM) with 29% of customers have a developmental mandate. The recently privatised MSB and OIBM as a wholly owned donor entity both target lower income consumers, a strategy to extend access to the unbanked. Consequently they have lower average loan sizes and deposit values.

Political support for Financial Inclusion. Financial inclusion remains a critical tool for poverty reduction in Malawi. Throughout the policies of the government, there is focus on reducing the extent and depth of poverty, particularly through three of the more prominent policies relevant to financial

inclusion in Malawi: (1) The Malawi Growth and Development Strategy II (MGDS II) (2) the Financial Sector Development Strategy (FSDS) 2010 – 2015 and the National Strategy for Financial Inclusion (NSFI) 2010 - 2014.

There is existing strong support from development partners for financial inclusion in Malawi, with a number of ongoing initiatives, the main ones being further described on Table 9.

2.2 Status of Financial inclusion in Malawi

Malawi has a relatively low level of financial inclusion in regional terms, and among the 11 African countries where FinScope surveys were undertaken recently, appears in the bottom quartile in terms of formal and informal access, just ahead of Mozambique (Figure 2).

Access to banking is moderately high in comparison to peers, with 27% of adults being banked. This is partly driven by indirect account ownership, with those directly banked being estimated at 18%. In the rural areas, 21% are banked compared to 39% in urban areas.

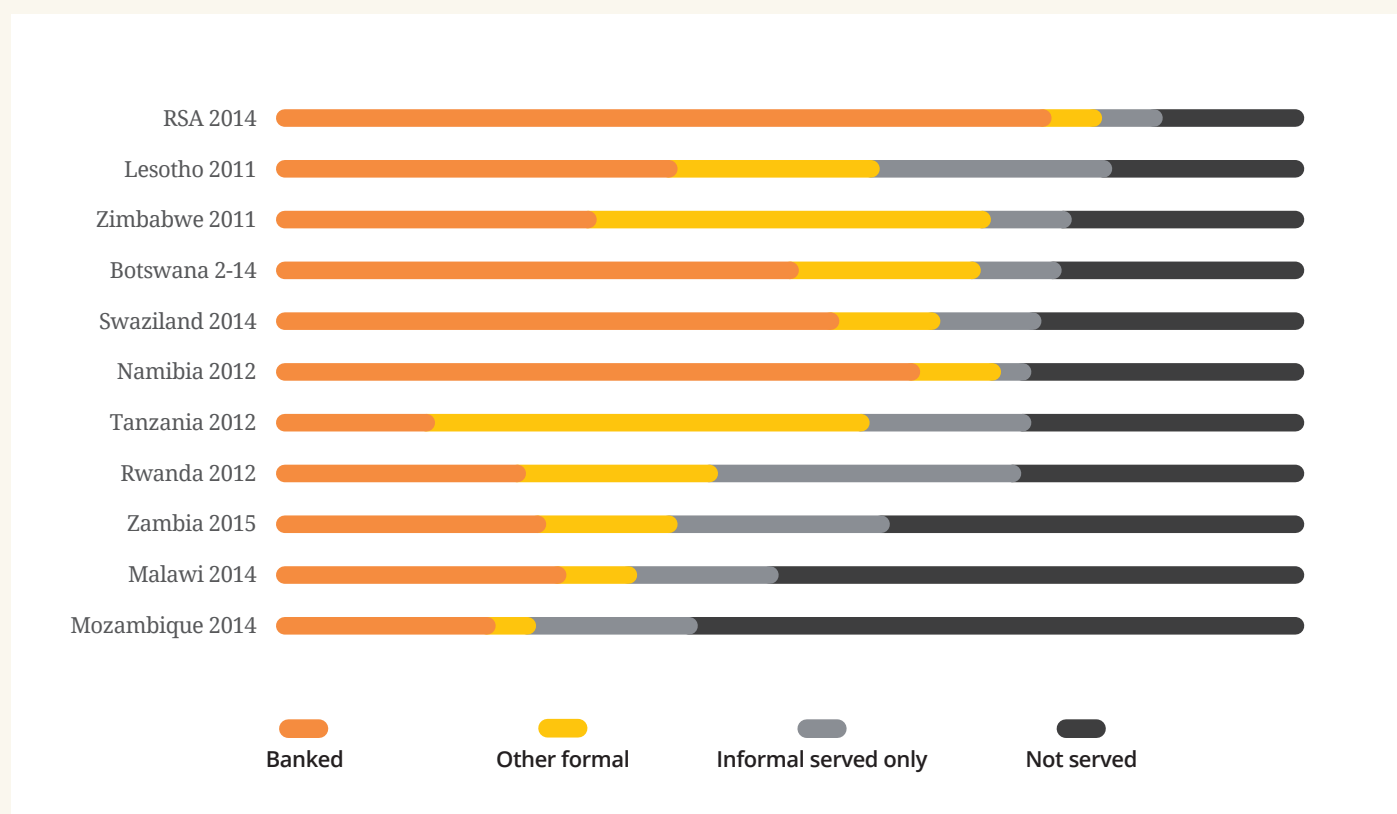


Figure 2: Financial inclusion in selected African countries
 Source: FinScope, Various dates

The last FinScope study was conducted in 2008 and the comparison of the high level outcomes is shown in Figure 3. The percentage of banked adults has increased, as has the proportion of adults served by informal mechanisms (and in particular by the Village Savings and Loans Associations (VSLAs)). The total number of adults is estimated to have increased from 6 to 8 million over the period.

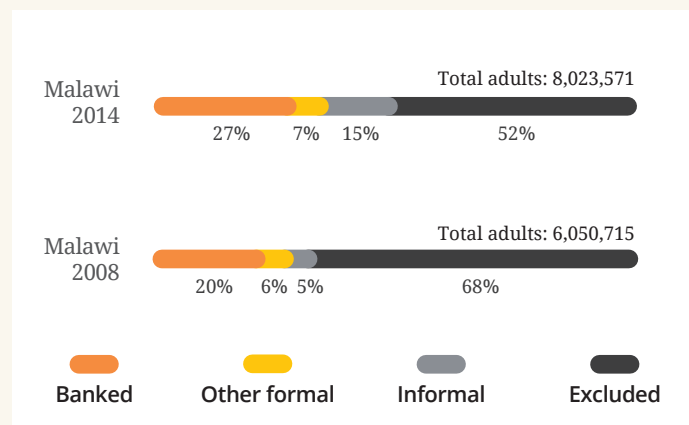


Figure 3: Top line Malawi FinScope results: 2008 versus 2014

Women have remained less well served than men, with formal access at 29% in comparison to 37% for men. However the overall access levels (including informal) for women are almost equal to those for men (47% versus 50% for men), largely due to the heavier involvement of women in VSLAs. Another category of citizens that is frequently vulnerable is the youth². However in Malawi the level of access to financial services for the youth is at par with the general population, and about the same percentage have formal access (34%), while 51% are excluded from any financial services.

From a product perspective, transactions, remittances and savings drive formal access levels, while formal insurance and credit are relatively small. The population is very thinly served with only 9.5% of adults using more than one formal financial service, and only 2.6% using more than two formal financial services. A crucial role is played by the informal sector in providing adults access to financial services, particularly in credit and savings: 25% of adults are estimated to use informal financial services mainly through the VSLAs.

Access levels are higher for higher income salaries, and for example salaried workers are substantially better served on average compared to other segments. The low income segments such as Ganyu³/irregular earners and farmers are the least well served, and have a higher dependence on informal mechanisms. In general these segments remain vulnerable both due to the low incomes as well as the low levels of inclusion.

Financial literacy rates as noted above are low, and according to FinScope 2014, only 20% of adults could calculate simple interest rates and just 15% of the adult population have heard of either a credit or debit card.

The overall picture painted is a market where financial inclusion is still a challenge, with the level of formal inclusion of 34% being below the regional average, and where citizens are not yet broadly served by financial services. A crucial role is being played by the informal sector. These features would indicate Malawi to be on Group 2 (entry focused) positioning on the GPFI financial inclusion framework⁴, where access and use of multiple products is still low. The immediate focus therefore remains increasing the infrastructure to reach more individuals and particularly the vulnerable, increasing the depth of inclusion, and customer literacy.

2.3 Barriers to financial inclusion in Malawi

The research identified a number of specific barriers to the increased use of formal financial services and products, and these included:

1. **Affordability.** Even low cost accounts constitute a significant expense for low income earners, and for non-urban dwellers the cost of travel to access most formal providers is very high. The very high interest rates make credit unaffordable for many whilst the majority of the population have low disposable income to set aside for savings or insurance premiums.
2. **Proximity - limited distribution footprint.** The limited bank and other distribution networks and hence the need for customers to travel long distances at significant expense is a barrier for many Malawians, particularly in rural areas. Formal institutions and their distribution channels are mainly based in urban areas, while the majority of their customer base is located in rural areas. This means that their customers will have to incur travel and opportunity costs to access them. It takes an average of 3 hours travel on public transport to transact with a bank for the 85% of rural Malawians, such that whilst the basic bank costs are low, the true cost of using a bank account is high. ATMs across the country are limited (2.5 ATMs per 100,000 people which is low by international standards), as is the bank branch infrastructure (1.6 branches per 100,000 people which is lower than all SADC countries except Angola), and the POS network (4.8 POS devices per 100,000 people). Effective access is further reduced through lack of interoperability. The recent launch of the National Switch, enabling full interoperability between the banks, and roll out of mobile money services should increase the business case and demand for the electronic services.
3. **Eligibility.** The lack of a national ID limits many Malawians in using formal products. There is no national ID and substitute identification (passports, drivers' licenses or MEC IDs) is not commonly held. Customers are able to open basic accounts with a voter's registration card or chief's letter but the value of these accounts is capped. Some services like cross border payments require formal ID for both senders and receivers which excludes the majority of Malawians. Additionally due to provider strategy some services are available only to certain profile segments of the market:

for example VSLAs mainly target females, while salaried employees are usually the only ones that qualify for formal credit, a segment which constitutes only 7% of the total adult population. Most loans require property or cash as collateral. MSMEs may be eligible for specific loans from MFIs but they do require a track record as very few loans are extended to start-ups

4. **Perception that bank is ‘not for me’.** Many lower income Malawians feel that banks are the exclusive preserve of the wealthy and may be intimidated to even enter a bank branch. Doorstop barriers (or fear of officialdom) for formal institutions was evident in the qualitative research.
5. **Hassle factor.** The limited distribution network means that each bank branch serves a large number of customers. This leads to queues and long waits for services, particularly at month end. Not only is this inconvenient, but for customers that are reliant on their own labour for income, such as MSMEs, it has a direct adverse effect on their welfare. Similarly when network connectivity is down or agents have liquidity constraints, it increases the hassle factor for mobile money users who must either wait until the problem is resolved or return at a later date.
6. **Fear of credit.** Fear of debts was cited as a reason why adults in Malawi do not borrow, in part linked to the affordability barrier

7. **Negative real returns.** Most savings products currently offer negative real returns, a key barrier despite any other potential benefits the formal institutions might offer.
8. **Lack of proportionality.** The majority of the insurance products are standard insurance offerings targeted at high income earners. While some entry-level products do exist, in order to reach the mass market, insurers will need to review their products and distribution models.
9. **Trust.** There are negative perceptions created from negative experiences with insurance in the past.
10. **Financial literacy and lack of basic education.** Low levels of financial literacy and education levels make it challenging for many Malawians to deal with formal financial providers. This lack of education also has a detrimental impact on Malawians ability to use new forms of technology. The result is that whilst technology may have the potential to expand the distribution network, the target market may be uncomfortable with it. Lack of awareness of some products like insurance may limit access - 44% indicated they had never heard of insurance.

These barriers to financial inclusion in Malawi are summarised in Figure 4.

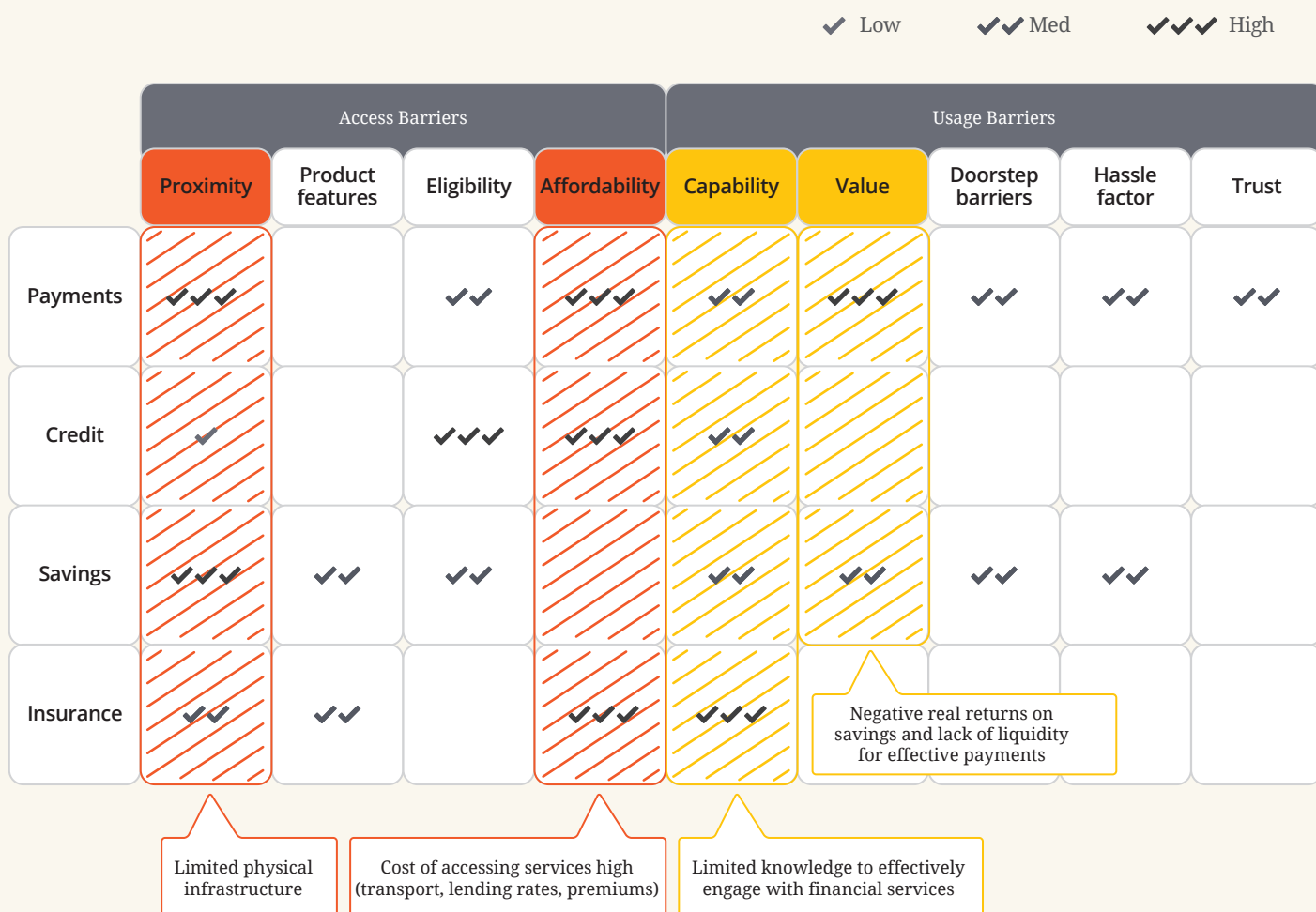


Figure 4: Barriers to Financial Inclusion in Malawi

While these barriers apply across the board, it is also informative to consider the unique barriers facing youth and women experience, in order to take them into account. On gender the research did not identify any specific regulatory or provider barriers to women accessing finance, either from the qualitative work, provider interviews, FinScope analysis or the mystery shopping. The main barriers uniquely facing women were environmental, being that their level of education is significantly lower than that of men, and that men are also more likely to be formally employed than women, both factors being significant drivers of access for some of the financial products. The factors play a more significant role in the formal sector and hence women have a lower formal access than men. The flip side to this is that while women lag men by a big gap in regard to formal services, they have higher access to informal services, especially in the donor-led VSLA sector, which overall evens out access when informal channels are also considered particularly in the savings space.

For the youth the research identified similar barriers to accessing financial services as those observed in the general population, and for example a majority of youth (approximately 85%) cite lack of, or insufficient income as being the main reason they do not save. Amongst those who do save, the main drivers include saving for medical and other emergencies, consumption smoothing, farming expenses, to start a business, and to keep their money safe⁵.

2.4 Market drivers

As measures are put in place to unlock the barriers to financial inclusion, there are broader trends that need to be taken into account. Some of these include:

- Banks remain the largest providers of financial services, accounting for more than 50% of the total institutional financial assets in the market, 92% of total credit and 89% of total deposits in Malawi.
- Banks' business model is focused on interest, investment and forex revenue with only 6% of revenue being from fees and commissions. This low return from fees means that there is limited incentive to expand access beyond the lucrative corporate and high income segment. It is possible that as interest rates and Kwacha instability are brought under control banks may look to expand their customer base to tap into fees and charges however it is not yet clear whether / when this will happen.
- Mobile money has potential to extend reach but despite initial rapid uptake, the growth in the subscriber base slowed in 2014 and only 20% of subscribers are active users. Two of the primary challenges is the limited business case for agents which means that as much as two-thirds of agents are dormant, and secondly, liquidity constraints that have limited the reach into the more remote areas as agents need access to a reliable source of cash in order to continually manage their cash requirements. The limited reach of banks' cash infrastructure constrains the areas where agents can operate sustainably.
- Informal providers are popular financial service providers. VSLAs have had the biggest impact on the extension of financial services over the last 5-10 years.

These additional factors will need to be taken into consideration.

3 Enhancing Financial Inclusion in Malawi

3.1 MAP Prioritisation process

In defining and prioritising measures to improve financial inclusion, five target market segments were identified, namely (1) Salaried workers, (2) MSMEs, (3) Dependents, (4) Farmers, and (5) Ganyu. The description and needs for each of these segments from the research are shown below.

Given that a financial inclusion roadmap will not be able to bridge every gap and realise every opportunity, financial inclusion interventions should be prioritised according to those opportunities that best meet the national objectives for growth and improved livelihoods. This in turn is linked to how closely a particular intervention meets each of the segments' needs, and hence its potential

reach given the number of people and average income of each segment. Selected priorities could help reduce transaction costs, improve households' opportunities to access goods and services, offer tools to mitigate risks, enable accumulation of capital or aid allocation of such capital to productive opportunities.

Additionally while all institutions need to be leveraged to deliver the identified priorities, it is worth noting that some institutions are likely to deliver quicker impact, given their (current or potential) scale, incentive to go down market, and the extent to which consumer protection concerns arise. In this regard the emerging role of Savings Groups (SGs), MNOs and Retailers is particularly critical to complement the role of traditional large players (primarily banks) who may need to be incentivised through regulation and competition in order to better serve low income customers.

Based on the analysis, the six shortlisted priority strategies are shown in Table 2 below.

Segment	Estimated size	Characteristics	Identified needs
Salaried workers	0.6m	<ul style="list-style-type: none"> Main source of income is salaries from a private or public institution Wealthiest target market and mostly urban. 	<ul style="list-style-type: none"> Depth rather than breadth focus Bank account as channel to distribute other financial services Main potential market for insurance Potential need for long term savings
MSME	1.2m	<ul style="list-style-type: none"> Main source of income is owning / running a business Second wealthiest target market 	<ul style="list-style-type: none"> Need a portfolio of financial services Different types of MSMEs require different types of intervention
Dependents	1.3m	<ul style="list-style-type: none"> Dependent on a household member to pay their expenses or give them money e.g. housewives, students and seniors 	<ul style="list-style-type: none"> Remittance receivers require cheap, reliable payments channel High number of females: Those left behind by migrants, as head of household, will require a portfolio of products. Many youth also often depend on their parents, even after they start working
Farmers	2.6m	<ul style="list-style-type: none"> Obtain income from farming or fishing activities Largest target market, mainly rural 	<ul style="list-style-type: none"> Farming income is key to sustaining livelihoods Underserved due to distance from financial services Particular need for capital up front for inputs Consumption smoothing of seasonal income
Ganyu	2.1m	<ul style="list-style-type: none"> Engage in piecework for their main source of income. Live mostly in rural areas 	<ul style="list-style-type: none"> Most vulnerable group, state support required, limited role of financial services Consumption smoothing of irregular income

Table 1: Needs by market segment

Shortlisted Priority	Key statistic
<ol style="list-style-type: none"> Expanding the reach of digital payments Expanding savings especially through Savings Groups Targeted finance for MSME and farmers Niche insurance opportunities to reduce vulnerability Effective consumer empowerment and education National coordination of financial inclusion 	<p>99.7% of all payments are made in cash</p> <p>VSLA savers grew by over 1 million members from 2008 -2014</p> <p>Only 17% of the target MSMEs⁶ have formal credit</p> <p>Very low penetration of insurance – only 2% have insurance</p> <p>64% never heard of an ATM, 58% never heard of a savings account</p>

Table 2: Shortlisted priorities for financial inclusion in Malawi

It should be noted that these are not the only opportunities to enhance financial inclusion in Malawi. However, these strategies present targeted interventions likely to have the greatest impact in Malawi.

3.2 A Proposed Goal for financial inclusion in Malawi

In order to provide a vision and direction for financial inclusion in Malawi, the following policy goal is proposed:

“Increase Financial Inclusion in Malawi from 34% (2014 FinScope) to 55% by 2020, and reduce the excluded from 52% to 26%, in order to support growth and improve household welfare, through:

1. Expanding the reach of digital payments
2. Expanding Savings and investment opportunities, especially through Savings Groups

3. Finance for MSME and agriculture
4. Niche insurance opportunities to reduce vulnerability
5. Consumer empowerment and education
6. National coordination of financial inclusion

Thus the proposed national financial inclusion goal identifies the five main objectives needed to achieve it. In order to achieve these objectives, a number of pre-conditions were identified in the research, and these need to be monitored and where possible addressed by stakeholders during the implementation process. These preconditions include:

- Political will and coordination
- Stabilise macro-economic conditions
- Improve infrastructure, education, health, and judicial processes
- Review long term role of donor and government provision of subsidised services

4 Implementation Priority Areas

Key interventions necessary under each priority area have been identified and are shown in Figure 5.

The interventions directly support the proposed national financial inclusion goal. They are now discussed in further detail in this section.

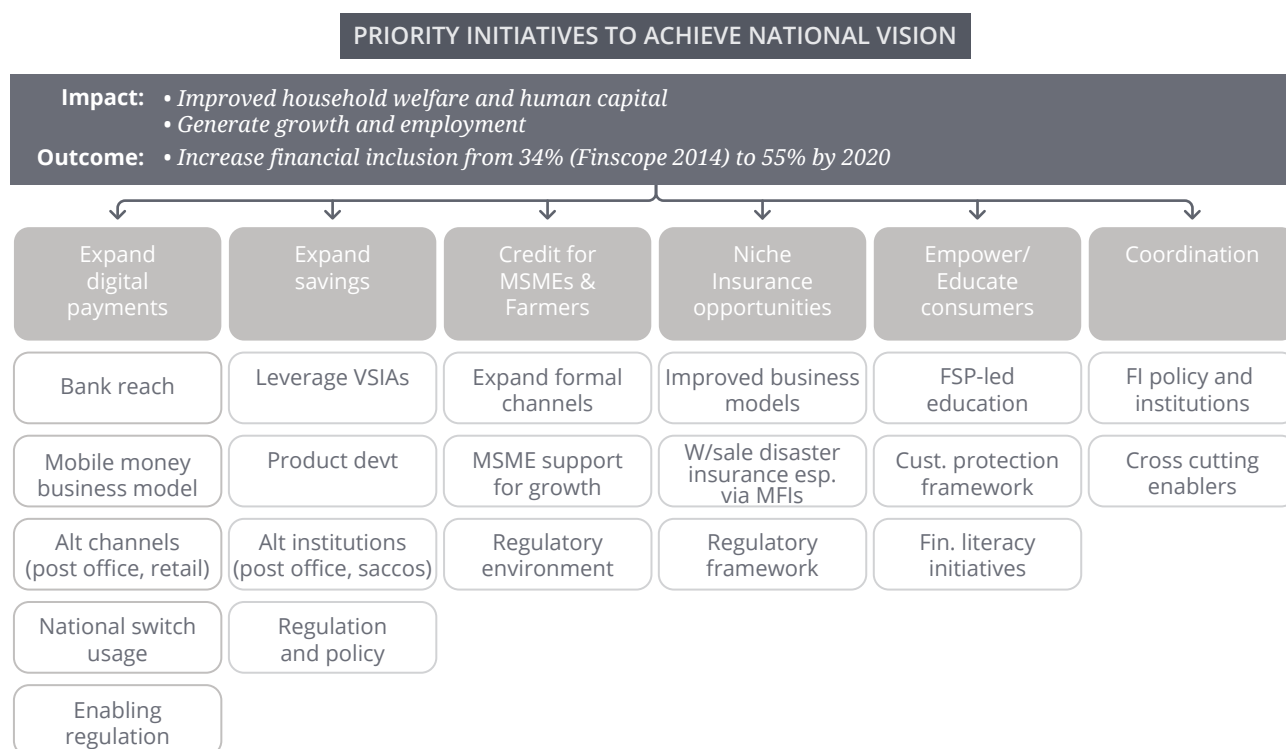


Figure 5: Summary of proposed interventions

4.1 Priority 1 – Expand the reach of digital payments

The main objective for this priority is to develop a pervasive digital payments ecosystem which will reduce the cost of, and expand access to financial services. While the need for physical cash should decline in the long term, in the interim there is need for access to efficient and widespread cash networks, through a broader distribution footprint. Achieving this objective will remove one of the most significant inclusion barriers as access to efficient payments technology is fundamental to the usage of all other financial services.

In achieving the objective, one of the challenges that needs to be addressed is the high cost and limited incentive to expand distribution footprint. Transaction fees currently make up a small portion of formal provider income, and current infrastructure usage fees further limit the incentive to extend the reach of cash infrastructure. The lack of supporting infrastructure such as roads and electricity in rural areas makes the installation, maintenance and running costs of cash infrastructure such as ATMs expensive, due to the need for ancillary equipment such as generators, and the extra expenses involved in physical cash management. Revised business models and government tax breaks and other investment incentives should therefore be considered as a means to encourage rural distribution. Of particular importance will be for Government to deliberately push

payments via electronic channels, including wages and salaries, allowances, road traffic fees / fines, taxes, etc.

Increasing mobile money penetration will be key to drive increased digitisation however this will require expanded bank infrastructure complemented by bank partnerships to drive deeper rural distribution. This can be seen as a hub and spoke approach, with bank branches at the centre supporting more rural distribution networks, such as bank agents, mobile money agents or rural retailers. To play their role in this banks will need to revisit their business models and expand their partnership arrangements to include providers such as rural retailers and a more integrated relationship with mobile providers. Bank agency also holds significant potential to reduce distribution costs.

The launch of the National Switch (Nat-Switch) provides an important opportunity to expand the reach of banking infrastructure, with interoperability further improving the business case for infrastructure.

The potential actions to realise opportunity are focused on increasing the number of access points. This can be achieved through a variety of complementary actions including leveraging partnerships between different providers and actions to incentivise providers to expand their reach. Table 3 below lays out the proposed activities to realise this opportunity

Intervention	Activities
Bank reach	<ul style="list-style-type: none"> • Revisit bank business models for sustainable rural provision to reduce overall bank access costs for customers • Partner to develop infrastructure – ATM, POS and agency networks • Partner to improve interoperability with MNOs • Evaluate potential for self-stocked and cash accepting ATMs housed with retailers • Consider the potential of employing third party service providers to provide services across multiple services to reduce costs • Consider the potential of introducing prepaid cards to pay salaries, grants, harvest payments • Leverage government volumes to provide scale especially for rural areas e.g. electronic payouts
Mobile money business model	<ul style="list-style-type: none"> • Partner with banks and super-agents to leverage their distribution network and to develop cash infrastructure to enable effective rebalancing by agents • Improve interoperability – with banks and between MNOs • Improve agent management approach to ensure sufficient liquidity and viable agent business case to ensure consumer value • Measure broader mobile money benefits to drive internal business case • Innovation and incentives to drive adoption including product development, customer incentives, exploiting specific opportunities to digitise payments, and ecosystem development⁹.
Alternative channels (post office, retail chains, petrol stations)	<ul style="list-style-type: none"> • Extend role as mobile money agents and super agents • Partner with banks to offer customer the opportunity to make payments with cards • Partner with cross border remittance providers to send and receive cross border payments • Post office partnership with banks for cash distribution and savings
National switch usage	<ul style="list-style-type: none"> • Encourage distribution infrastructure roll out by setting appropriate interchange fees to incentivise banks to invest in cash distribution infrastructure
Enabling regulation	<ul style="list-style-type: none"> • Develop a rural payments distribution strategy including incentives for rural roll out (e.g. tax incentives, targeted infrastructure development of communication lines, transport and electricity) • Target AML/CFT requirements to address risk of exclusion • Enact the NPS bill and finalise associated regulations and include interoperability requirement⁹ • Collect distribution data to monitor and target access • License third party service providers to provide support services to banks • Enable the leveraging of SIRESS to reduce cross border payment costs • Evaluate the sustainability of current government and donor provision

Table 3: Proposed activities to expand digital payments

The activities under this priority are proposed to be coordinated and championed by the National Payments System (NPS) department of the Reserve Bank of Malawi. The NPS will work closely with banks, MNOs and the telecommunication sector regulator (MACRA) in order to ensure that the necessary infrastructure and product enhancements are made by the private sector players. Retailers will also need to be engaged closely to ensure they play a part in digitising and extending the payments ecosystem.

4.2 Priority 2 **– Expand savings and investment opportunities**

The objective of this priority is to grow access to savings products, particularly important given that the research identified savings as the financial service that provides the greatest value to most Malawians in the current economic context. This can be complemented by the expansion of investment opportunities for the low income.

VSLAs have had the greatest success in Malawi in encouraging savings amongst adults and hence must form a core part of any successful strategy. Their rapid growth (from 86,000 members in 2008 to 1.1 million members in 2014) indicates the recognition of the value of savings by Malawians, and suggests that important gains can be made by supporting the development of more Savings Groups to extend coverage to currently unserved adults, further leveraging the VSLAs as distribution points for formal providers, and more generally by improving the design of formal savings products (especially banks and mobile money savings).

Some challenges exist however largely because VSLAs have developed outside of the formal financial system structures. Although there is limited evidence of consumer abuse or mismanagement amongst VSLAs, informal Savings Groups are invariably vulnerable to abuse or mismanagement. The low education and skills levels make VSLAs more likely to be vulnerable to mismanagement or exploitation. Formalising all VSLAs and other Savings Groups, however, would create barriers and aversion to formation and usage, a phenomenon already apparent in the attempt to regulate the SACCO industry. Therefore a careful balance is needed, with the regulator monitoring the Savings Groups for potential abuses, graduating the level of supervision to the assessed level of risk. Donor-funded research and monitoring could potentially help the regulator further define this role.

In exploring partnerships between Savings Groups and formal providers the informality also presents a challenge. The limited distributional reach of formal providers means that it may be onerous for Savings Groups to transfer their deposits into formal accounts and additionally formal providers may be reluctant to enter official partnerships or agreements with entities that are not officially regulated.

Investments through the stock markets present a further opportunity to encourage savings. Currently viewed as a

product for the high income, bite size products could allow the middle income and low income consumers to access the markets, expanding capital available and encouraging alternative saving mechanisms.

There is need to further support women and youth in savings, and the Savings Groups constitute a unique vehicle to reach women as they are currently female dominated. Similar initiatives for helping the youth access savings and potentially other products would assist them improve their livelihoods.

The key actions to realise the savings opportunity relate to enabling the continued growth of Savings Groups in a sustainable fashion, encouraging partnership with formal providers to provide benefits for both partners, and improving product design more generally in the formal sector. These are further detailed in Table 4 below.

The Ministry of Finance, with strong support of the Bankers Association and the Reserve Bank of Malawi will champion this initiative. The bankers association will be particularly important in discussing with the regulators and advancing private sector propositions that will facilitate the further extension of services to the low income. It will also be an important conduit for the Steering Committee to communicate its objectives to the service providers, guided by national frameworks and objectives.

4.3 Priority 3 **– Finance for MSMEs and Farmers**

The opportunity to identify those MSMEs and farmers with the ability and motivation to grow and then to provide them affordable credit was identified in the research. These groups are expected to have the largest impact on growth and job creation. Other groups of MSMEs and farmers would benefit more from targeted skills development and access to other financial services such as payments and savings (as discussed in the first two priorities). Credit remains too expensive for these other groups and the outcome to further credit extension is likely to be harmful.

Access to finance was cited by 34% of MSMEs as the biggest obstacle to growth, and only 4% of farmers have formal credit. The primary challenge to be resolved in addressing this demand is to reduce cost of credit over medium term, which currently even when subsidised is unsustainably high for all but the most productive loan recipients and therefore offers poor value as a product to users.

There is potential to support MFIs as the primary formal providers of MSME and agricultural finance, and to further extend input credit to farmers through existing value chains. In tight value chains, this reduces the risk to the provider as repayments are automatically deducted at the point where produce is sold. This also suits the farmer as repayment is delayed until they earn revenue. However, many of

Intervention	Activities
Leverage Savings Groups	<ul style="list-style-type: none"> • Encourage Savings Group usage, including women as well as men and youth (to recalibrate gender balance as currently VSLA are >80% women) • Link Savings Groups to formal system to mobilise formal savings, provide graduation path and improve security (banks or mobile, training and simplicity key) <ul style="list-style-type: none"> • Link to banks rolling out agency banking and deposit taking MFIs which have an existing rural footprint and have trained staff • Graduate large Savings Groups to SACCOs • capacity support to Savings Group members in areas such as income generating activities and modern farming methods
Product development (Banks, MNOs, Insurers, Collective investment schemes)	<ul style="list-style-type: none"> • Product development for targeted savings products (e.g. saving wallets) • Improve bank customer communication to ensure clients use appropriate products • Develop capital markets to provide for investment opportunities to the low income: Product development / packaging to enable affordable investments in the capital market (e.g. K100 per month), through collective investment schemes • Youth savings opportunities including youth savings groups
Alternative channels (post office, SACCOs, Bank agents)	<ul style="list-style-type: none"> • Potential for Post Office savings account given the distribution footprint. Ideally through partnership with an existing provider of savings • Expand farmer SACCOs, manage cost and ensure stability • Expansion and strengthening of agency banking and other alternative channels
Regulatory environment	<ul style="list-style-type: none"> • Savings Groups policy approach needed <ul style="list-style-type: none"> • Expand Savings Groups usage – village agent model potential for replication and training • Avoid over-legislating small groups to encourage use • Provide guidelines for use • Develop a legal identity and framework for Savings Groups • Develop a graduation path for Savings Groups • Leverage mandatory pensions to allow productive access to credit, e.g. collateral for housing finance (legislation under consideration) • Monitor savings market to encourage access and use

Table 4: Proposed activities to expand savings and investment opportunities in Malawi

Malawi's agricultural value chains are loose value chains with prevalent side-selling, thereby increasing the risk for providers that loanees will sell their produce to someone else. Hence, the opportunity for input credit is limited only to specific value chains such as ground nuts.

Improving the credit and information sharing environment can help to reduce risk and cost of lending. Central to this is facilitating a fully functioning credit bureau, a population register and national ID. Overarching credit regulation would help reduce uncertainties in the market and provide a consolidated framework for the market to operate within.

As noted above there is more generally a need to develop a supporting environment for MSMEs and farmers, particularly through skills development, as well as by coordinating with the Ministry of Agriculture to improve irrigation and road infrastructure, and to develop supportive policy positions in agriculture, finance and trade e.g. on maize export bans.

Potential actions to maximise positive effect of credit to targeted MSMEs and farmers are further detailed below (Table 5).

The Ministry of Trade & Industry, through the Access to Finance Working Group which it co-chairs with the Ministry of Finance will coordinate and work with the

respective Ministries to ensure the efforts are supported and implemented from a financial inclusion perspective. They will be strongly supported by major players in the credit market, including banks, MFIs and others, directly and through the sector organisations (BAM, MAMN and SMEDI).

4.4 Priority 4 – Niche insurance opportunities to reduce vulnerability

The primary objective of this priority is to exploit niche opportunities to increase insurance penetration. Insurance is an effective tool to mitigate risk however in Malawi the opportunity is limited given the low disposable incomes. There is also very low awareness of insurance amongst Malawians.

FinScope (2014) indicates a dramatic discrepancy between those adults that would like insurance to mitigate risks and those that actually have access to insurance. Thus, while a majority may not be able to afford insurance, they do still experience a myriad of risks and need to have access to effective risk mitigation tools. For most this will likely be in the form of savings as discussed in priority 2, but also raises the potential for insurance to play a greater role in niche areas.

The greatest opportunity is to provide health and life insurance to salaried employees as this group has the

Intervention	Activities
Expand formal channels	<ul style="list-style-type: none"> Expanded agro-value chain financing, particularly for ground nuts given the number of farmers of farmers engaged in groundnuts production Increased partnership for credit provision to target appropriate recipients (e.g. NASFAM, MFIs) Product development given lack of products tailored to farmers and MSMEs Improve disclosure of product information (eligibility, costs and terms) Support credit information sharing initiatives
MSME support for growth	<ul style="list-style-type: none"> Focused initiatives to target skills development and mentoring of MSMEs, including to encourage value addition to raw products Develop alternative capital opportunities beyond debt such as venture capital and private equity Investigate leveraging Savings Groups as a conduit for the provision of formal credit Development of tighter value chains and value chain finance Develop warehouse receipt systems to be used as collateral by farmers Support for women owned and women employing MSMEs given the lower levels of financial access for women
Regulatory environment	<ul style="list-style-type: none"> Legislation <ul style="list-style-type: none"> Credit information sharing to be enabled Credit regulatory framework Prescription of debt legislation to be clarified Improved contract enforcement to reduce cost of provision Consumer credit legislation needed to empower consumers Enable lending against payslips (payroll lending) to support MSME development Introduce national ID to improve loan collection Improve the efficiency of the judiciary to allow providers to more quickly realise loan security Identify appropriate MSME and agricultural development steering committees and coordinate on finance initiatives Strengthen and support associations and coordination bodies (e.g. SMEDI, NASFAM), as well as environmental policies (e.g. MSME policy) Investigate potential of a credit guarantee scheme Government lending via support to commercial entities rather than directly to ensure sustainability Avoid interest rate caps, not feasible given market constraints Develop capital market and improve macro-economic environment to reduce the cost of credit Develop targeted credit monitoring to effectively supervise for targeted access, abuse and indebtedness Potential for housing finance strategy Introduce longer term treasury bills to establish reference rate for longer term debt

Table 5: Proposed activities to support increased finance to MSMEs and Farmers

Intervention	Activities
Improved insurer business model	<ul style="list-style-type: none"> Development of low value health insurance products such as hospital cash plans and hospital vouchers Explore partnerships with MNOs, pharmacies, agro dealers and SACCOs to extend distribution Expand premium payment options, including allowing the option to pay premiums via mobile and seasonally rather than monthly / annually Product development including exploring potential to embed insurance into other products, compulsory health insurance etc. Increase general awareness of insurance products
Wholesale disaster insurance, especially through MFIs	<ul style="list-style-type: none"> Wholesale insurance for natural disasters to improve sustainability Agricultural insurance Install necessary supporting infrastructure (weather stations)
Regulatory environment	<ul style="list-style-type: none"> Develop a health finance framework including medical aid schemes (Medical health framework in place) Consider the potential for a microinsurance framework Monitor insurance data to ensure value is provided to customers (e.g. claims ratio) Publish AML/ CFT guidelines with exemptions for low value insurance to encourage access

Table 6: Potential actions to help citizens better leverage insurance to mitigate risks

highest and most regular incomes. Beyond the existing products there may be an opportunity to provide some type of low value health insurance to help adults cover their out-of-pocket expenses and other ancillary costs such as for transport in the event of a health emergency.

Insuring MFIs’ loans against natural disaster risk may be another opportunity to help mitigate the risk MFIs face in extending credit, particularly to farmers, and it is more viable for providers to insure the MFI directly than providing cover to each of their clients directly.

The primary actions to realise this opportunity relate to improving product awareness and innovative product design. The table below lists the proposed actions.

It is anticipated that the insurance priority will be coordinated by the insurance regulator within the Reserve Bank of Malawi. The regulator will work closely with the service providers in insurance, including through the Insurance Association of Malawi.

4.5 Priority 5 – Consumer Empowerment and Education

Financial education is critical to enabling consumers to extract optimal value from financial services, and the primary objective in this priority is therefore to ensure effective financial education initiatives.

As noted earlier the levels of financial literacy amongst Malawi adults is very low. However, low financial literacy does not mean low financial capability. The growth and success of VSLAs and the common aspiration amongst Malawi adults to own and run their own businesses indicate a level of financial awareness and acumen. Qualitative interviews also indicated that Malawians may be familiar with financial concepts, like interest, without necessarily being familiar with the terms.

However the low levels of financial literacy do suggest that most Malawians will be at a disadvantage when interacting with formal financial institutions, increasing the doorstep barriers for individuals to engage with formal providers and also the likelihood of miss-selling as customers do not understand the terms and conditions of products. Improved financial literacy and capability could further stimulate a greater understanding and usage of different financial products, particularly insurance, and reduce the cost of provision as the time and expense required to sell and explain products is reduced. Effective delivery should leverage the optimal places and times where the financial education is most likely to be absorbed (usually when the consumer needs that information), and leverage institutions with rural reach such as VSLAs and MFIs. Affordable bank statements can enable first time users to cost effectively check that their money is still secure, allowing them to build trust with financial institutions.

Financial literacy for the youth needs to be prioritised, through delivery channels appropriate for this target population such as schools and universities.

A lot of work has already been undertaken to improve financial literacy and education through both state and donor initiatives. The primary actions therefore relate to improving the coordination of already existing programmes and refining the effectiveness of such initiatives. Table 7 below outlines specific action points that have been identified under this priority:

Intervention	Activities
Provider led education	<ul style="list-style-type: none"> • Research target audience and train sales team for improved communication during teachable moments • Make statements inexpensive and simple to obtain to encourage usage and trust (first time financial service users check balances often)
Consumer protection framework	<ul style="list-style-type: none"> • Clarify which is the lead consumer protection regulatory authority • Introduce an Ombud to reduce cost and improve access to fair treatment • Empower traditional judicial structures to deal with minor financial service regulations
Financial literacy initiatives	<ul style="list-style-type: none"> • Targeted initiatives which are appropriately designed to achieve desired impact including to encourage technology and cultural shifts, and effective use of Savings Groups funds by members • Improve coordination of existing financial capability initiatives • School based financial literacy

Table 7: Consumer empowerment and education activities

This priority will be coordinated by the Reserve bank of Malawi.

4.6 Priority 6 – National coordination and cross cutting priorities

In order to ensure that the Roadmap implementation process is a success, a number of overarching recommendations have emerged from the research process, and these will need to be reviewed and acted upon by the Ministry of Finance and other stakeholders. These overarching recommendations include:

- Strengthen the unit within the division in the Ministry of Finance, Economic Planning and Development currently responsible for driving financial inclusion. The financial inclusion agenda in Malawi is currently the responsibility of the Financial Sector Policy Unit

which falls under the Economic Affairs division within the Ministry of Finance. A dedicated unit for financial inclusion provides a central leader of the agenda, but this can be strengthened into a full division within the Ministry of Finance, Economic Planning and Development.

- Women and youth constitute vulnerable groups in Malawi that require special attention. The research shows that these groups face environment barriers in accessing formal financial services, due to factors such as their likelihood to be earning lower incomes, less likelihood to be formally employed, and lower levels of education as discussed earlier. It is proposed that within each priority area, opportunities need to be sought to encourage and enable these groups to access formal financial services, embedding these within each area's action plan.
- Expedite the national ID process in order to alleviate the difficulties institutions face when on boarding customers and conducting KYC procedures. Alternative KYC such as chief's letters are unreliable as they can be easily forged, and are not suited to digital processes such as the credit reference bureau.
- Improve access to legislation. Establishing a central platform for a comprehensive set of the latest legislation would help provide clarity.
- Improve judicial and legislative efficiency. The length of time to process contract enforcement cases raises the cost for providers, particularly to realise security on loans. Promoting small claims courts and traditional court jurisdiction for lower value financial transactions can improve efficiency. Review legislative process to increase efficiency and improve cohesion of legislation.
- Prioritise rollout of supporting infrastructure such as roads, electricity and telecommunication networks, nationally but especially in rural areas.

The contribution of donors to Malawi is significant. A broad variety of donor driven initiatives exist related to financial inclusion objectives. As a result, there is a considerable need for donors to work together, to pool resources where possible and for greater coordination. A formal coordinating body, within the Financial Inclusion Steering Committee framework will play an important role in ensuring that limited resources are not wasted on duplication, existing projects and expertise is leveraged to a greater extent and a consistent and simple message is delivered to central policymakers and government officials.

An appropriate tracking and monitoring framework needs to be developed by the stakeholders to help drive implementation, and to create momentum around the Roadmap implementation.

5 Roadmap to reform

5.1 Anticipated benefits

FinScope (2014) indicates that more than half of all Malawi adults remain without access to any type of formal or informal financial service. This limits the ability of these Malawians to effectively manage their financial lives. It limits the capacity to mitigate against risks, smooth their consumption, accumulate assets and invest in productive activities. Access to financial services not only has the potential to enhance individuals' welfare but also helps to deliver on fundamental policy objectives including economic growth, employment generation, and human capital development (education, healthcare and nutrition).

The Malawi financial inclusion roadmap can help policy makers and stakeholders galvanise resources, focus and attention to help achieve the overarching policy objectives. The Roadmap will contribute the following specific benefits:

- **Improved household welfare** through efficiency gains and better risk mitigation as a result of the emergence of products that more efficiently serve the target market, especially expanded digital payments which will enable individuals to affordably transact, pay bills and send long distance remittances, affordable and appropriate savings products that provide the tools for individuals to build up savings pools that can be used to smooth consumption and mitigate risks, and increased option of risk mitigation products. It will also ensure improved customer empowerment and education that will allow consumers to better understand financial products enabling them to extract greater value from their use and to ensure that they are not exploited by financial providers.
- **Human capital development** by enabling adults to build pools of savings that enable them to build up sufficient funds to afford to pay school fees, other school-related costs and to build up a cushion that can be used in the event of a health risk event, as well as expanding the reach of payments which improves the efficiency and ease of paying bills and reduces the extraneous costs, particularly related to travel for individuals.
- **Support for economic growth** through better support to MSMEs and farmers, enabling financial institutions to better serve them through more relevant products and new distribution channels. MSMEs and farmers will most heavily benefit from credit and savings products: Credit provides them with a lump sum to invest to improve their productivity, while the ability to efficiently grow their savings through VSLAs and other savings mechanisms enables them to more easily build up a lump sum of capital which can be used to invest in assets and inputs to improve productivity. MSMEs will also have access to a wider range of capital sources in addition to credit.
- **At the micro level** the growth of new and existing

institutions to better serve the low income including the new infrastructure partnerships between various players, growth of MNOs as players in financial services, Savings Groups, Retail chains and others.

- **At the macro level** the Roadmap will enable an enhanced legal and regulatory framework that allows for market players to more effectively deliver services to the poor, especially the banks, Mobile network operators, Insurers, Savings Groups, MFIs and others.
- **A measurement framework** to quantify and track financial inclusion in Malawi, to ensure that the Roadmap actions remain relevant to national objectives.

Overall the Roadmap implementation will result in the growth, deepening and higher quality of financial inclusion in Malawi, especially by addressing some of the access barriers observed in the research to extend reach to the currently unserved. Such improvements will be beneficial to the economy, as there is substantial evidence that financial inclusion yields tangible benefits for the poor. Improved access to finance is regarded as pro-growth and also a means to reduce income inequality and poverty. A number of studies have shown that countries with more developed formal financial systems record faster declines in income inequality and poverty levels.

By providing more relevant savings, credit, payments and insurance services, financial services will better enhance people's capacity to diversify and manage risk and support entrepreneurial behaviour and economic dynamism.

5.2 Financial Inclusion Roadmap in the Financial Policy Context

The financial inclusion policy in Malawi is currently anchored on three main policy documents:

- The Malawi Growth and Development Strategy II (MGDS II) 2011 – 2016. MGDS II is Malawi's overarching medium term strategy designed to attain its long term growth and development aspirations.
- The Financial Sector Development Strategy (FSDS) 2010 – 2015. The main goal of the financial sector development, as envisioned by government in MGDS, is to build a sector which supports financial services and stimulates sustainable economic growth.
- The National Strategy for Financial Inclusion (NSFI) 2010 – 2014. The NSFI focuses specifically on improving the delivery of quality and diverse financial services to those that are currently excluded from the financial sector.

The NSFI was intended to address the key financial inclusion-related aspects of the FSDS, including greater market transparency, developing the financial infrastructure and promoting the MSME sector. The specific targets identified in the strategy are shown in Table 8 below.

The Financial Inclusion Roadmap 2015 – 2020 builds on these targets by continuing the focus on growing savings, expansion

Targets of Malawi's National Strategy for Financial Inclusion (2010-2014)

- Provide loans to 3.4 million Malawians by the end of 2014;*
- Increase the loan portfolio of inclusive finance providers by K 88,714 million (USD 212,2 million) in 2014;*
- Increase the volume of savings mobilized to a level of 676,910 million Kwacha (USD 1.44 billion) by the end of 2014;*
- Support the existing inclusive finance providers to increase outreach and establish 10 new (two each year) inclusive finance providers;*
- Support savings mobilization and transform five credit-only MFIs into deposit-taking inclusive finance providers;*
- Establish two cooperative banks;*
- Increase the number of women clients in the sector to a level of 60 percent;*
- Eliminate exclusion by improving access to inclusive financial services to the disadvantaged groups; and*
- Provide financial literacy education to all.*

Table 8: Financial Inclusion Targets as outlined by NSFI 2010 - 2014

of credit (but shifts focus to productive loans given the high cost), support for financial service providers to serve the low income (emphasizing partnerships to leverage existing players), support for MFIs (as providers of loans to MSMEs and farmers), eliminating financial exclusion, and providing financial education to all but especially to the low income. Attention to vulnerable groups will also be taken into account in the monitoring and evaluation target, where necessary incorporating targets for groups such as youth and women.

The Roadmap 2015 – 2020 is proposed to form the basis for the policy, strategic and implementation framework for financial inclusion in Malawi during the planning period 2015 – 2020 as the current framework for financial inclusion is approaching closure (NSFI ended in 2014, while the FSDS and MGDS II end in 2015 and 2016 respectively). The Roadmap is recommended to be used to inform the new strategy, and the succeeding FSDS and MGDS.

The Roadmap is well suited to do so as it is based on a comprehensive diagnostic of the entire financial sector which pinpoints those priority areas that will provide the greatest return on resources invested, and has been developed in a stakeholder intensive process.

The Roadmap will therefore need to be approved at suitable level, proposed to be the Minister of Finance, with Cabinet being notified accordingly. The Roadmap will be complemented by a new financial inclusion policy

document, a strategy as well as a national financial inclusion implementation plan.

A number of donors have invested in a variety of financial inclusion-related projects in Malawi to date however there has been limited coordination of initiatives¹⁰. The roadmap will provide a platform to coordinate these endeavours in future, and is well suited to do so as it continues to involve multiple stakeholders including donors during implementation, and should help guide future initiatives by donors as it in principle outlines the immediate priorities for financial inclusion given the customer needs, the Malawi context and stakeholder views during consultations.

The Roadmap is not a static document and will be updated over time as new research becomes available, and as the financial inclusion landscape in Malawi evolves.

Existing initiatives that are ongoing in Malawi have been taken into account during the research and are therefore largely complementary to the Roadmap, for example the national switch which became operational Q2 2015, ongoing support to strengthen the digital financial services (DFS) ecosystem, expansion of savings products to lower end of the market, financial education, promotion of youth financial services and delivery of social services. Among these initiatives the major ones are summarised in Table 9 below.

Individual donors will continue to roll out their programmes in partnership with the government of Malawi. The role of the Roadmap steering committee will be mainly to coordinate and engage stakeholders, to ensure that key areas of the roadmap are implemented, and to ensure that synergies are exploited and duplication avoided in line with the Paris Declaration for Aid Effectiveness¹¹.

Priority area	Ongoing work to be taken into account
Expand digital payments	<ul style="list-style-type: none"> • UNCDF MM4P - ecosystem approach to scale-up digital financial services for rural and low income households (TA to FSPs) • UNCDF BTCA – TA to assist government to transition to digital (G2P / P2G) payments. • World Bank - Increase the banked through Financial infrastructure development (payment system and MFI Financial hub). • USAID Mobile money - Mapping / web data for agent networks including for MNOs, MFI, Bank and ATM network, transaction volumes etc. • EU - Delivery of social cash transfers through e-payments • WFP/FAO - Home School Feeding Programmes including promoting diversified incomes and investment, and warehouse receipting system.
Expand savings and investment opportunities	<ul style="list-style-type: none"> • UNCDF MicroLead – Support FSPs to expand savings (including agency banking model due to lack of access points) • UNCDF YouthStart – Increase access to financial services for low-income youth with an emphasis on savings and financial education. • World Bank Direct commitment to save project – Reduce barriers to savings including through labelled savings accounts, financial literacy, etc. • CARE – Food Security and economic development through VSLAs. • Swedish Cooperative Centre Lake Basin Programme on climate change which includes village banks, SACCOs and SME development. • Swedish Organisation Relief programmes including Village Savings and Loans development, business development and Loan revolving fund.
Finance for MSMEs and Farmers	<ul style="list-style-type: none"> • CARE: Food Security and economic development through VSLAs. • GIZ Social Protection Programme (new) - harmonization of the National Social Support Programme (NSSP) including microfinance • Swedish cooperative centre Malawi's Lake Basin Programme climate change programme whose activities include SME development. • Swedish Organisation Relief programmes including Village Savings and Loans development, Business development and Loan revolving fund. • USAID fingerprinting project - Reduce risky borrowing to support access to credit and scale up Biometric technology in Malawi.
Niche insurance opportunities to reduce vulnerability	<ul style="list-style-type: none"> • World Bank / WFP - Disaster insurance (weather insurance). Current pilot (work for assets) pays premiums for farmers. • UNCDF MM4P - Support for insurance companies working in low income segments. • CARE: Food Security and economic development through VSLAs – including disaster risk and other risk mitigation products.
Consumer empowerment and education	<ul style="list-style-type: none"> • World Bank Financial literacy – Consumer Awareness and Education Program (in conjunction with RBM) targeting school curricula among others;
Coordination	<ul style="list-style-type: none"> • Dfid / World Bank Financial Sector Deepening supporting an enabling regulatory environment; reforms and capacity building (currently on hold).

Table 9: Overview of ongoing financial inclusion donor work in Malawi

5.3 Implementation and evaluation

The Steering Committee will be the body that coordinates the implementation of the financial inclusion Roadmap. The Ministry of Finance, as chairman of the Steering Committee will be the champion, and will provide leadership to the Steering committee and all the stakeholders. Actual implementation will be the responsibility of all stakeholders, and particularly the regulators, the financial service providers, the supporting ministries as well as the donors that are active in Malawi in the area of financial inclusion. Sector associations will assist to coordinate providers in their respective sectors, ensuring that sector positions emerge that support financial inclusion in a sustainable manner. The key stakeholders identified for implementation are shown in Figure 6 below.

The roadmap will be approved by the MAP Steering committee, and presented to the Minister in the Ministry of Finance for endorsement and / or approval. This will lay the foundation for it to become the basis for a new policy document, as well as a strategy and implementation framework. These further documents will require approval of the cabinet, and in this way the Roadmap and its succeeding documents will become part of the national implementation programme, and be tracked at cabinet level as such.

Activities requiring the input of other Ministries will be escalated to them within the policy framework. It is suggested that each ministry or organisation will implement specific

areas of the roadmap under their jurisdiction, and report to the Ministry of finance on progress. In some instances an area of the roadmap may require more than one organisation, and working sub-groups are recommended for these. The Minister of finance in conjunction with the other Ministers will therefore provide oversight in their respective areas, coordinate and ensure the implementation of the recommendations in the roadmap, and the appropriate resources.

Successful implementation is contingent on engagement with, and the role played by the private sector, especially the banks, insurance companies, retailers and MNOs. It will be important to get the firm commitment of the private sector players through tailored engagement with sector associations, regulatory processes, as well as with individual players to resolve specific issues for the purposes of enhancing financial inclusion. It is proposed that the Steering Committee and its structures will meet with the private sector early on in order to clarify their role in the Roadmap, obtain buy in, as well as clarify actions that the private sector expect Government to put in place for them to play their role in enhancing financial inclusion.

5.4 Measurement

Successful implementation partly depends on being able to measure progress, as well as communicating the outcomes of the interventions. The Ministry of finance will monitor and evaluate the proposed outcomes, and provide regular report backs to various government organs.

	Categories	Institutions	Roles & Responsibilities
1	Regulatory authorities	<ul style="list-style-type: none"> Reserve Bank of Malawi Ministry of Finance (Financial Services Policy Unit) 	<ol style="list-style-type: none"> Regulatory and supervisory support to FI Advice and guidance to Institutions on achieving Financial Inclusion targets.
2	Ministries and agencies	<ul style="list-style-type: none"> Finance Trade and Industry Agriculture Education Health Communications 	<ol style="list-style-type: none"> Coordination of Initiatives Budget Ensure that initiatives with Ministry comply with Policy statements and with best practice
3	Associations & networks	<ul style="list-style-type: none"> Banking Insurance Micro Finance Credit Bureau Credit Association 	<ol style="list-style-type: none"> Represent members' ideas in Financial Inclusion committees meetings Encourage best practice among members
4	Sector entities	<ul style="list-style-type: none"> Banks, MNOs, Post office, National switch, MFIs, SACCOs, VSLAs, Insurers, Retailers, agro dealers, MSMEs, NGOs 	<ol style="list-style-type: none"> Implementation of best practices Feedback to coordinating bodies
5	Development partners	<ul style="list-style-type: none"> FinMark Trust, UNCDF, UNDP, WB, EU, USAID, CARE, WFP, DfID, Swedish donors, GIZ, foundations 	<ol style="list-style-type: none"> Financial and Technical support Coordinate amongst each other and with Government

Figure 6: Financial inclusion stakeholders in Malawi

Activity based tracking is recommended, complemented by the tracking of outcome and output based targets including Access, Usage, Affordability, Appropriateness, Financial literacy, and Consumer protection.

Secondary indicators will be proposed through the work planning process where necessary, to report on the progress or impact of specific stakeholder initiatives.

A draft set of indicators is included as Annexure 1.

5.5 Risks

Some of the identified critical risks to implementation include:

- Lack of implementation capacity. Mitigation: The Steering committee as part of its short term action plan will focus on donor and private sector mobilisation and coordination. Donors and the private sector will be mobilised to support the Roadmap implementation process.
- Lack of buy-in, particularly by private sector stakeholders. Mitigation: The Steering committee as part of its short term action plan will develop a private sector engagement strategy and plan. Regulators will be involved in this process, and where necessary legal and regulatory amendments will be made to support the process.
- Lack of infrastructure to support proposed interventions. Mitigation: Infrastructure continues to be a challenge in Malawi, not only in financial inclusion but across the board. The Ministry of Finance in conjunction with other stakeholders will prioritise infrastructure development, particularly in bottle neck areas.
- Time frames for legislative reform may be long. Mitigation: FSPU to coordinate and ensure timelines are shortened where possible.
- Potential conflict with umbrella legislation i.e. the Financial Sector Act (FSA). FSA has weaknesses e.g. does not recognize AML / CFT legislation. Mitigation: Implementation team to ensure known weaknesses are built into the process
- Current lack of registration for Savings Groups is a risk area as they are outside of formal structures: The savings priority has proposed to consider options to formalize larger VSLAs that represent substantial risk, or at least link VSLAs to formal structures. This will be done through a Savings Groups policy / framework development process.

The Steering Committee will work with the stakeholders to ensure that these and other risks are tracked and mitigated.

6 | Conclusions

A majority of Malawi adults remain without access to any type of formal or informal financial service, limiting their ability to manage their financial lives, to mitigate against risks, to smooth their consumption, to accumulate assets or to invest in productive activities. Access to financial services not only has the potential to enhance their welfare, but can also help to deliver on fundamental policy objectives including economic growth and employment generation. The Malawi financial inclusion Roadmap can help stakeholders galvanise resources and momentum to address the challenge of financial inclusion, and hence achieve the overarching policy objectives.

Six priority initiatives have been proposed in the Roadmap: (1) Expanding digital payments, (2) Expanding savings especially through Savings Groups, (3)

Finance for MSMEs and farmers, (4) niche insurance opportunities to mitigate risk, (5) Customer empowerment and education, and (6) National coordination.

Implementation of the proposed priorities will deepen and broaden financial services and directly improve household welfare as a result of the emergence of new players, business models, partnerships and products that more efficiently serve the target market. It will also result in human capital development, support for economic growth, and alignment to national objectives of key institutions serving the low income.

The roadmap provides a framework to define, prioritise, coordinate, measure and track the activities, and lays a foundation for the strategic and policy framework for the period 2015 - 2020.

The immediate next steps in the Roadmap process include:

- Research findings and Roadmap to be approved by the Steering Committee and the Minister of Finance
- Roadmap to be complemented with a strategy, policy statement, as well as an implementation plan
- Financial Sector strategies developed for the period 2015 – 2020 to use as the Roadmap as basis for the Financial Inclusion strategy elements
- Roadmap Implementation to commence i.e. immediate implementation of aspects not requiring Ministerial approvals or government policy development
- Roadmap adoption by all stakeholders by August 2015

Implementation of the Roadmap will most visibly contribute to financial inclusion by enabling the creation of a pervasive infrastructure through partnerships to widen access, and the development of products and business models that deliver better value to low income customers.

Endnotes

1. Paris Declaration for Aid Effectiveness, available at www.oecd.org/dac/effectiveness/34428351.pdf
2. For this analysis youth are defined being 18 – 30 years old, totalling 40% of the adult population. No major differences were observed in financial behaviour across the three cohorts in this group, i.e. the 16 – 17, 18 – 24, and 25 – 30 age groups.
3. The term 'Ganyu' here describes a range of short term rural labour relationships, such as piecework weeding or working on the fields of other smallholders or on agricultural estates
4. Financial Inclusion Data: Assessing the Landscape and Country-level Target Approaches, Oct 2011, prepared by the IFC on Behalf of the Global Partnership for Financial Inclusion
5. A large proportion of youth are irregular workers / Ganyu (25%), while farming (29%), own business (16%) and dependence on another household member (16%) are also major sources of income.
6. The Roadmap proposes to target driven achiever MSMEs, i.e. those with the ability and motivation to grow
7. It should be noted that the baseline includes direct bank access (18%), indirect bank access (9%), and other formal (7%). Inclusion of indirect access implies that the stakeholders believe these accounts offer significant value to the users. VSLAs have been classified as informal which may change if they are more closely regulated in the future.
8. Stakeholders could for example be encouraged in the public sector to digitize payment of wages and all government cash transfers, and in the private sector to digitize utility bills and other payments such as school fees and payments to farmers for selling their agriculture produce.
9. The interoperability aspects will be addressed through the regulations.
10. It is worth noting that some aspects of coordination for specific areas of work have been put in place and have demonstrated some effectiveness, such as the Mobile Money Coordination Group (MMCG), the Financial Literacy Steering and Technical Committees, and the National Social Support Donor Group.
11. Paris Declaration for Aid Effectiveness, available at www.oecd.org/dac/effectiveness/34428351.pdf

Kameshnee Naidoo
MAP Global Programme Advisor
Kameshnee.naidoo@uncdf.org
map.uncdf.org

