



Status of Agricultural and Rural Finance in Malawi

July 2012

FinMark Trust

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Acronyms

ADMARC	Agricultural Development and Marketing Corporation
AER	Annual Economic Report
ATM	Auto Teller Machine
BAM	Bankers Association of Malawi
CARE	Cooperative for Assistance and Relief Everywhere
CDH	Continental Discount House
CEM	Country Economic Memorandum
CFE	Consumer Financial Education
CFSVA	Comprehensive Food Security Vulnerability Assessment
CGAP	Consultative Group To Assist the Poor
CISP	Comitato Internazionale per lo Sviluppo dei Popoli
COMSIP	Community Savings and Investment Promotion
CP	Consumer Protection
CPA	Consumer Protection Act
CPFL	Consumer Protection and Financial Literacy
CPI	Consumer Price Index
CUMO	Concern Universal Microfinance Operations
DEMAT	Development of Malawian Enterprises Trust
ECLOF	Ecumenical Church Loan Foundation
FCA	Financial Cooperatives Act
FDH	First Discount House
FFI	Formal Financial Institutions
FIMA	Financial Inclusion in Malawi (Project)
FINCA	Foundation for International Community Assistance
FINCOOP	Financial Cooperative Malawi Limited
FISP	Farm Input Subsidy Programme
FITSE	Malawi Finance Trust for the Self Employed
FMB	First Merchant Bank
FSA	Financial Services Act
GDP	Gross Domestic Product
GoM	Government of Malawi
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IAM	Insurance Association of Malawi
IHS	Integrated Household Survey
IMF	International Monetary Fund
IOBM	Institute of Bankers in Malawi
KOs	Katapila Operators
MARDEF	Malawi Rural Development Fund
MANN	Malawi Microfinance Network
MASM	Medical Aid Society of Malawi
MFA	Microfinance Act
MFIs	Microfinance Institutions
MLF	MicroLoan Foundation
MNO	Mobile Network Operator
MRFC	Malawi Rural Finance Company Limited
MSB	Malawi Savings Bank
MSE	Malawi Stock Exchange
MSME	Micro Small and Medium Enterprise
MUSCCO	Malawi Union of Savings and Credit Co-operatives

NABW	National Association of Business Women
NASFAM	National Smallholder Farmer Association of Malawi
NBFI	Non-Bank Financial Institutions
NGO	Non-Governmental Organisation
NICO	National Insurance Company
NPL	Non-Performing Loans
NSO	National Statistical Office
OBM	Opportunity Bank of Malawi
POS(D)	Point of Sale (Device)
PRDO	Participatory Rural Development Programme
PRIDE	Promotion of Rural Initiatives and Development Enterprises
PVA	Poverty Vulnerability Assessment
RBM	Reserve Bank of Malawi
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Co-operative
SEDOM	Small Enterprise Development Organisation of Malawi
SME	Small and Medium Enterprises
TCC	Tobacco Control Commission
TLF	Touching Lives Fund
UNDP	United Nations Development Programme
USD	United States Dollar
VSLA	Village Savings and Loans Association
WMS	Welfare Monitoring Survey
WDI	World Development Indicators
ZDB	Zero Deficit Budget

Executive Summary

This study provides a broad overview of the status of rural and agricultural finance in Malawi, based on secondary sources and using a structure provided by FinMark Trust (see Annex 1: Expectations Guide for Revision of Country Report).

Malawi is one of the poorest countries in the world, with 73.9% of the population living on less than \$1.25/day. 39% of the population lives below the national poverty line, and 15% are classed as ultra-poor. The country has one of the highest population densities in Africa with 139 people per km² and 84.6% live in rural areas. Agriculture dominates the economy, which regularly accounts for over 30% of GDP and was 79% of exports by value in 2010.

Malawi has enjoyed relatively high growth rates since 2005, but in recent years the economy has been in crisis; most notably an acute shortage of foreign exchange resulting from the Government of Malawi's (GoM) fixed exchange rate policy, leading to severe shortages of key commodities, such as fuel. The new President since April 2012 has addressed some major concerns resulting in resumed donor flows; however, in the short and medium-term Malawi will experience a painful period of adjustment while long-term prospects begin to improve (see section 2.1).

Much of Malawi's population and of its poverty is concentrated in rural areas. This potentially limits the demand for formal financial services (section 2.2).

Most rural farming households depend on rainfed subsistence or semi-subsistence **agriculture**. Maize is the dominant food crop. The result is high vulnerability to drought, so maize production is a central political theme in Malawi, resulting in many distortionary policies. Tobacco remains Malawi's dominant cash crop but significant market changes for burley tobacco present a major threat for the economy and many rural livelihoods. Agriculture is central to rural life (section 2.3), but is not the only activity that creates financial needs. There are opportunities for financial services to address many problems experienced in rural areas; broadly these include savings, insurance, transfers and credit.

The **demand for financial services** (section 3) stems from rural people's needs, so financial services have to take account of people's livelihood and income profiles. Agriculture and related activities are predominant, but there are opportunities to serve business needs. The FinScope MSME 2012 survey found access to finance is the most significant obstacle to growth among business owners.

FinScope (2008) found that 74.5% of rural adults **save** for a mixture of investment, day-to-day needs and emergencies. Evidence suggests rural people understand the importance of saving and value convenience and safety, but mainly save at home or in-kind rather than in inaccessible formal finance institutions (FFIs).

Despite facing many risks that could be mitigated, only 3.0% of Malawians have **insurance**. The reasons given for not using insurance were information and understanding gaps, compounded by issues of affordability.

Urban to rural **money transfers** are important to support family members. Most rely on traditional methods of personal cash delivery, but the potential for **m-money**¹ transfers and agency banking is substantial. 96% of MSMEs make payments in cash (FinScope 2012), suggesting there are substantial opportunities for bank and m-money transfers/payments.

22.1% of rural adults **borrowed** money in the previous year (FinScope 2008). The most important sources were family, friends/neighbours and microfinance institutions (MFIs). Convenience, cost and reputation of the lender are the key criteria. Nearly four fifths of adults try to avoid borrowing, as they fear the consequences of getting into debt. This may relate more to formal borrowing than using informal non-interest bearing sources. There is

¹ M-money refers to financial transactions that are conducted via a mobile/cellular phone, particularly person to person transfers or payments for goods and services.

an understanding that borrowing is best used for investing in farming or a business. 24.3% of MSMEs had borrowed (2012) of which 11.4% had borrowed from formal sources (mostly MFIs). Worryingly, the most common reason for MSMEs to borrow was to pay other debts.

Implications for policy-makers and providers are: to encourage and promote the full range of financial services rather than focus on credit, facilitate development of m-money services as convenient, low cost alternatives, facilitate development of micro-insurance relevant to rural areas and support financial literacy for poor rural households.

On the **supply** side, the financial sector experienced significant legislative reform from 2009-11 (section 4.1). Time is needed for the new legislation to be absorbed by providers and the Reserve Bank of Malawi (RBM), the regulator. RBM needs to manage its new powers appropriately to promote investment, outreach and innovation in rural Malawi.

Meso-level support institutions (section 4.2) exist for all categories of formal providers. Of relevance is the Malawi Microfinance Network (MAMN) and the Malawi Union of Savings and Credit Co-operatives (MUSCCO). These meso institutions facilitate exchanges of information, organise inputs and advocate for members with the regulator and GoM. From the GoM and regulator's perspectives, it is useful to have a single body through which to communicate to the more numerous member institutions.

At the **micro** level, financial providers are categorised into the banking sector, the non-bank formal sector, the microfinance sector and the informal sector.

Banks currently have little rural presence, but several have taken more interest in the rural market through developing alternatives to the costly full branch, such as agents, bank-on-wheels, kiosks and point of sale devices (section 4.3.1).

Other FFIs have little rural presence, but there has been innovation in weather index-based insurance, livestock/crop insurance, credit life and funeral benefit insurance (section 4.3.2).

MAMN's 19 registered **micro-finance** members can be grouped into payroll lenders, state owned, NGO-MFIs and microfinance operations of banks (section 4.3.3). In 2010 the microfinance sector's outstanding loan portfolio stood at MK 11,965 million (US \$80 million). Parastatal MFIs, notably Malawi Rural Finance Company, play a considerable role in microcredit supply and saving deposits. However, parastatal MFIs continue to perform poorly and distort the market. NGO-owned MFIs have experienced notable growth in recent years and can now potentially collect deposits under the new legislation. SACCOs have limited rural presence as they suffer from relatively poor repayment rates.

Informal sources are readily accessible at village level (section 4.3.4). Group-based providers include Village Savings and loans (VSLAs), Rotating Credit and Savings Associations (ROSCAs) and other community groups. CARE has increased its VSLAs from 174 in 2006 to 4,478 in June 2011, reaching 84,639 members. These groups and variants effectively mobilise community savings and on-lending, but have limited capital available. Money lenders (katapila operators) and retailers providing goods on credit, are important individual sources. Although katapila operators charge high interest, the transaction costs are nil, as they are located in the community and lend immediately, thereby meeting a key need to access small amounts of credit instantly for emergency and consumption purposes.

Currently, **m-money services** are offered by four banks and one mobile network operator (section 4.3.5). The current m-money offerings are basic, but the range of transactions is widening as is the use of agents for cashing out and potentially cashing in. These services work through interaction with agents. FinScope (2008) found that over 50% of adults walk to the nearest airtime agent, of which over 75% said it took under 30 minutes to get there.

Implications for policy-makers and providers are: to encourage **appropriate regulation** that encourages rural outreach and innovation, to support the promotion of group-based savings and credit approaches, and to address the role and practices of informal individual lenders.

FinScope (2008) found 58% of rural individuals are **financially excluded** (section 5). The key access issue is that a large proportion of the population is too poor (or perceives that it is) to use formal services. There are also informational and understanding constraints that could be addressed by FFIs and policy-makers. Accessibility is a major advantage of informal sources; this suggests policy-makers and the regulator should support more flexible forms of banking/FFI outlets. FinScope MSME (2012) found 59% of MSMEs are financially excluded, with the same issues of access and cost as with individuals.

Identified predominantly **disabling factors** (section 6.1) are: economic instability; agricultural volatility; weak rural infrastructure; difficulties with identity verification; property rights that do not encourage investment; limited regulatory experience of the new legislation, high levels of rural poverty; fears of debt; low financial literacy, weak institutional capacity; high levels of GoM involvement as a provider; and inappropriate product design

Identified predominantly **enabling factors** (section 6.2) are: enabling legislation is in place; high rural population density; relatively good communication infrastructure; high latent need; opportunities for contract farming; opportunities to work with informal providers; evidence of innovation; and potential competitive pressure on banks to move into the less competitive rural markets.

For policy-makers it is recommended that:

- 1. Policy-makers should encourage the rural financial service development though implementing regulation in ways that that encourage outreach and innovation.**
- 2. Policy-makers should support and facilitate development of micro-insurance for rural areas.**
- 3. Policy-makers should facilitate development of m-money services as convenient, low cost alternatives for current formal sector offerings.**
- 4. Policy-makers should promote group-based savings and credit approaches, as they are very relevant to relatively poor rural communities.**
- 5. Policy-makers should support linkages between formal providers and informal providers, including considering how to link with katapila operators.²**
- 6. Policy-makers should support financial literacy for poor rural households.**

For providers and NGO/development partners, it is recommended that:

- 1. Formal sector providers should develop and implement relevant micro-insurance, alongside other financial products.**
- 2. Formal sector providers should develop and promote m-money services targeting rural households, for transactions and savings.**
- 3. NGOs should promote group-based savings and credit approaches.**
- 4. Formal sector providers should create linkages and partnerships with each other spanning banks, MFIs, SACCOs, and with informal groups and individuals to reach much further into rural areas.**

² This might involve willingness to finance, in return for Katapila abiding by certain terms of operation to reduce the excesses that can occur.

1 Background to the Study

Access to financial services is an important contributor to enterprise productivity the world over. In Sub-Saharan Africa, where most people still live in rural areas and agriculture is the mainstay of the rural economy, access to financial services of all kinds appears still to be poor. Yet relatively little is known about the demand for, supply of and effective level of access to rural and agricultural finance and about the policies, institutions and many other factors that determine them.

As part of its mission to 'make financial markets work for the poor' in southern Africa, FinMark Trust commissioned the Centre for Inclusive Banking in Africa in 2010 to undertake a study to examine the current state of rural and agricultural finance in the region to enable the development of regional and country level policy frameworks and strategies that will significantly improve access to and the uptake of rural and agricultural finance. The specific objectives identified were:

- to conduct country and regional level assessments of the current state of agricultural and rural finance in southern Africa
- to identify best practices in agricultural and rural finance in Africa and elsewhere
- to develop an overall policy framework and strategic approach to address agricultural and rural finance challenges at regional and country level
- to assist country level programmes towards operational action and impact in terms of access
- to provide a benchmark for agricultural and rural finance in southern Africa and to develop a structure for long-term monitoring of progress, and
- to identify a small number of promising projects to assist

The research was carried out in six countries – Botswana, Malawi, Mozambique, South Africa, Zambia and Zimbabwe – during 2011 and 2012, drawing mainly on secondary sources. This report records the findings for Malawi.

2 Introduction

Malawi is one of the **poorest countries** in the world, ranking 171 out of 187 in the 2011 Human Development Index (UNDP, 2011). The National Census conducted by the National Statistics Office (NSO) in 2008 reported a **population** of 13.1 million, which is estimated to have increased to 14.6 million by 2012 based on a 2.8% growth rate.³ 54% of the population in 2008 were under 18 (NSO 2008) and 84.6% were classed as rural. The average number of household members is 4.6 for Malawi as a whole, and 4.7 per household for rural areas.⁴ **Gross Domestic Product** (GDP) per capita was estimated at \$339 in 2010 (World Bank Databank⁵).

2.1 Economic Context

Malawi's economy is substantially dependent on agriculture and related agri-business. The following table gives an overview of the relative importance of each sector, highlighting that **agriculture** is the largest single sector in the economy.

³ The population growth rate has probably been slowing down, but this is not factored in.

⁴ Malawi Demographic and Health Survey (MDHS) 2010.

⁵ World Bank website, page: www.data.worldbank.org

Table 1: Sectoral Share of GDP, 2008

Sector	Share of GDP (%)
Agriculture	33.0
Trade	14.0
Manufacturing	8.0
Transport & Communications	6.8
Financial Services	6.4
Construction	4.6
Real Estate	4.1
Hotel and Food	1.7
Utilities	1.5
Mining	0.9
Others	19.1

Source: AER 2010 and RBM Economic and Financial Statement

In 2011, agriculture accounted for 30.3% of GDP, down from 34.1% in 2010 and slightly lower compared to a five year average from 2005-10 of 31.1%.⁶ From 2007-2009, agriculture accounted for 89-90% of exports by value, but this fell to 79% (\$841m) in 2010 due to uranium mining production coming fully on stream⁷ and a fall in tobacco prices, which is Malawi's biggest single export crop. Although early season tobacco prices are better in 2012 than 2011, relatively low tobacco prices may persist across the whole 2012 buying season, as world demand for burley tobacco continues to decline due to structural changes in demand.⁸ According to the Tobacco Control Commission (TCC), the estimated fall in tobacco production is from 237 million kg to 151 million kgs (-36.3%). ***This is a structural market shift that will substantially lower Malawi's already weak export earnings*** and brings greater urgency to promote alternative crops for production and export. It also has major implications for rural incomes and spending.

Looking at the economy more broadly, according to the World Bank, Country Economic Memorandum (CEM) Background Note 1, 2009:

"Inflation reached a high of 83% in 1995 and was only brought under control to around 10% in 2003. The much needed liberalization of the exchange rate in 1994 was not accompanied by fiscal discipline (partly explained by the electoral cycle) and hence higher import prices immediately fed through into the Consumer Price Index. Excessive government borrowing financed by domestic treasury bills resulted in real interest rates exceeding 20% between 2000 and 2004. For part of this period Malawi had the notoriety of having real interest rates among the highest in the world. Private investment was crowded out, growth was damaged."

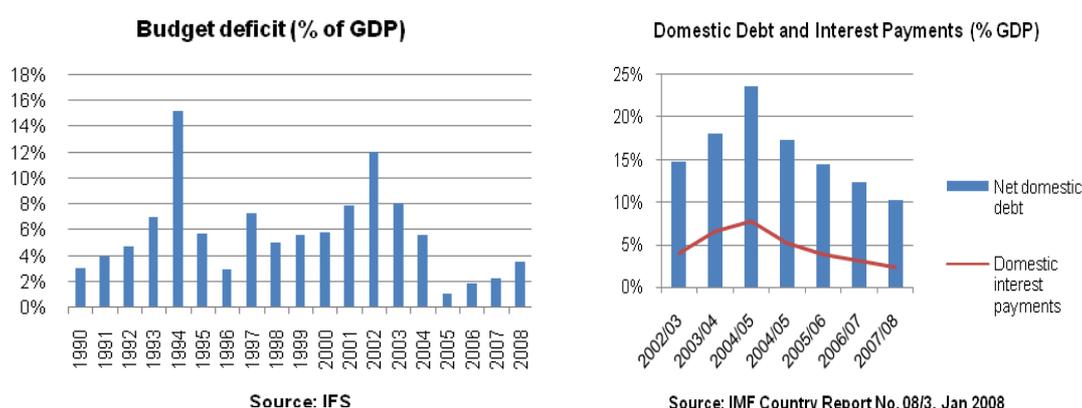
"The change of government in 2004 brought about a rapid turnaround in government finances. In extremely difficult fiscal circumstances, and for the first time since 1994, government stayed within the budget approved by parliament (Whitworth 2005). As a result, expenditure stabilized and the fiscal deficit improved dramatically."

⁶ Reserve Bank of Malawi website, page: http://www.rbm.mw/stats_economic.aspx

⁷ The Kayelekera uranium mine, operated by Paladin, came on-stream in 2009 and is now operating close to its planned production level. Other mining operations for rare earth metals will come on stream in 2012-13, notably Globe Minerals. Prior to these, Malawi had only a limited amount of coal mining.

⁸ Burley tobacco is being phased out in many countries to comply with an international agreement.

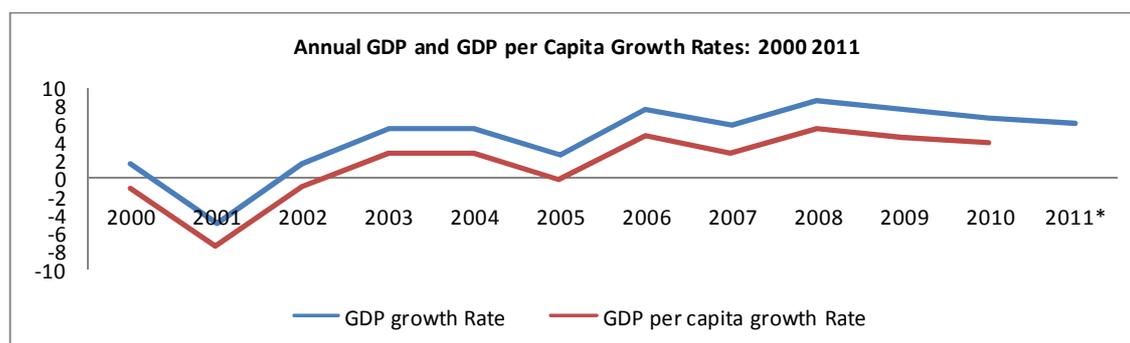
Figure 1: Budget Deficit and Debt/Interest, as % of GDP



“Despite continued falls in the terms of trade, growth and exports began to recover in 2003, and by 2007 GDP per capita had regained its level achieved in 1979. The recovery had taken 28 years.” World Bank CEM (2009)

From 2006 to 2011, the economy had rates of growth that were high relative to the previous twenty years and relative to most of the Southern Africa region. However, **growth has been volatile, exacerbated by external shocks**, such as droughts in 2001-02, 2002-03 and 2004-05, and **growth appears to be slowing down in 2011 and 2012 due to underlying economic issues that need to be addressed.**

Figure 2: Growth Rates, 2000-2011



Source: Malawi Chambers of Commerce and Industry

Since 2009, the economy has faced a number of significant challenges. Externally there has been the global financial crisis, following a period of high world food prices. Despite the positive impact of the commencement of uranium exports in 2009, which now account for around 10% of Malawi’s exports, and inflows from donors, **Malawi has an increasing balance of trade deficit that reached 15% in 2011.**

Domestically, the major challenge has been chronic **foreign exchange (forex) shortages** that culminated in a series of acute fuel crises from 2010 onwards to a point where the economy was substantially disrupted in the first four months of 2012. The cause has been the GoM’s forex policy, which de facto fixed the Malawi Kwacha (MK) rate to the US Dollar. This resulted in progressive currency overvaluation and loss of international competitiveness from 2005 onwards, particularly as the US dollar has been relatively strong in recent years. The result has been **significant shortages of forex and disruption of supply chains.**

The regular and progressively worsening shortages of fuel experienced since 2010, create other negative economic impacts. As a result, the GoM was projecting a slow

down in growth for 2012 to 6.0% from 6.7% in 2011, with more recent projections suggesting an even lower rate of 4.3%, rising to 4.9% in 2012.⁹

A consequence of the GoM's unorthodox economic policies, linked to substantial concerns around governance, has been the suspension of donor budgetary support in 2011-12. In response to the expected withdrawal of donor budgetary support, which accounted for around 40% of the Budget, GoM under President Mutharika moved to a zero-deficit budget (ZDB), with a declared intention of spending only what revenue was actually received.¹⁰ This was accompanied by a significant increase in taxation and other revenue-raising measures that have been of major concern to private sector investors, resulting in a number of closures and suspended investments. This is likely to further slow down the economy in 2012, **which reduces the immediate market potential for the financial sector.**

Going forward, the path to growth is uncertain, but the potential for Malawi to resume higher levels of growth, based on agriculture remains, highlighting the importance of the rural economy. With a new President in April 2012, the signs are hopeful that donors will be prepared to give the new President interim support in order for key policy adjustments to be made, including bringing the exchange rate into line with the real economy. It appears that budgetary support will resume in the 2012-13 fiscal year and that many of the damaging measures in the ZDB will be reversed, **which suggests improving medium term potential for the financial sector.**

2012-13 will be a period of very painful adjustment for Malawians, but a more competitive exchange rate regime will progressively favour agricultural export development and a return to a more sustainable growth path with progressively increasing GDP. **How much this impacts rural areas depends to a large part on the development of the agricultural and agri-business sector.**

2.2 Rural Poverty

The country has one of the highest **population densities** in Africa rising from 105 people per km² in 1998 to 139 people per km² (NSO 2008). This is in contrast to the low rural population densities found in many Southern African countries and should **make it easier to reach rural people cost-effectively with financial services.**

Officially, there are four 'urban' areas as specified by the granting of municipal status, namely: Lilongwe, Blantyre, Zomba and Mzuzu. By default, the rest of Malawi is 'officially' rural, including quite large towns, like Mangochi, Salima, Dedza, etc.

Malawi is one of the least urbanized countries with 84.6% of the population living in rural areas. According to the NSO Welfare Monitoring Survey (WMS 2009), 39% of the population lives below the national poverty line, and 15% are classed as ultra-poor.¹¹ Poverty can be defined in many ways, but typically is defined narrowly and quantitatively as the inability to meet key consumption needs out of income. Data for

⁹ State of the Nation Speech, President Joyce Banda, April 2012.

¹⁰ In practice it appears that GoM was (undeclared) borrowing from commercial banks to the tune of MK30bn (about 10% of the Budget) to make up the shortfall in spending over revenue. The consequence is a major fiscal deficit that has come to light post the change in Presidency.

¹¹ "A household is considered poor if its annual per capita consumption expenditure is below a threshold, or the poverty line. The poverty line is a subsistence minimum expressed in Malawian Kwacha based on the cost-of-basic-needs methodology. It has two parts: minimum food expenditure based on the food requirements of individual and critical non-food consumption. Food needs are tied to the recommended daily calorie requirement. Non-food needs are estimated based on the expenditure patterns of households whose total expenditure is close to the minimum food expenditure. Individuals in households with consumption lower than the poverty line are labelled "poor". Using the minimum food expenditure as an additional measure, we can identify the "ultra poor" households, whose total consumption per capita on food and non-food items is lower than the minimum food expenditure." NSO, WMS 2009.

1998 to 2004 showed a fall in the poverty headcount from 65.3% of the population to 52.4%. In rural areas, the figures are higher, but fell from 66.5% to 55.9% of the rural poverty line over the same period. Using the World Bank's standardised international measure of \$1.25/day at 2004 Purchasing Power Parity and latest comparative data, ***then Malawi was ranked fourth poorest in the world with 73.9% of Malawians living below this level, emphasising the depth and scale of poverty.***

Poverty is linked to **vulnerability**, and rural households face many potential shocks in their lives, notably:

1. **Drought**, because crops are predominantly rain-fed
2. **Flooding**, particularly in areas like Shire Valley where the land is low lying and people farm on flood-prone areas due to shortage of land
3. **Price risks** from fluctuations in market prices for cash crops, like cotton
4. **Pest and disease risks** due to limited availability and affordability of crop and livestock protection inputs, and
5. **Illness, accident and death risks** that are a burden on family labour and budgets

HIV and AIDS has also significantly impacted Malawians with an HIV infection rate of 11-12.9% of the adult population.¹² The HIV infection rate for rural areas is 10.8%, considerably lower than the urban rate of 17.1%. These rates have declined in recent years, but poor access to health facilities in rural relative to urban centres means that the challenge of rural HIV and AIDS is very significant.

Taken together, these factors indicate that rural Malawians are generally very vulnerable and poor, and it ***highlights an important role that financial services can play to reduce vulnerability and mitigate against it.***

2.3 Agricultural Context

With such a high rural and poor population, the Malawian economy is consequentially dominated by agriculture and agri-business. Malawi has a mixed estate/commercial farm sector and a smallholder sector, with an estimated 1.8 million farming families. Most smallholders are subsistence farmers relying on maize production to feed themselves, with occasional sales to raise small amounts of cash they need to buy necessities. Other smallholders are engaged in cash crop production, notably for burley tobacco, cotton and maize.

According to the Comprehensive Food Security Vulnerability Assessment (CFSVA, 2010), 82% of incomes are from agricultural activities. The ***majority of rural farming households depend on either subsistence or semi-subsistence farming***, with 78% cultivating less than one hectare (ha) of land (Burritt, 2006).¹³ According to the Integrated Household Survey (IHS) 2005 and the Poverty Vulnerability Assessment (PVA) 2006, 97% of farmers grow maize, over half the farming households grow no other crop apart from maize and over 60% of Malawians' calorific intake is from maize. This ***dependence on a single food crop, combined with vulnerability to drought, ensures that maize is a central agricultural, economic and political theme in Malawi.*** It also means that most of the household available resources of land, labour and finance are devoted to maize production – if more resources become available through credit, then ***the experience of lenders is that any extra resources available to the household are diverted to maize production, even if intended for cash crops or other uses.***

¹² UNAIDS, 2008-09 country comparisons.

¹³ As almost all arable land is under cultivation, smallholdings are likely to have decreased in size as the population has grown since these figures were published.

Since 2005, GoM has sought to increase **maize production** through an evolving Farm Input Subsidy Programme, which combined with relatively good rains has strengthened maize production and improved food security, though at a very high budgetary cost and relatively poor economic returns. Other interventions in maize markets have included setting minimum buying and maximum selling prices, purchases by the parastatal Agricultural Development and Marketing Corporation and export bans. These *interventions have considerably distorted the production and marketing of maize, making it significantly less attractive to commercially oriented farmers*, all at a very high cost to the county's finances.

Burley tobacco is the dominant **cash crop** grown by over 400,000 households¹⁴ across most Districts; but maize, cotton, and groundnuts are also important depending on the agro-ecological area. There are also associations of smallholders organised and linked to tea, sugar, milk and coffee processing plants. As these are perishable products, these are generally closely linked to the location of processing or bulking centres. *These linkages provide opportunities for contract farming schemes and better prospects for crop financing for these producers.*

Livestock keeping is relatively limited, partly a function of low per capita incomes. According to FinScope 2008, 48% of households owned some livestock, but less than 2% own cattle.

Tobacco has been Malawi's dominant export commodity by value, even after 2010-11 when prices were poor.

Table 2: Agricultural Exports by Value (MK Millions)

By end year	Tobacco	Tobacco as % of total	Tea	Cotton	Sugar	Other	Total
2000	12,606.5	39.2	3,126.8	332.7	6,265.7	7,288.3	32,195.0
2001	18,363.3	59.4	2,461.1	316.4	3,975.9	5,815.2	30,932.0
2002	17,887.5	60.8	2,932.4	409.4	2,127.4	6,088.7	29,444.4
2003	22,544.5	54.2	3,226.4	483.9	6,473.9	8,857.6	41,584.6
2004	22,303.4	44.2	5,132.4	2,224.1	7,881.3	12,966.3	50,507.8
2005	31,621.1	54.2	5,132.5	1,847.1	5,408.5	13,515.1	58,306.1
2006	55,839.6	61.3	6,737.3	1,832.7	5,201.4	21,481.1	91,092.1
2007	51,729.5	52.6	7,281.7	3,062.1	8,227.9	28,037.8	98,339.1

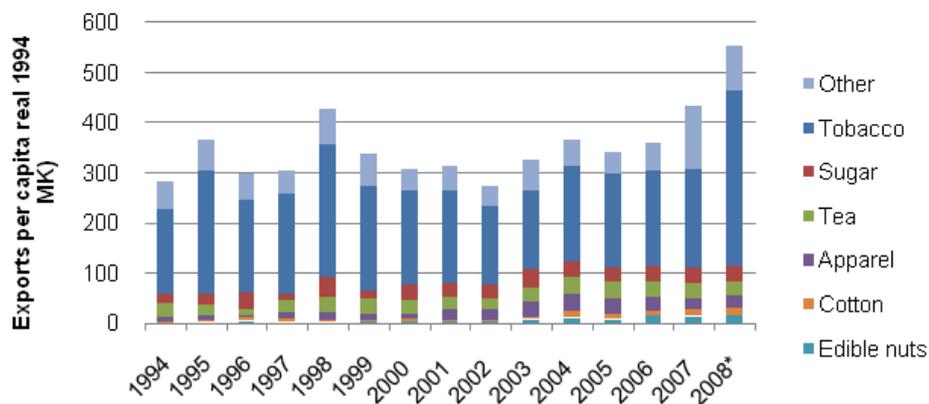
Source: Financial and Economic Review, Vol. 41, No. 1, 2009. Reserve Bank of Malawi (RBM)

The figure below shows the dominance of **tobacco in exports**, but also the importance of two other agricultural commodities, sugar and tea.¹⁵ Sugar and tea have consistently accounted for 7-10% of exports by value. They are predominantly estate grown by major companies, creating rural permanent and casual employment. Tea and sugar estates have linked smallholder grower schemes. *Rural employment and smallholder schemes present opportunities for financial services.*

¹⁴ With the fall in tobacco prices and production, the numbers for 2011-12 are uncertain, but likely to be considerably lower than in the past. Although the TCC registers growers, many small growers do not register, but sell via other registered growers, therefore actual numbers are hard to determine.

¹⁵ The only significant non-agricultural export commodity has been apparel/clothing due to favourable trade agreements with South Africa and the United States of America.

Figure 3: Sources of exports per capita (real 1994 MK)¹⁶



Source: World Bank, CEM 2009

The only significant change to the **export basket** in the period up to 2008 was the growth in apparel, cotton and edible nuts. According to the World Bank, these have grown at an average per capita rate of 11% since 1994 but still account for less than one tenth of total exports by value. Historically cotton and edible nuts, such as groundnuts, were significant crops for Malawi, but fell away in importance. Initiatives to revitalise the cotton sector began in 2002, with the distribution of treated seed and chemicals packs, with overall positive if variable results. For edible nuts, Malawi was an important producer of Chalimbana nuts, but due to aflatoxin problems and other global market changes, progressively lost its European markets. More recently, regional exports have been improving, and Malawi has also become an important Macadamia nut producer, primarily through its estate sector. Since 2010, the other major change has been the increase in uranium exports, as noted. GoM is developing a new National Export Strategy to promote diversification, mainly through exporting a wider range of agricultural commodities.

Probably the **greatest challenge for the agricultural sector is low productivity of smallholders** across almost all crops. The reasons for this are complex, interrelated and specific to each crop, but **access to inputs,¹⁷ access to improved farming technologies,¹⁸ and access to irrigation are the major cross-cutting reasons for low smallholder productivity.** An additional problem is high transport costs, making access to inputs and markets more expensive. Related to this, poor access to markets reduces returns as well as the potential and incentive to invest in farming. **Based on successful contract farming and innovative models of input financing, these ought to be surmountable problems.**

Although agriculture is central to rural life, it is not the only activity that creates financial needs. There are **significant opportunities for financial services that can substantially address many of the problems experienced in rural areas:**

“1. Households need ways to save money for medium- and long-term purchases and for times of need (**‘savings’**)

2. Households need methods to protect themselves in case of unpredicted needs at times when they cannot access their income inflows (**‘insurance’**)

¹⁶ Source: NSO, Balance of Payments, deflated by the CPI (IMF) and population (WDI)

¹⁷ Mainly improved/suitable plant material/seed, fertilisers and chemical treatments (pesticides, fungicides, herbicides).

¹⁸ This includes good agricultural practices and improved husbandry through extension and training.

3. Households need methods to receive money from outside and occasionally to send money safely and at low cost (**'transfers'**)

4. Finally, households need resources to invest in (agricultural) production and other enterprises so that they can increase future income flows (**'credit'**)” (Kadale 2012)¹⁹

These represent key areas for financial sector providers.

2.4 Objectives, Ambit and Methodology

The study's **main objective** is to present the status of rural and agricultural finance in Malawi. This includes an analysis of current challenges the financial sector faces and related recommendations. The report intentionally concentrates on agriculture-related financial services, given its dominant position in rural economy; however this is not an exclusive focus, as the needs and sources of other rural enterprises as well as those of households as consumers also need considering.

Section 3 reviews rural **demand** for financial services analysed by service category. On the demand side, there is good data available from FinScope Malawi 2008 (FinScope 2008) for 'consumer' demand, and from FinScope Malawi Micro Small and Medium Enterprises (MSMEs) 2012 (FinScope MSME 2012) for enterprise demand. Although FinScope 2008 is now relatively old, the data quality is the best and most comprehensive available, hence its use. The relative age of the data needs considering when assessing what the latest demand situation would be.

Section 4 reviews **supply** of rural finance services by category of provider. The different choice of basis, compared to the demand side, is because data on the volume of services supplied are mostly not reported by institutions, as they are of commercial value, and where it is, there are often definitional issues in making comparisons, e.g. lending to the agricultural sector depends on what agri-businesses are included. Following the section on supply and demand, the consequences for **financial inclusion and exclusion** are set out in section 5.

Factors that enable or disable progress in the provision of financial services to rural households and businesses are considered in section 6. These are categorised into macro, meso and micro level in recognition of the varying levels at which policy and practice operate.

Finally, the **recommendations** - actions with the potential to support enabling or eliminate disabling factors - are set out in section 7.

¹⁹ Draft report, Study on Non-formal and Informal Rural Financial Services, Kadale Consultants for Concern Universal, Malawi, 2012 (forthcoming).

3 Demand for Rural Financial Services²⁰

The demand for rural finance covers the spectrum of financial services: savings, insurance, transactional services (remittances and transfers), and loans for consumption and production, each of which is considered in this section. First of all, this section considers the needs of rural people and businesses that give rise to demand for financial services.

3.1 Rural People

A summary of rural people's needs is contained in a forthcoming report (Kadale 2012):

*"The needs of rural people are a mix of **survival/basic needs** (food, clothing, shelter, and health), **social needs** (education, cultural events, social obligations, travel, entertainment, etc.) and **economic needs** (farm income generating activities, business, employment, etc.). These create financial needs that can be categorised according to combinations of the following:*

1. **Regularity and frequency of need** – from 'regular' daily, weekly and monthly to irregular needs
2. **Predictability of need** – needs that are known and those that are unexpected (or at least the exact timing of need is unexpected, such as falling sick or an accident)
3. **Scale of need** – within or greater than immediately available resources
4. **Priority of need** – social (e.g. medical and education) and survival (e.g. food and shelter) versus economic and growth (farming and business)
5. **Timing of need** – hungry season, post-harvest and input purchasing time
6. **Purpose behind that need** - for investment or consumption
7. **Area of need** - Social/farm/enterprise needs

*Although agriculture is the dominant economic activity in rural areas, far from being only crop and livestock production, there is also a wide range of **agri-business activities** supporting and stemming from agricultural production. This includes the sale and distribution of farm inputs, including seed, fertiliser, agro-chemicals, animal health treatment, animal feed, farming tools and farming equipment (for tilling, transporting, spraying and harvesting). There are also services provided, such as contracted farm services, warehousing, supply of bags/packaging, basic processing equipment for cleaning, drying, sorting, grading, transporting, marketing/selling (small to large scale) and so on. In addition, there are some crops and livestock that require processing close to the point of harvesting, such as tea, sugar, coffee and dairy, that all require handling and processing. These additional agricultural related, non-production activities are included in the term 'agri-businesses'.*

*Over and above the agricultural production ('farming') and agri-businesses, there are many **other economic activities in rural areas**. This includes public service such as teachers, health workers and other central and local government staff in rural areas. It also includes private sector activity from single persons selling non-farm produce, such as clothes, other food items, drinks, household goods, airtime, retail shops etc. through to small-scale manufacturing, such as carpentry and metalwork, tailoring etc. There are also other primary activities in rural areas, such as mining, fishing and forestry. Although these are not large in Malawi, other than uranium*

²⁰ 84% of the 4,993 respondents in the FinScope 2008 sample were rural. In general, the data reported are for the rural population.

mining, they do create opportunities for localised economic activity, as do harvesting, processing and selling of natural resources, and some tourism.”

Therefore, it is important to recognise that the rural economy contains a considerable diversity of household livelihoods beyond farming, although it is clear that the sale of crops is a major source of household income (AER, 2010). This is confirmed by data from the Malawi Vulnerability Assessment Committee (MVAC, 2010):

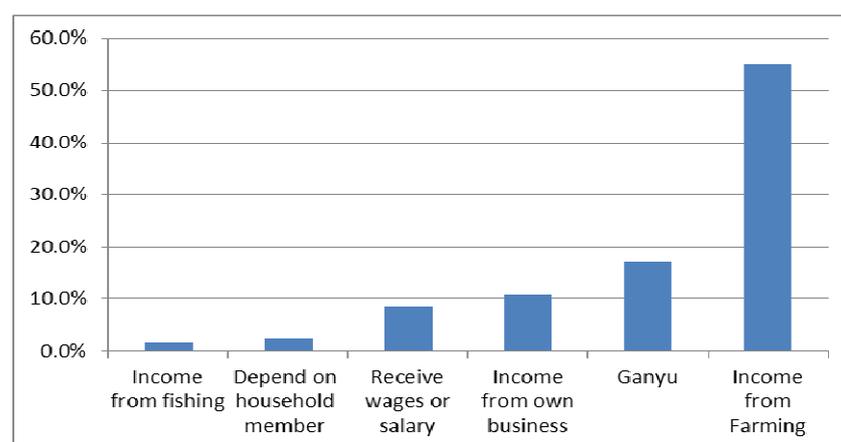
Table 3: Main Household Livelihood Activity, 2010

Agriculture Activities	%	Non-Agriculture Activities	%
Food Crop Production	63	Brewing	2
Cash Crop Production	11	Non-agricultural wage labour	3
Livestock rearing/selling	1	Handcrafts/artisan	1
Fishing	2	Petty trading/street vending	2
Agricultural Labour (ganyu)	5	Selling firewood and charcoal	1
		Seller /Commercial Trader	2
		Salary/Wages	4
		Self employed (e.g. carpenter)	2
		Others	1
Total	82	Total	18

Source: MVAC 2010

FinScope (2008) identified the most important income sources for rural people as:²¹

Figure 4: Most Important Income Source, Rural People, 2008



Source: FinScope 2008

Figure 4 above highlights that for rural people, income from farming (55.0%) is by far the most commonly mentioned primary source, followed by ganyu²² (17.3%) and own business (10.7%). Only 8.5% of rural adults identified salaried employment as their primary income source. **Rural financial services have to take account of this livelihood and income profile. Agriculture and related activities are predominant, but there are also opportunities to earn income in non-agricultural enterprises and in salaried employment.**

The FinScope **Micro, Small and Medium Enterprise (MSME) 2012** survey (FinScope MSME 2012) gives more information on the range of businesses in Malawi.²³ The profile of rural and urban businesses was not substantially different,

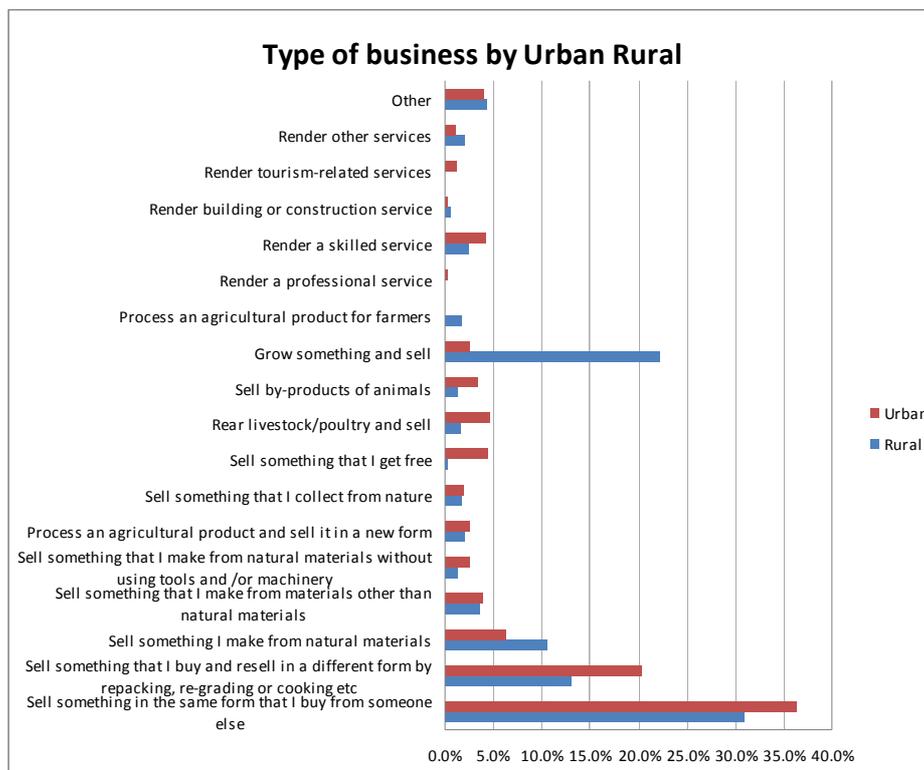
²¹ Only responses mentioned by over 1% of the population included.

²² Ganyu refers to casual manual labour (predominantly agricultural labour) paid in cash or food.

²³ Only the launch presentation was available at the time of this study. Very little of the data presented was disaggregated by urban and rural, hence overall data is used.

other than in the importance of growing and selling in rural areas, as would be expected:

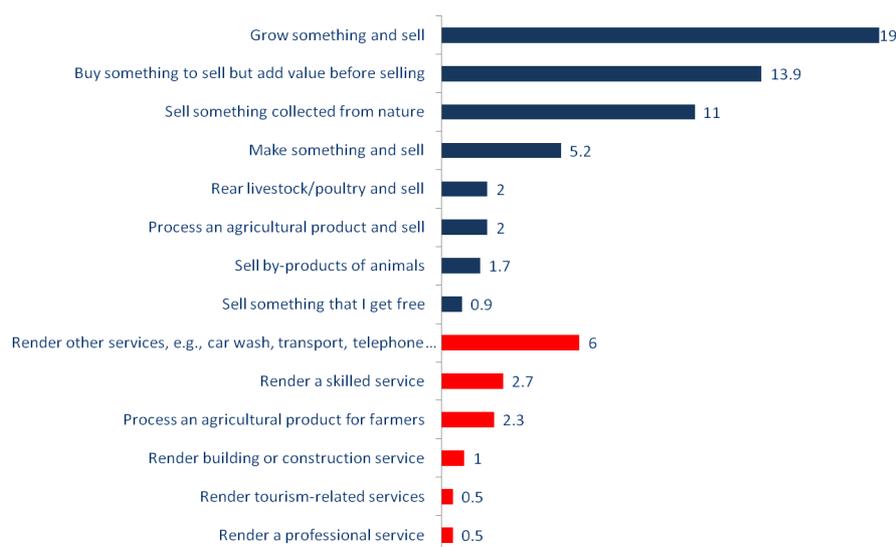
Figure 5: Types of MSME, by Rural/Urban 2012



Source: FinScope MSME 2012, Launch Presentation

FinScope MSME 2012 estimates there are 758,118 owners of 987,480 MSMEs in Malawi. MSMEs are predominantly individual entrepreneurs (59%) and micro-businesses with less than five employees (33%). The business occupations are:

Figure 6: 2012 MSME Occupations, as % of all MSMEs



Source: FinScope MSME 2012, Launch Presentation (services in red, retail in blue)

Access to finance is seen by MSMEs as the most significant **obstacle to growth**:

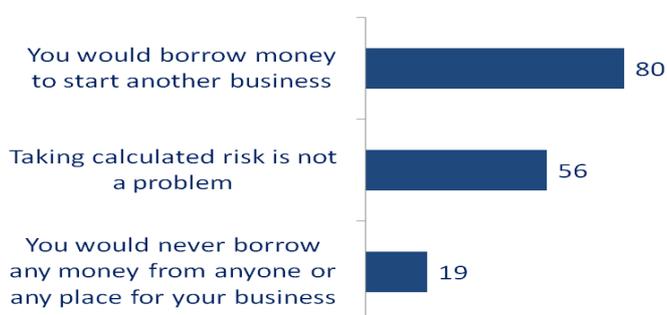
Figure 7: MSME Obstacles to Growth. 2012



Source: FinScope MSME 2012, Launch Presentation

FinScope MSME (2012) identified **attitudes to risk**, which suggest *a readiness to borrow and take calculated risks*:

Figure 8: MSME Attitudes to Risk, 2012



Source: FinScope MSME 2012, Launch Presentation

Only 9% of MSMEs are **formally registered**, which makes it more difficult to provide them with formal financial services, such as bank accounts and loans.

The sections that follow provide more detailed insight into financial service needs for savings, insurance, transactions/transfers and borrowing.

3.2 Savings

FinScope (2008) found that 74.5% of rural adults save in money or in kind and 65.7% reported that they tried to save regularly. Of all rural adults, 48.9% kept cash at home or in a secret hiding place, with the main in-kind options being savings as livestock (13.6%), as farm inputs (7.6%) and as stock for a business (5.6%). Only 8.7% saved at a bank and only 2.6% at a savings and credit co-operative (SACCO), which are the two main formal options available. The most important reasons for these choices were convenience²⁴ and simplicity, followed by relative cost. ***This suggests that, for most people, formal savings facilities are neither convenient nor simple to access are relatively costly, which is why people predominantly use informal methods.***

The most frequent response to the most important reason for saving among the rural population was for farm inputs (17.8%), followed by living expenses (14.1%), medical (11.4%) and non-medical emergencies (9.7%). In terms of actual savings,, respondents reported saving for medical expenses and living expenses more

²⁴ There were three convenience options ranking 1-3 for all reasons for both frequency and importance: convenient to withdraw, convenient to get to and convenient to pay in, in descending order.

commonly than for farm inputs and non-medical emergencies. This perhaps **indicates tension between what is most pressing (emergency and daily living) and what people see as most important (investment) for the future.**

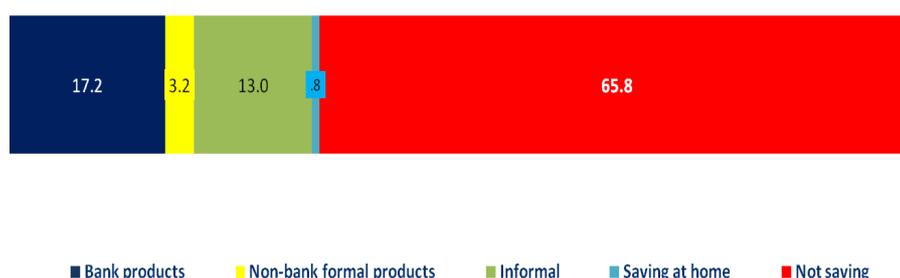
Farm inputs are an annual predictable saving need, but often perceived to be something to borrow for, so their importance as a savings need may be understated. While living expenses are also relatively predictable, medical and non-medical emergencies are less predictable and likely to occur at very short notice. These characteristics require easy and immediate access to money, which reinforces the conclusion that **convenience is the most important factor** for the choice of savings vehicle, and why keeping cash at home in a hidden place is the most common 'informal' response. **Accessibility should be a key factor in savings design.**

The reasons for saving did include investment-related reasons, such as housing and business capital, but these were stated by less than 5% of all adults. The investments that respondents saw as most profitable were farming (equipment, livestock and land) and businesses. Investment can be addressed by a combination of savings and borrowing, so this will be reviewed in the section on borrowing below.

It is interesting to note that while the majority of adults (56.2%) save by keeping cash at home, 79.0% stated that this was not safe, suggesting the **need for a convenient and readily accessible savings mechanism that is also secure.**

For MSMEs, FinScope MSME (2012) reports the following **savings access strand**:

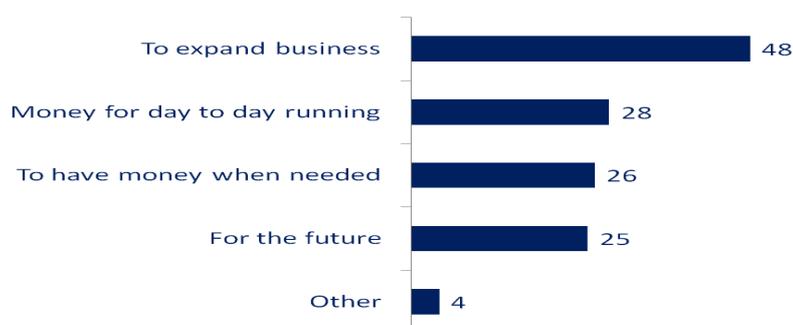
Figure 9: MSME Savings Access Strand, 2012



Source: FinScope MSME 2012, Launch Presentation

There is overlap between the FinScope MSME and consumer data, as MSMEs include farming enterprises and businesses that adults would have included in their responses as consumers. Of those that save, the overwhelming majority (74%) were saving at home, mirroring FinScope (2008).

Figure 10: Reasons to Save, MSME Owners, 2012



Source: FinScope MSME 2012, Launch Presentation

In summary, it appears that people understand the importance of saving and value convenience and safety. The reasons for saving are a mixture of day-to-day needs, emergencies and investment. Savings can legitimately be used for all these reasons, but investment can also be addressed by borrowing and emergencies by borrowing and insurance. It may be that weak access to these types of services is forcing people to rely more heavily on savings.

3.3 Insurance

The socio-economic data in earlier sections highlight that high poverty levels make it difficult for rural people to manage **risks and shocks**.

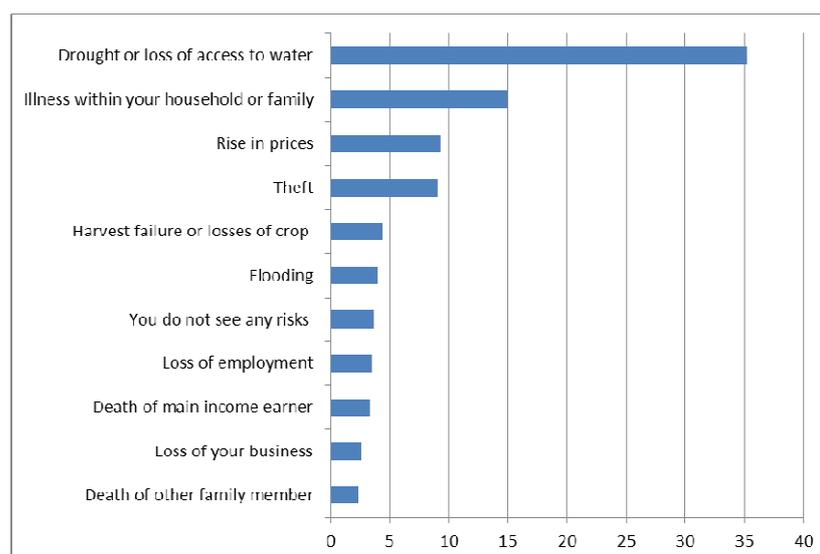
Farming is an inherently risky business particularly as most Malawian farmers are dependent on rain-fed agriculture, with low levels of irrigation and access to natural year round water sources.

Combined with this, public services, notably **healthcare**, are weak. Although there is national coverage, the quality of the service is variable and generally poor, particularly in rural areas. Public health services are nominally free, but taking account of the cost of accessing, such as transport, and supplementary costs for treatment or even using private providers where the public service is not able to provide effectively, there are often significant costs associated with medical care. This is particularly the case with in-patient care, as it requires relatives to pay for staying near to the hospital and to provide meals and other basic needs.

A related health occurrence is **death** of a family member, which has a range of costs, but particularly the funeral costs, as there are high social expectations around these events. The loss of labour during medical treatment and due to death is also a significant cost, particularly if it coincides with peak enterprise/farming periods where labour input is crucial to the outcome.

FinScope (2008) summarises the incidence of risks identified by respondents:

Figure 11: Main Threats to Livelihoods, Rural Population, 2008



Source: FinScope 2008

Inevitably in a less developed rural economy, the most common risk was **drought or loss of access to water** which impacts on crop production (35.3%). Other agricultural risks were harvest failure and flooding.

In addition to farming risk, **illness** (14.9%) and **death** (5.5%) were identified, as well as rises in prices, theft and loss of employment. When rural people were asked how they deal with funerals, 35.1% rely on family, 32.7% borrow and 17.4% rely on the community. For medical costs, the most popular response was to borrow money from someone (35.2%), followed by relying on the family (23.1%), only 7.6% said they would rely on the community in such an event. It is possible that the borrowing from someone includes a mixture of family, friends and informal lenders.

The risk of **theft** affects both household goods and business assets.

Only 3.0% of Malawians have insurance and no type of insurance was held by more than 1.5% of adults. Motor insurance was the most frequent type (compulsory).

The most common reasons for not having insurance was 'not having heard of it' (45.9%), 'cannot afford it' (27.5%) and 'does not know how it works' (19.4%) followed by 'does not see the need', 'does not know how to get it', and 'does not know'.

From FinScope MSME (2012), insurance is mentioned as one of the formal services, but is much less used than credit or savings.

In summary, there is a substantial information and understanding gap around insurance compounded by issues of affordability, even though there are considerable risks faced by rural people.

3.4 Money Transfer

Remittances were less commonly reported than savings or loans in FinScope (2008), with 17.3% of adults having sent money and 15.7% having received it (domestically). For rural respondents, 12.6% had sent money and 13.9% had received money domestically. Only 0.3% of rural adults had sent money internationally and 1.4% had received money from outside Malawi.

The transfers sent are predominantly to family members, with parents being the most common category (39.9% of respondents nationally), but there are also transfers for paying fees (schools, friends and suppliers).

Other studies (Kadale 2012 forthcoming, Cohen 2011) highlight the importance of **urban to rural remittances** in rural financial lives. Mostly remittances are used for day-to-day expenses, but there are irregular payments such as school fees and farm inputs. This is indicative of a need to send small amounts of money frequently and at low cost, but also occasionally larger amounts.

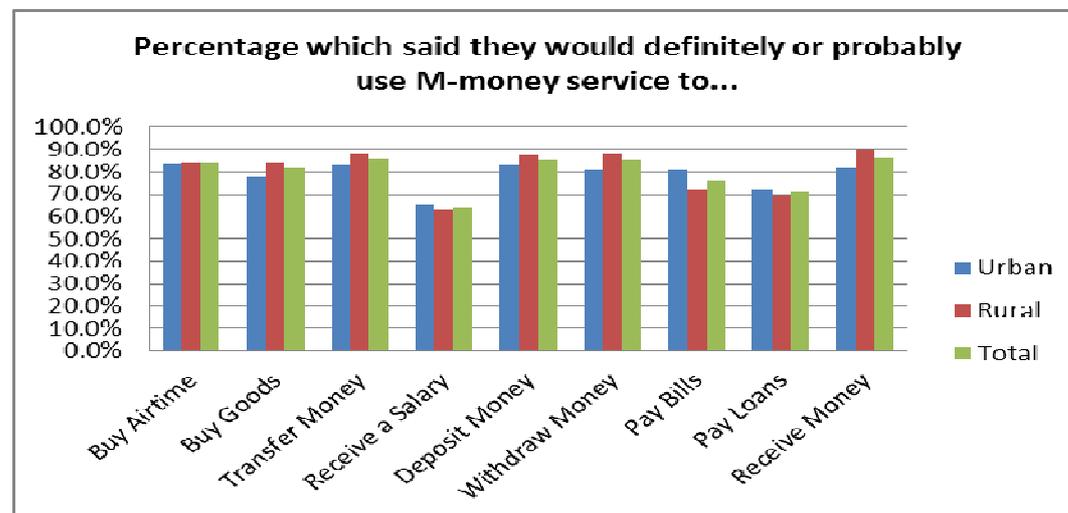
FinScope also found that the most common **methods to transfer cash** were sending it with a relative (61.6%), cash paid into a bank (21.6%) and Post Office/Money Gram/ Western Union (19.5%).

There is considerable potential for **cellphone-based financial transactions** services, such as M-money. FinScope found rural cell-phone ownership to be 22.0% in 2008, against a national figure of 28.7%. The demand for cell-phone banking services was analysed in detail for USAID by Chemonics and Open Revolution (Chemonics 2011).²⁵ M-money services use text messages to carry out transactions and it was found that 84% of respondents use their cell-phone to send SMS/texts and only 4.5% reported not knowing how to, indicating a high potential capability to utilise m-money services.

²⁵ Using data from a survey by Kadale Consultants – not nationally representative.

In the supporting survey, several service functions were explained and respondents²⁶ were asked about whether or not a particular function would interest them:

Figure 12: Potential Demand for Range of M-money Services, Urban/Rural Split, 2011



Source: Chemonics/Open Revolution/Kadale 2011

Transferring airtime units is already relatively common and the results **suggest substantial interest in M-money services among existing cell-phone owners.**

The same study also assessed the demand for **agency banking** and found that 86.0% reported they would use such a service; with supermarkets²⁷ the most popular agent location (73.0% positive). Banks, agro-input dealers, and fuel stations were also popular with over 60% positive responses.

In FinScope MSME (2012), money transfers were not analysed as a separate service, but are mentioned as a method for making payments. 96% of MSMEs pay using cash, and just 2% reported using bank transfers. Although the data available are limited, the predominant role of cash for payments in Malawi should be noted. Debit and credit cards are available to a small number of wealthy banked people, but there are only limited places where payments are accepted. As per the experience with M-Pesa in Kenya, in a cash based society, convenient low cost alternatives could see rapid acceptance.

In summary, money transfers are important for making payments (to and by businesses) and by individuals remitting money from urban to rural areas to support family members. There is still reliance on traditional methods requiring personal delivery of the cash, but the potential for m-money transfers is substantial, particularly if agency banking becomes more widespread.

3.5 Borrowing

The overall data show that the incidence of lending for agriculture is well below the share of the sector as a percentage of GDP:

²⁶ To be included in the sample of 200, respondents had to own a mobile phone. Responses are not nationally representative and caution should be taken in interpreting the results.

²⁷ In Malawi, many small towns have what are referred to as supermarkets, but typically these are stores with a maximum of two central aisles, and probably less than 500 square meters of retail space.

Table 4: Sector's Share of GDP and Domestic Private Credit in 2008

	Share of GDP (%)	Sector Lending/ GDP (%)
Agriculture	33.0	4.8
Trade	14.0	11.8
Manufacturing	8.0	9.7
Transport & Communications	6.8	14.8
Financial Services	6.4	10.2
Construction	4.6	4.2
Real Estate	4.1	11.4
Hotel and Food	1.7	4.2
Utilities	1.5	19.9
Mining	0.9	10.5
Others	19.1	23.9

Source: AER 2010 and RBM Economic and Financial Statement

FinScope (2008) found that 22.1% of rural adults had borrowed money²⁸ in the last year. Of these, 40.6% do so from friends or family, rarely with interest. The second most common source was an MFI or other non-bank lender (17.2% of rural adults).²⁹ The third most common source was “not specified” (15.8%). The last category is interesting as it may be that this was from an informal lender (called a **katapila operator**, or katapila for short) and that the borrower did not want to state this as there is a degree of shame in doing this or because it is counter to religious belief or because it is illegal. However, 4.8% of borrowers did say they borrowed from “someone in the community that charges interest”, which does probably explicitly mean a katapila. It is also known (Cohen, 2011, Kadale 2012 forthcoming) that borrowing from a family member or friend with interest (9.7% and the fourth most common source) would encompass katapila. ***This form of borrowing is very common and is valued for its convenience, being available within the community, and its immediacy, being available the day it is requested.*** In contrast, less than 2.6% of rural adults who borrowed³⁰ did so from banks.

Analysing attitudes revealed that 79.0% of ***rural adults try to avoid borrowing if possible***, with 35.5% not borrowing for fear of debts. This is consistent with other literature that Malawians value saving more than borrowing (Cohen 2011).

In terms of the **length of loan** preferred, less than 1% of borrowers reported that they were paying back a loan over 12 months, while 51% had loans with a term of two to three months. However, this may only loosely indicate preference, as loan maturity wanted does not necessarily correspond to what is available.

When choosing **where to get credit** from, of the 22.1% of adults who borrow, the three most important factors for rural respondents were convenience of access (5.6%), interest rates (5.0%) and the reputation of the lender (4.6%).

Reasons for borrowing were similar to savings. Of the same 22.1%, farming (5.5%), medical (4.8%) and living expenses (4.2%) were the most popular responses. Additionally, borrowing to start or expand a business was listed as a fourth most common reason (3.9%), which did not feature in reasons for savings. When considering the reasons for borrowing a large amount of money; to start a

²⁸ Borrowing was defined broadly to include formal and informal sources.

²⁹ At the time of FinScope, the payroll lenders like Blue Finance, IZWE and Greenwing were very active, but targeting mainly urban waged public sector workers.

³⁰ Only 19% of adults were banked in 2008.

business was by far the most popular reason mentioned (55.5%) with expanding a business as the third most common reason (11.9%). Farming inputs was in-between these two business related reasons at 15.7% nationally.

Overall, this suggests limited access to borrowing by consumers from formal sources, and relatively higher access to informal sources. It also indicates concerns about getting into debt and recognition that borrowing a large amount of money should be for investment, typically in a business or farming.

In relation to MSMEs, Nakhumwa and Peiris (2009) found that there is a large demand for credit in rural areas among enterprises and for agricultural activities that remains unmet. Demand for loans is highly seasonal and related to agricultural or agri-business activity, or depends on agriculture-related spending.

FinScope MSME (2012) reports the following **borrowing access strand for all MSMEs:**

Figure 13: MSME Borrowing Access Strand, 2012



Source: FinScope MSME 2012, Launch Presentation

The borrowing access strand indicates a low level of formal borrowing at 11.4% of MSMEs, with bank borrowing at only 2.1% of MSMEs. Informal (2.6%) and family (10.3%) are more common than formal sources. The overwhelming majority do not borrow (75.7%) but it is not clear from the data available if that is because they do not need to, do not want to or are not able to. In this respect, the findings of FinScope 2008 suggest that a substantial proportion of adults do not want to borrow for fear of debt and its consequences. FinScope MSME (2012) highlights that there is a group that does want to borrow, as evidenced by the listing of access to finance as a key constraint.

The **reasons that MSMEs borrow** are interesting, with the most common reason being to pay debts (71%). This is a worrying response, suggesting that businesses that borrow may have multiple sources of loans, and high indebtedness, swapping one loan for another. It is possible that the business is using a business loan for personal debts as well.

The subsequent reasons for borrowing are more positive, relating to growth (54%) and buying new equipment (48%). Interestingly, the joint fourth response is for personal reasons (36%), reinforcing the view of the lack of separation between business and personal at the MSME/household level.

Figure 14: MSME Reasons to Borrow, 2012



Source: FinScope MSME 2012, Launch Presentation

In summary, a fifth of adults had borrowed in the last year, but the most important sources were family, friends/neighbours and MFIs. Borrowing from family and friends sometimes carried interest and may be disguised as borrowing from informal money-lenders (katapila). Borrowing from banks was rare. Convenience, cost and reputation of the lender are the key criteria.

Nearly four fifths of adults say they try to avoid borrowing, particularly as they fear getting into debt and its consequences, but this may relate more to formal borrowing than borrowing from informal non-interest bearing sources. However, there is an understanding that borrowing is useful/necessary for investment in farming or a business. Somewhat worryingly, the most common reason for MSMEs to borrow was to pay debts.

3.6 Implications for Policy Makers and Practitioners

There are several **implications for policy development and practice:**

1. Policy-makers and practitioners should **promote the full range of financial services** for rural people rather than focus mainly on credit. Although there is a need for access to credit, a substantial proportion of rural people are reluctant to take credit and there are other important services they need access to.
2. Policy-makers should **facilitate the development of m-money services by practitioners** as these can potentially find rapid acceptance as convenient, low cost alternatives.
3. Policy-makers should consider how to **facilitate the development by practitioners of micro-insurance** relevant to rural areas.
4. Policy-makers should **support financial literacy for poor rural households.**

3.7 Summary of Demand Side

Rural people have a range of economic, social and living needs. Although agriculture and related agri-business activities are dominant, there is a diverse range of livelihoods in rural areas, from enterprise, to employment. In the past there has been a strong focus on agricultural credit to the detriment of other rural needs, thereby missing opportunities for the financial services sector. Access to finance is a key need for rural households for farm inputs, medical and other emergencies and day-to-day living. For MSMEs there is a need to access finance to grow businesses.

FinScope (2008) data suggests that access to formal savings is not convenient, not simple and relatively costly, which is why people predominantly use informal methods. Convenience and safety are key in savings product design.

Formal insurance is very rarely used even though there are major agricultural production risks, health risks and losses from theft. Based on FinScope responses, there seems to be a considerable **information and understanding gap**, which is compounded by issues of affordability.

Money transfers are important for making payments (businesses) and remitting money from urban to rural to support family members. There is still reliance on traditional methods requiring personal delivery of cash, but the potential for m-money transfers is substantial, particularly if agency banking becomes widespread.

Policy-makers and practitioners should ***promote the full range of financial services, facilitate the development of m-money services and facilitate the development and promotion of micro-insurance.***

4 Supply of Rural Financial Services

This section examines the supply of agricultural and rural financial services based on the macro, meso and micro levels.

4.1 Macro - Regulatory Environment

The overall socio-economic context was examined in previous sections. This assessment of the macro financial environment is focused on key legislation.

The Financial Services Act (FSA) 2010 regulates the entire financial sector, as the overarching legislation. The FSA provides the Registrar³¹ with power to issue directives relating to the conduct of financial institutions and supervise compliance.

The **Banking Act 2010** provides that banks should be licensed to provide demand and time deposit facilities and intermediate these funds into the provision of credit. They are licensed and regulated by the RBM.

The insurance industry is regulated through the **Insurance Act 2010** and the **Consumer Protection Act (CPA) 2003**.

Until the 2010 financial sector reforms, only banks were subject to supervision and regulation by the RBM. However, MFIs and SACCOs are now governed by the **Microfinance Act (MFA) 2010** and the **Financial Cooperatives Act (FCA) 2011**, respectively, which brings them under the supervision of the RBM.

The **FCA 2010** brings all financial cooperatives under the regulatory supervision of the RBM and requires them to obtain a license for operation. Financial Cooperatives are permitted to collect savings and on-lend to members. Members must subscribe capital as 'shares' in the co-operative and therefore there is a generally high level of supervision to protect deposits and members' funds.

Under the **MFA 2010**, MFIs must now be registered and licensed with RBM and are subject to its supervision. There are different tiers of regulation, including a deposit-taking tier that is subject to higher regulation to protect depositors. The other tiers are Non-Deposit Taking MFIs and Micro-credit Lenders. To qualify for the Deposit Taking tier, among other things, MFIs must become companies limited by shares.

There is now a Microfinance and Capital Markets Supervision Unit at the RBM, and the regulator has begun to issue the necessary regulations for MFIs, SACCOs and the capital market players, such as the Malawi Stock Exchange (MSE).

Of interest to the informal finance providers is the **Trustees Incorporation Act** that Non-Governmental Organisations (NGOs) and some government-sponsored projects operate under. Though it does not directly govern their activity, many of the informal groups which are prevalent in rural areas are initiated and supported by NGOs.

Money lending as a business by individuals (katapila) is illegal in Malawi under the **Usury Act**, however as noted in the following sections, katapila is not just common but almost universally available. Retailers provide goods and services on credit at their own risk and are not protected by any legal framework.

In other areas, regulations for the Establishment and Operation of Collective Investment Schemes were promulgated, following on from the **Securities Act 2010**, allowing the formation of unit trusts and other collective mechanisms for investment.

The **Pensions Act 2011** created the enabling legislation for the regulation of pension funds and made employer and employee contributory pensions mandatory as from June 2011, based on a proportion of wages/salaries for those formally employed.

³¹ The Governor of Reserve Bank of Malawi.

The **Credit Reference Bureau Act 2010** enables the establishment of Credit Reference Bureaus, but the publication of regulations as the basis for approval of individual operators is still awaited. There are currently no licensed credit information bureaus in Malawi. However, media reports indicate that two credit bureaus are interested in obtaining a license to operate in Malawi under the new CRB Act). These companies are CRB Data, a local company, and CRB Africa, a credit bureau with headquarters in Kenya and presence in 12 African countries.³²

Under the **FSA 2010**, the RBM took on the role of Consumer Financial Education and Consumer Protection. To fulfil this mandate, the RBM created a division with this specific responsibility, with the aim of protecting policy-holders, depositors and investors through regulation and education.

There has been considerable enactment of financial sector legislation since 2010 across all the sub-sectors of the industry. While there are likely to be some gaps, the main task is more to do with ensuring the RBM, as Regulator, is enabled to manage the considerable new remit that it has been given in a manner that is conducive to the growth of rural finance. This requires the RBM to issue the necessary regulations and licences and to use its considerable new powers appropriately, avoiding excess control and encouraging a good balance between protecting consumer interests and enabling increased innovation in products and outreach into rural areas. ***Over-regulating could have the effect of discouraging financial sector investment, limiting outreach and deterring innovation.***

Challenges within the legal environment in regard to credit are the lack of foreclosure laws and difficulties with enforcement. The establishment of a Commercial Courts Division of the High Court has improved the processing of commercial cases, as these are now prioritised in this Division. Credit providing institutions commonly use direct arbitration with the debtor.

Burritt (2006) identified that **property rights for land** in rural areas remain poorly defined, limiting owners from using it as collateral. Although the idea of using rural land for collateral appears attractive, taking and then selling small parcels of land is likely to be unattractive to commercial lenders, other than if these are more saleable as medium to large estates.

There is a need to allow time for the new legislation to be absorbed by financial service providers and for the regulator to begin to manage its new powers appropriately with a view to promoting investment, outreach and innovation in rural Malawi.

4.2 Meso level – Supporting Institutions³³

The banking sector is supported by the **Bankers Association of Malawi (BAM)**, which provides training to the sector, including certified training. It also co-ordinates other events and represents the sector at various consultative events. BAM does not collate statistics on the sector, as that role is filled by the RBM, but it works closely with the RBM on banking related issues. It is based in Blantyre.

The insurance sector is supported by the **Insurance Association of Malawi (IAM)** based in Blantyre representing the range of insurers and fulfilling a similar function to BAM. IAM works with the RBM, which has the responsibility for regulating the sector.

The **Malawi Microfinance Network (MAMN)** provides support for MFIs. MAMN began as an informal network of MFIs and was formally established in 2000 as a

³² World Bank Diagnostic Review of Consumer Protection and Financial Literacy Volume II report.

³³ This data is drawn from the Micro-finance and Capital Markets Financial Sector Report, 2010, previous RBM reports on Non-Bank Financial Institutions, the Oxford Policy Management 2009 Supply Side Study and direct consultations with MUSCCO.

professional association for MFIs aimed at coordinating activities in the sector and fulfilling self-regulatory functions for its 19 members. It aims to develop and promote microfinance activities, ensuring good governance and practices are adhered to by its members and helping to ensure their sustainability. MAMN has a Secretariat, housed at the MRFC offices in Lilongwe and runs/co-ordinates training programmes with support from various donors. MAMN has been limited by staff and resource constraints, restricting its ability to undertake more direct engagement with members.

Malawi Union of Savings and Credit Cooperatives (MUSCCO) is a union of 52 member-SACCOs of which 34 report activity with MUSCCO. MUSCCO estimates that outside the confines of its membership, there are less than 10 SACCOs operating, some of which are former MUSCCO members that voluntarily left or were expelled. Most MUSCCO's members reported profitable operations as of March 2009. However, five members incurred net losses totalling MK 8.4 million (US \$ 51,000).

Across the range of SACCOs, most report facing challenges in loan recovery. Even the better performers usually have about 15-20% of outstanding loans in arrears more than 30 days and ultimate loan recovery rates of 80-90%. This reflects MUSCCO's view that the main challenge of SACCOs is weak management and institutional capacity. Rural-based SACCOs generally perform worse than their urban counterparts, especially if they operate as multi-purpose cooperatives and include functions such as buying and marketing produce.

MUSCCO has a Central Finance Facility used to provide liquidity if SACCOs run into problems. SACCOs generally lack long-term capital to meet the demand from clients, including for agriculture. MUSCCO has worked with the National Smallholder Farmers' Association of Malawi (NASFAM) to organize farmers to receive loans.

4.3 Micro-Level – Financial Service Providers

The financial sector can be split into four categories of providers.

The first category is those with banking licenses, namely **commercial banks** including discount houses and a leasing company, regulated by the Banking Act.

Second are **non-bank formal service providers**, including insurers, pension companies and the Malawi Stock Exchange (MSE). The influence of these sources in the rural economy is limited; hence limited coverage is given to these institutions here.

Third are **micro-finance providers** that include SACCOs and MFIs, both of which are now under RBM supervision. Some MFIs have a specifically rural focus, while others focus more on cities and larger towns. SACCOs are less influential in rural areas as they tend to cater more for salaried individuals.

Finally, there are **informal providers** that can be group-based, such as Rotating Savings and Credit Associations (ROSCAs), Village Savings and Loan Associations (VSLAs) or individuals, such as Katapila. Informal services are the most important forms of finance in rural areas (FinScope 2008 and FinScope MSME (2012)). Each is considered in turn:

4.3.1 Banking Sector

General information on the banking sector generally is contained in the RBM Banking Supervision Department Report, 2010 (RBM 2010).

As of April 2012, the banking sector comprised of 12 commercial banks, one discount house³⁴ and three leasing companies. Banks are concentrated in urban areas and offer the full range of banking services.

Table 5: Ownership and Outreach of Commercial Banks

Bank	Major Shareholder	Network
National Bank of Malawi	Press Corporation Limited (Malawi)	25 branches
Standard Bank Malawi	Standard Bank of South Africa Limited (South Africa)	8 branches, 10 agencies
NBS Bank	NICO Holdings Limited (Malawi, South Africa, USA)	13 branches, 16 agencies
First Merchant Bank	Zambezi Investments Limited (Malawi)	7 branches, 15 agencies
Nedbank	Nedbank Group (South Africa)	3 branches, 2 agencies
IndeBank	Government of Malawi (Malawi)	4 branches, 4 agencies
Malawi Savings Bank	Government of Malawi (Malawi)	5 branches, 36 agencies
Opportunity International Bank Malawi	Opportunity International (USA)	5 branches, 7 agencies
Ecobank Malawi Limited	Ecobank Transnational Incorporated	3 branches
International Commercial Bank	ICB Financial Group Holdings AG (Switzerland)	3 branches
FDH Bank	FDH Financial Holdings Limited (Malawi)	4 branches, 2 agencies

Source: Malawi CPFL Diagnostics Report (World Bank, 2011)

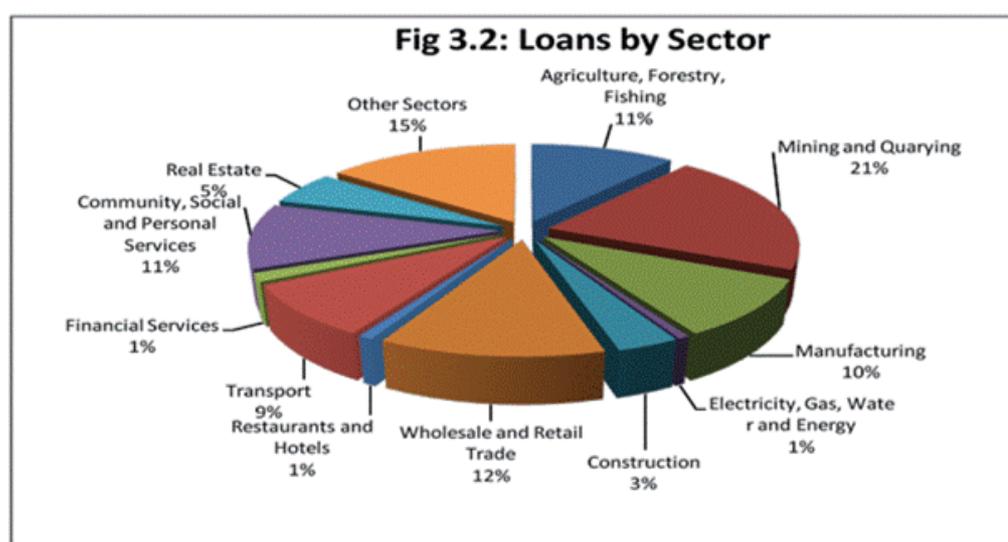
Outreach by banks into rural areas as well as suburbs is limited, but expanding, with innovative approaches, such as banks-on-wheels and agency banking.

According to the World Bank Malawi Consumer Protection & Financial Literacy (CPFL) Diagnostics Report (CPFL, 2011):

“The Malawian banking sector is also highly concentrated. The three leading banks, namely National Bank of Malawi, Standard Bank of Malawi and First Merchant Bank, hold 70 % of the assets and deposits in the banking sector in the country.”

In 2010, the banking sector extended credit to sectors of the economy as follows:

Figure 15: Bank Lending by Sector, %, 2010



Source: RBM, Bank Supervision Dept. Report, 2010

³⁴ Continental Discount House recently received a full banking licence and converted into CDH Bank.

Figure 15 shows that 11% of loans are for **agriculture**, even though it accounts for around 30% of GDP. Banks have been lending for agricultural production, but this has been a mixed experience and periods of lending tend to be followed by periods of withdrawal, following losses sustained, typically after periods of drought or collapses in commodity prices. Lending has been focused on sectors where there are estates or large commercial farmers, such as tea, sugar and tobacco. However, there has been interest in lending through contract farming mechanisms.³⁵

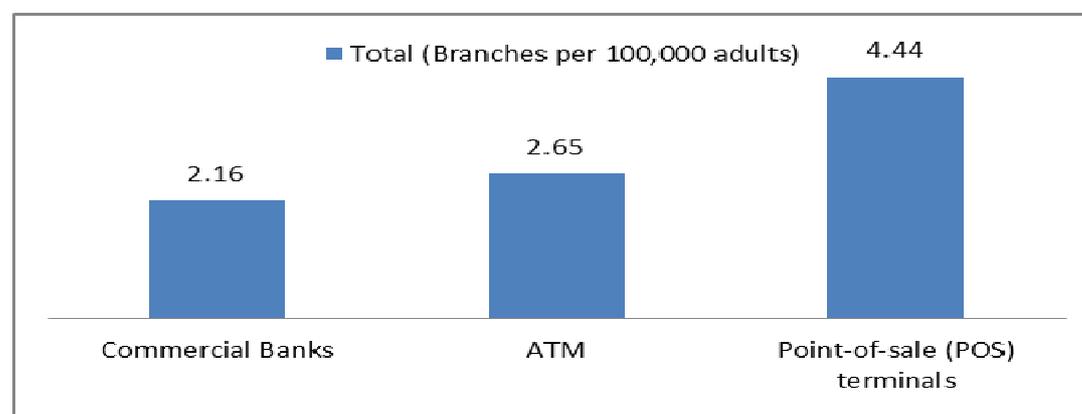
The total **loan portfolio** of banks was MK 151.0 billion (US \$1 billion) in 2010, up from 114.4 million (US \$763 million) in 2009. There was rapid growth in lending in the period from 2007 to 2011, based on the relatively high growth rates of the economy and the new forms of personal lending that became available. However, there was also an increase in the proportion of non-performing loans (NPL) from 3.1% in December 2009 to 3.9% in December 2010. Anecdotal reports for 2011 suggest that the low tobacco prices experienced that year caused major increases in non-performing loans for those banks that were lending to the agriculture sector. The slow down in the economy in 2011 and 2012 is likely to impact on both the growth in loan balances and the frequency of NPLs.

The value of **bank deposits** was MK 206.3 billion (US \$1.38 billion) in 2010, up from 168.6 billion (US \$1.12 billion) in 2009.

As noted in FinScope (2008), although 19% of adults were banked, **banking inclusion** remains low, particularly in terms of bank account usage: *“Deposits made by households have generally remained below 2% of GDP from 2008-2010. Furthermore, on average, there are only three sources of banking facilities available for every 100,000 Malawians.....”*

The above is reinforced by data from the Consultative Group to Assist the Poor (CGAP) on the number of bank access points per adult.

Figure 16: Number of Branches, ATMs and POS per adult, 2009



Source: CGAP (2010)

According to the CPFL (2010):

“Retail banking is a new and largely unexplored niche for commercial banks operating in Malawi, which have been focusing on high-worth individual customers in addition to lucrative corporate banking. Only as recently as 2010, a few banks started experimenting with products and services targeting the mass market.”

In the search for new markets following increased competition in the main urban and primary locations, **more banks have established a rural presence** through

³⁵ Contract Farming in Malawi (Agar, 2000)

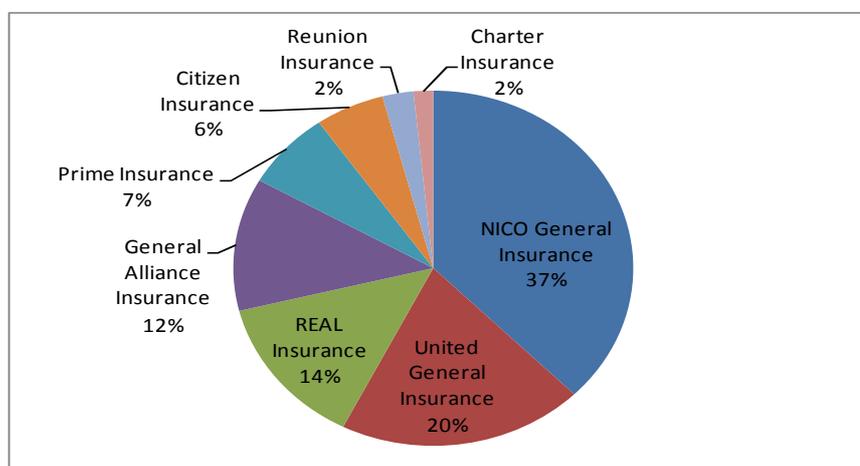
branches, agencies, Point of Sale Devices (PoSDs) and banks-on-wheels in areas that were previously of little interest to most commercial banks. While progress is slow, this is a response to the way in which early entrants (such as NBS Bank and OBM) demonstrated that there was potential in rural areas, particularly for deposits.

Banks are also showing **significant interest in the use of technologies** that enable them to offer more user-friendly services across a broader client base. Most commercial banks offer a mix of cell-phone and/or internet access to accounts, though the functions are limited.

4.3.2 Insurance, Pension and Capital Markets Sector

The insurance sector in Malawi consists of nine general insurers, three life insurance providers, and a number of brokers and other agents, all competing for a relatively small market. The provision of insurance services is still very under-developed: insurance products tend to be very limited in range and target a very limited segment of the country's population.

Figure 17: Market Shares for General Insurers based on Gross Premiums in 2009



Source: RBM, *Non-Bank Financial Sector Report 2009*

“General insurance products offered in Malawi include home, motor vehicle, property, liability, accident, fire and marine. Gross premiums for the general insurance industry have grown at an average rate of 28 percent from 2005 to 2009.” (CPFL, 2010)

In 2009, the general insurance industry recorded 12.3% growth in **total assets** to MK 9.5 billion, while gross premiums were up by 25.2% at MK 7.9 billion. Gross claims escalated to MK 3.0 billion during the year representing a 21.5% increase from MK 2.5 billion reported in 2008. Assets of the life insurance sector, at MK 58.4 billion, grew by 14.8% from the MK 50.9 billion recorded in 2008. However, the industry gross premiums decreased by 9.9% to MK 1.8 billion.

There are examples of **micro-insurance**³⁶ in Malawi that target rural areas. For example, the original **weather index-based insurance** scheme run by NICO General and established with the support of the World Bank was piloted in Malawi. This insurance product seeks to reduce the vulnerability of farmers to incidents of drought by making payments to farmers based on a weather index, rather than actual evidence of loss. Weather index insurance is sometimes combined with contract

³⁶ There are various definitions of “micro-insurance”. The essential elements are low premiums and low coverage amounts, clients with low net worth, and involvement of the relevant community in elements of the package (such as in the design and coverage of the policies, pooling of risk and the collection and payment of premiums).

farming loan facilities for seed inputs and agricultural implements, currently offered by OBM and MRFC. This insurance is only offered in a limited number of areas in the country within 20 km of a monitored weather station. So far, it has failed to breakthrough as a mass market product.

NICO General also offers **livestock insurance**, particularly targeting the dairy sector. In addition, it offers a product that insures against a **bundle of related risks for tobacco** farmers, including some production, theft and transit losses.

Credit Life Insurance is now commonly included in loan packages, to protect lenders in the case of the death of the borrower. In such a case, the loan is paid off by the insurers. Supplementary to this, several institutions such as CUMO Microfinance and OBM offer **Funeral Benefit Insurance** to cover the borrower's family in the event of the death of the borrower, his/her spouse and his/her child/children. OBM offer this as an incentive to deposit funds in a fixed interest rate account – if the saver deposits the minimum amount, then they get the cover (around \$65) for as long as the amount is on deposit.

The **health insurance** market is dominated by the Medical Aid Society of Malawi, which predominantly serves salaried employees in the urban areas.

CUMO Microfinance, with funding from the Financial Inclusion in Malawi (FIMA) fund has been testing a scheme that gives benefits to its clients if they are hospitalised, including a daily allowance and covering loan repayments. The scheme was intended to also cover in-patient costs, but it has proven difficult to get agreement on these with hospitals in a way that limits the liability. Negotiations are on-going.

Capital markets are not fully developed and activity on the MSE, a self-regulating organisation, remains limited and largely irrelevant to the rural population.

There are also a number of other formal financial institutions operating in the country. These include foreign exchange bureaus, one investment company, one investment trust, eight fund/portfolio managers and three securities firms/brokers. Again, these are mostly of limited relevance to rural and agricultural finance.

4.3.3 Microfinance Sector

MFIs primarily provide various forms of credit, with emphasis on services provided to people not generally served by the banking sector. In common with many developing countries, Malawi has over the past few years seen the emergence of various rural microfinance institutions (Diagne & Zeller 2004), though in general the sector is still concentrated in urban and peri-urban locations.

The World Bank's CPFL report finds that; *"The non-bank microfinance sector as a whole has shown relatively poor performance. Even SACCOs, which lend against member share contributions (and some lend exclusively against payrolls), show a relatively high ratio of non-performing loans (average of 12.5, September 2010)."*³⁷

The list of MAMN MFI members is as follows:

- Centre for Community Organisation and Development (CCODE)
- Comitato Internazionale per lo Sviluppo dei Popoli (CISP)
- Community Savings and Investment Promotion (COMSIP)
- CUMO Microfinance Ltd (CUMO)
- Cooperative for Assistance and Relief Everywhere (CARE)
- Development of Malawian Enterprises Trust (DEMAT)

³⁷ The institution oriented to the microfinance segment with the best performance indicators is OBM, a commercial bank that started operations in 2003, reaches over 300,000 depositors and 50,000 borrowers, and has a non-performing loans ratio below 3%.

- Foundation for International Community Assistance (FINCA)
- Malawi Finance Trust for the Self Employed (FITSE)
- Malawi Rural Development Fund (MARDEF)
- Malawi Rural Finance Company Limited (MRFC)
- Malawi Union of Savings and Credit Co-operatives (MUSCCO)
- Microloan Foundation (MLF)
- National Association of Business Women (NABW)
- Opportunity Bank of Malawi (OBM)
- Promotion of Rural Initiatives and Development Enterprises (PRIDE) Malawi
- Small Enterprise Development Organisation of Malawi (SEDOM)
- The Hunger Project
- Touching Lives Fund (TLF)

Of the above, OBM is a bank, while MARDEF is a Fund. SEDOM is expected to merge with DEMAT.

MAMN collects financial activity data from its 18 members, 14 of which were operational and provided data in 2011. The 2011 report indicates a total of 399,841 clients for the 14 reporting institutions, of which 53.5% are women. The total number of clients is down from 584,360 clients in 2010. It is not clear why the number is down, but it could be related to GoM stopping deductions for payroll loans, which were part of the MFI total.

The outstanding loan portfolio rose from MK 10.9 billion in 2010 to MK 11.8 billion in 2011. By some margin, the three largest portfolios belonged to OBM (33.7%), MUSCO (21.8%) and MRFC (14.4%) respectively. A general pattern year-on-year is that the microfinance portfolios of parastatals has declined and NGO-MFI' portfolios have increased. The total value of voluntary savings with MAMN member in 2011 was MK 1.06 billion, of which 30.1% was with MRFC and 40.1% was with CARE in the form of VSLA group savings.

Table 6: Microfinance Loan Market Share, by Lender Category (2009-2010)

Category	2010	2009	%(+)/(-) in loan share
Payroll lenders	21%	33%	-36%
State-owned	30%	29%	+3%
NGO-MFIs	11%	8%	+38%
Banks	18%	14%	+29%
Cooperatives	20%	16%	+25%

Source: RBM, 2010

Typically, **MFI portfolios** are characterized by loans with very short maturities (less than six months), a consequence not only of their financing structure but also of the business cycle of micro-enterprises, particularly trading businesses.

According to the CPFL report: "Only three MAMN members, namely Opportunity International Bank of Malawi (OIBM), Malawi Savings Bank (MSB) and Malawi Rural Finance Company (MRFC), are allowed to accept deposits from the public. OIBM has around 70% of the total number of depositors in MAMN member institutions, followed by MRFC with 16% and MSB with 14%."³⁸

³⁸ Opportunity International Bank of Malawi has rebranded as Opportunity Bank of Malawi.

As shown in the table above, institutions operating in the microfinance sector can be grouped by payroll lenders,³⁹ state-owned programs, NGO-MFIs, microfinance banks and financial co-operatives, each of which are explored below:

Within the MFI category are the **payroll lenders**, which include Blue, IZWE and Greenwing. These are privately funded for-profit companies and some operate in multiple countries in Sub-Saharan Africa. As of December 2008, it is estimated that this group of lenders (five operators) had a total of more than MK 1 billion in loans outstanding, representing a 10.2% market share in the total credit classified as microfinance loans. The loan amounts typically offered to individuals by payroll moneylenders range between MK 10,000 and MK 500,000, payable over 6-36 months. In 2011, the reported mean loan size was estimated to be in the range of MK 45,000–70,000. However, due to the GoM stopping the deduction of loan repayments from source via the payroll, the activities of the payroll lenders have been curtailed to some degree.

Through its various programs and corporations, the GoM is still the largest single provider of microfinance services (CPFL, 2010). These **state-owned providers** include a mix of agricultural, savings and development banks, projects and MFIs.

According to RBM, 2010: *“During 2010, state-owned or government programs remained active in issuing new loans. MARDEF and MRFC together accounted for MK 3,531 million, MK 316.0 million. This outturn meant that Government intervention in the industry remained dominant with a loan market share of 30.0 per cent, representing a marginal increase of 3.0 per cent on the preceding year (Table 10). The assets in 2011 are expected to increase due to the commencement of loans disbursements under the program.”*

The organizations discussed below have a focus largely on farmers, small and medium enterprises and rural communities.

MRFC provides credit and voluntary savings services. Its incorporation into a company was an attempt to operate on commercial principles under a board of directors independent of the GoM. It has a network of six branches and 20 sub-branches. It continues to maintain a larger proportion of its portfolio in loans to agricultural producers, with 60% of its loans provided via groups. However, the number of (non-agricultural) small and medium business loans it provides has been rising steadily in recent years.

MARDEF was established in 2004, providing micro-credit to groups in rural communities, especially to agro-processing activities. MARDEF offers group-based loans from MK 150,000 (about US\$ 1,100) to MK 300,000 (US \$2,200), with a maximum of MK 10,000 per group member. From the time MARDEF began operations, it faced challenges due to the nature of its establishment (as a Fund) and the public’s perception and expectation of soft terms on its loans. These challenges are depicted in the way MARDEF prices its loans, as its income from interest and other charges falls short of its costs.

The Malawi CPFL report suggests **poor performance among, and market distortion arising from, these parastatal providers:**

“According to the FSAP 2008, there is concern in the industry regarding the poor performance of some of the government’s microfinance programs. Lax loan collection policies are affecting the repayment culture among borrowers in the micro-finance sector as a whole. Particularly MRFC, the single dominant supplier of microcredit and savings facilities, has consistently shown poor performance, which has been forcing it to shift from agricultural loans to small and medium business

³⁹ These are private firms that specialise in short-term loans to formally employed persons.

clients. About 47% of MRFC's loans issued by 2004 were later treated as losses according to a study by Chemonics/USAID 2004.⁴⁰ MRFC has a good presence in rural areas, although, like most microfinance providers, it still does not carry on business far from main roads and trade centres.

The direct provision of loans by the government through MRFC (and MSB) is generally seen by the private sector as having a negative impact on the repayment culture, which could affect the long-term sustainability of the microfinance sector as a whole. State-owned financial institutions are also seen as having poor underwriting and collection standards and weak corporate governance, and being laxly supervised by the RBM." (CPFL, 2011)

NGO-MFIs, such as FINCA Malawi and CUMO Microfinance Ltd (CUMO) are affiliated with, owned or operated by international NGOs. CUMO has increased its rural outreach with over 50,000 active borrowers in 12 out of Malawi's 28 Districts. It is this group of MFIs that are most likely to decide to become deposit-takers under the new legislation.

Several **non-profit institutions** also provide microfinance services, such as the MicroLoan Foundation (MLF), which combines a charitable mission with its business of providing financial services to poor individuals.

Finally, there are **projects** operated by NGOs alongside other services, such as The Hunger Project.

Unlike banks and other FFIs, MFIs offer products that are relatively micro in size, starting from MK 2,000 (US\$14) per individual. However, the maximum loan amount, especially following multiple cycles of borrowing, can reach up to MK 150,000–200,000 (US\$1,050–1,400).

According to the RBM (2010): *"The NGO-microfinance institutions provide loans using a combination of methodologies including group lending, individual lending, village banking, and self-help groups."*

These institutions continued to enjoy **donor support** for capacity building in the form of provision of loan funds, information technology and financial management:

"As at close of 2010, the NGO-microfinance institutions reported a total of MK 1,345 million in outstanding loans, up from MK 1,075 million in the previous year, representing 25 per cent increase. The loans outstanding in 2010 represented 11 per cent of the loan market share, up from 8 per cent in the preceding year, representing an increase of 38 per cent. Notwithstanding the remarkable increasing trend in loans outstanding, operating expenses registered an increase of 5 per cent and closed the year at an average of MK 222 million. The slow increase in operating expenses can be explained by the use of appropriate lending technologies by the NGO-MFIs."

Overall, the NGO-MFIs reported an average net profit of MK 12 million in the year 2010. Adjusting the profits to cost of funds and inflation reverses the profit outcome. This category also reported non-performing loan amounting to MK 63 million, translating into 4.7 per cent of outstanding loans." RBM (2010)

Banks continue to explore microfinance opportunities, including through wholesale credit to MFIs which on-lend to clients. OBM and MSB are directly engaged in microfinance service provision.

"The government also has stake in several commercial banks that conduct microfinance business, such as NBS (Bank) and IndeBank. It appears that a number

⁴⁰See "Microfinance Sector Assessment in the Republic of Malawi"
<http://pdf.usaid.gov/pdf_docs/PNACX006.pdf>

of private commercial banks are planning to enter the microfinance sector or have started piloting new products for the mass market.” (CPFL, 2011)

Financial Co-operatives in the form of **SACCOs** are not as commonly found in communities as is the case in most African countries, where they are more like traditional social structures embedded within strong social and economic networks. There are 39 SACCOs organized under the Malawi Union of Savings and Credit Cooperatives (MUSCCO), the established apex institution for SACCOs, with 34 reportedly functioning in 2010.

Total membership among reporting SACCOs was 115,000 in 2011.⁴¹ In 2010, there were nine ‘community based’ SACCOs serving rural locations and 25 serving urban or peri-urban communities.⁴² The reported portfolio of savings was MK 2.7 billion (US \$1.64 million) and loans of MK 2.4 billion (US \$1.45 million).

According to the CPFL report (2011): *“The average loan size of a SACCO is MK 20,824 and the average interest rate is 31.5% per year. Savings accounts held at the few SACCOs providing this facility pay an average of 7.3% per year.”*

The size of SACCOs varies. Some are relatively small, having less than 70 members, whilst the largest has a membership of almost 25,000. Financial Cooperative Malawi Limited (FINCOOP) had previously (2010) been the largest cooperative affiliate, accounting for 34.2% of the market. However, due to liquidity challenges – stemming from bad debt in the agricultural sector, FINCOOP has been taken over by MUSCCO (17th January 2012). The cooperative received a capital injection and clients were not affected (*The Daily times, 8th March 2012*).

Regular savings products start from MK 500 (\$3). Loan amounts range from MK 1,000 (\$7) to MK 2 million (\$12,120) depending on the loan purpose. The wide range in loan amounts offered suggests that SACCOs cover a broad spectrum in their membership base. For all types of loans, some form of security is required by the SACCOs. **However, SACCOs accept alternative forms of collateral that are not typically accepted by other financial institutions**, such as moveable property, including household and business assets, stock of goods, livestock, etc.

Interestingly, there are a number of SACCOs that also accept deposits from non-members, such as traders, and this seems to be a common feature of those that operate in peri-urban areas engaged in an economic activity, but at some distance from the nearest bank. The traders’ interest is in having a safe place for their cash surplus at the end of a business day, rather than having to travel long distances to make deposits into a bank. This implies that **there are unmet opportunities for drawing deposits in unbanked peri-urban areas of the country, even if only overnight or very short term.**

The following **cross cutting issues** were identified:

“According to Microfinance Transparency, the average rate in the microfinance sector, including SACCOs, MFIs and some commercial banks offering microcredit, is 45% for bigger loans (MKW 1 million) but most loans (below MKW 500,000) have interest rates ranging from 55% to 80%.⁴³ Flat rates also have become common practice for many MFIs.” World Bank CPFL report (2011)

There are inevitably concerns about multiple borrowing and over-indebtedness.

⁴¹ www.muscco.org/index.php?option=com_content&view=article&id=192&Itemid=240

⁴² The net balance appeared to represent non-functioning SACCOs to make a total of 45 affiliated SACCOs in 2010.

⁴³ See <http://www.mftransparency.org/data/countries/mw/data/>

4.3.4 Informal Financial Service Providers

As noted, informal sources are the most important form of finance for many people in rural areas. Data on the coverage and activity of these sources is by nature difficult to obtain, particularly in the case of individual providers such as Katapila, whose activities are illegal and kept hidden. Therefore, this section relies more heavily on **qualitative data**, in particular a recent Kadale (2012) study for Concern Universal (CU) into informal rural finance. First group-based sources, such as ROSCAs, are considered followed by individual sources.

4.3.4.1 Group Providers

Group-based Providers operate at a range of levels of organisation. VSLAs, ROSCAs (called '**Chipereganyu**') and variants have been explicitly formed by a group of people, with external facilitation and help (by an NGO) or through copying or through people breaking off from an existing group. Some groups are based on membership of another body, like a Church, and can be engaged in a range of other non-financial activities, like farming or crop marketing.

Cohen (2011) reports that the value of financial transactions in informal groups was only 1.5% of participating households' recorded financial transactions, which was insignificant compared to the volume of transactions among friends and family.

The **VSLA** model was pioneered and promoted by CARE, but there are now many variants on this, which are deemed to be VSLA-type model. The methodology is highly suited to rural areas. VSLAs typically comprise of 15-25 individuals that come together to form an association to facilitate savings within the group and on-lending. These small pools of capital are intermediated at a local/village level to satisfy household cash management needs. The money lent out is paid back with interest, which allows the fund to grow until a specified end date for distribution of all or part of the total funds (including interest earnings) to the individual members.

Members of VSLAs receive a return on their savings that is typically higher than that offered by banks, and members are able to save whatever amount they wish and whenever they need to. There is also often a social or emergency fund that members can be considered for in times of crisis. The methodology is designed to provide access to basic financial services to the poor and the very poor.

According to CARE Malawi, the number of its VSLA groups increased from 174 in 2006 to 4,478 in June 2011, with average number of members per group at 19. The groups are currently reaching 84,639 individuals, of which 79% are women. With additional funding from its donors, CARE is targeting to reach 400,000 individuals by 2017. The average savings per member are US \$ 23.1 and the average outstanding loan is US \$ 27.0 (CARE MIS Data, 2011). CARE plans to link more established VSLAs with other financial service providers, as one of the constraints on VSLAs is the amount that members can borrow. At least one of the banks has expressed an interest to work with some of the VSLAs in operation.

Research (Kadale 2012) into rural finance identified four different VSLA promoters in six villages,⁴⁴ as well as a number of independent groups operating either as splinter groups from those externally established or copycat groups.

Members of **ROSCA/Chipereganyu groups** make regular contributions (typically monthly) to a common fund. The total of members' contributions is then given as a lump sum to each individual member in turn. McGuinness (2008) and Kadale (2012) did not find such groups to be common in the rural areas under study and these are

⁴⁴ Community Savings and Investments Promotion (COMSIP), Wellness and Agriculture for Life Advancement (WALA), Women's Legal Resources Center (WORLEC), Malawi Homeless People's Federation (MHPF)

perhaps more common in more urban locations, particularly in suburbs of cities and larger towns.

Other Non-Formal Groups exist, but are usually supported by a party outside the community, such as an NGO, or linked to a community body, such as a church. They provide some form of financial service, which may be savings, credit or insurance facilities (through a social fund), but also include non-financial services such as collective buying. Kadale (2012) identified at least one such group in four of the six villages that were studied in-depth.

4.3.4.2 Individual Service Providers

Katapila operators are private individual money-lenders that provide short-term loans at short notice, with relatively high interest rates without necessarily requiring security/collateral. Loans are typically payable in one to two months and repaid in one single instalment. Katapila operators only lend to those whom they know personally, or in some cases the lender may provide a witness whom the lender knows personally to vouch for them. The witness may also act as a guarantor of the loan (Kadale, 2012). The moneylenders are based in communities in close proximity to their borrowers.

In most cases, lending is based on ability to repay, with the lender taking little interest in the use of the funds, be it economic (e.g. for a business), social (e.g. to cover medical/funeral expenses) or recreational. Katapila loans are rarely used to invest in productive enterprise due to the high cost.

The interest charged on loans is relatively high compared to formal sources: Chipeta (2008) identified three types of katapila transactions: *Mwala-ku-mwala* (stone to stone) in which 100% interest is charged; *mchenga-ku-mchenga* (sand to sand) in which interest is at 50% and *thope-ku-thope* (mud to mud) in which interest is usually at 20% or less. Longer loans for one year can be given to those going to South Africa, in which case the interest is 100% for the whole period.⁴⁵ There is a degree of flexibility in payment timing and rolling over loans and interest rates (Kadale, 2012).

Borrowers agree to these terms as the loans are accessible and because no alternative sources exist at the time of need.⁴⁶

The peak period for Katapila is between November and February when households need funds for farm inputs and run short of food. The loan size in rural areas is typically small around MK 500 – MK 2,000 (US \$3-12). However, larger loan sizes have been identified in urban and peri-urban locations of up to MK 60,000 (Kadale, 2012 and Oxford Policy Management (OPM), 2009).

“In the event of non-repayment, a katapila operator would not initially confiscate any asset from the client, as he is aware of the legal ramifications of doing so. He therefore relies heavily on negotiating with the borrower.⁴⁷ Thus, once a client proves to be a bad borrower, a katapila moneylender will no longer lend to him/her in the future. This is also known to most borrowers, which creates a strong incentive for them to do everything possible to repay their loans..... On average, katapila operators interviewed report that they are able to recover almost 95% of what they lend, partly because they have a lot of repeat clients in their portfolio.

⁴⁵ Although not found in the relatively small in-depth sample, it is possible that loans may be given for other Southern African destinations for work.

⁴⁶ There may be more than one katapila operator within the locality of a borrower, but the borrower will probably only have a relationship with one and not be able to seek better terms from the other. The terms for katapila are basically known and accepted, with only some small differences, e.g. around the degree of strictness on repayment timing. As noted in micro-finance generally, relatively formally excluded borrowers tend to value the line of credit highly, over the price of credit.

⁴⁷ It is, however, important to note that there is anecdotal evidence showing how some Katapila operators could also exert greater force in collecting repayment or end up using violence.

Interestingly, there are also rural-based katapila operators that behave like input suppliers of credit and transact in kind (as opposed to cash) by distributing food and inputs, and receiving repayment in cash.” (OPM, 2009)

One of the key findings of the Kadale (2012) study was that katapila was readily available in all six of the villages visited; three villages had two different providers operating - even among the Yao tribe where money-lending is strongly counter-cultural to their Islamic faith.

Qualitative research into rural finance found general/grocery **retailers** providing credit in the research areas (Kadale 2012). The retailers mainly sell household necessities, but also included other petty traders and even a local restaurant. The use of **credit acts to promote the sale of the products of the business**. The provision of credit was universally appreciated by customers, as in nearly all cases reported the balance owed to the retailer was paid back with no interest at a time convenient to the buyer, but typically within one month. A relationship between the buyer and shop owner was a pre-requisite for getting items on credit.

According to Burritt (2006):

“Input suppliers are significant suppliers of input credit to farmers globally. There are more than 750 agri-inputs dealers in Malawi, including small resellers as well as distribution agents of large suppliers. Some provide input credit directly to farmers. Others participate in government and donor programmes with government guarantees, like APIP. While the number of outlets has increased dramatically over the past several years (Malawi Agricultural Input Markets Development Project Annual Report), many farmers travel very long distances to reach input suppliers.”

FinScope MSME (2012) found that 96% of MSMEs take payment in cash and 56% of these businesses reported giving items on credit to their customers.

Aside from savings and credit, there are **money transfer service providers**. These individuals transfer money, in-cash or in-kind, nationally and internationally for a fee. They are not legally registered. Kadale (2012) reported finding two such providers among the six villages researched in depth. One made transfers via importing goods and delivering the goods to the intended recipient who would then sell them to turn them into cash, and the other would receive money in South Africa and then make payments in Malawi from a MK account. To replenish the MK account, he would import goods into Malawi using the foreign exchange and then sell the goods. In this case, a relative would deliver the cash in person to the recipient. Such providers used phone calls to verify the recipient before handing over the goods or cash.

Cohen (2011) reports that informal cash transfers for meeting day-to-day needs were pervasive among their sample; they report finding “*an informal transaction roughly every other week for every participant in the study*”. The report concludes that a wide-reaching ‘informal safety net’ of **family and friends** exists among rural people. This safety net is regularly used through the high frequency of funerals and hospital visits that rural people must attend to. The economic impact of these ‘shocks’ on households’ budgets is generally muted due to the low amount per transaction, but it is their frequency which impacts significantly on household finances.

4.3.5 Money Transfer & Payment Services

Technological advances have led to more advanced and efficient payment mechanisms becoming available to Malawians. Notable among these are ATM machines, cash cards, electronic purses (Malswitch), debit cards, point-of-sale terminals, cell-phones and internet banking.

However, for the majority of the population there are limited options with regards to transferring and receiving money within the Malawi (mainly urban to rural). Most

transfers are done informally in person, through family or friends, or most typically money by the sender in person (FinScope, 2008).

Formally, Western union, Money Gram and the Post Office operate money transfer services; with the exception of the Post Office, these are only available in urban areas. Post Offices are available at many trading centres, but the services they offer may be limited and reliant on the receiving branch having adequate cash to complete the transfer, which is not always the case for larger amounts.

M-money services are offered by four banks (OBM, First Merchant Bank, National Bank and NBS Bank) and one cellular network operator (Airtel). The current m-money offerings are relatively basic services compared with those available in other markets. The range of transactions is widening as is the use of agents for cashing out and potentially cashing in. Airtel is seeking to add 39 paid-for m-money services through Airtel Money. At present, the list is urban focused as it includes transferring money, paying a satellite TV provider subscription, paying city assembly rates,⁴⁸ and paying water board bills. Airtel Money plans to offer a suite of more advanced m-money services, including peer to peer transfers, airtime top-up, cash in, cash out, and merchant payments. (Chemonics/Kadale, 2011)

These services work though interaction with agents, whose service is mainly limited to selling airtime. FinScope (2008) reports that over 50% of adults walk to the nearest place to buy airtime, of which over 75% said they were able to walk to the nearest airtime agent in under 30 minutes.

4.4 Development Partners

The Ministry of Finance and RBM are the two key Government bodies for the sector.

The Financial Inclusion in Malawi (FIMA) Project Secretariat, which is a multi-donor funded initiative, sits within the Ministry of Finance. With assistance from the World Bank, support has been provided to develop a national strategy for financial inclusion, which seeks to guide the development and expansion of an inclusive finance sector. It is not yet clear how effective this is and how it influences actual decision-making for financial inclusion.

RBM has received, and will continue to receive, technical support for its many functions. Of importance is the Financial Sector Technical Assistance Project (FSTAP), which is now operational. This is a multi-donor funded project operating through the World Bank and covers a range of areas, such as payment systems, regulation and financial literacy. FSTAP is a US \$28.2 million programme to increase access to finance for 3.5 million Malawian adults who are currently unbanked, but bankable. The project aims to increase the percentage of adult women who are formally banked from 17% to 40% by 2016 (World Bank, 2010). It has five components which include strengthening the capacity of the Ministry of Finance and the RBM, helping to make financial services more affordable for the poor by improving the technical infrastructure for payment services and making the processing of payments more efficient.

DfID and USAID have been working with the GoM to develop a financial sector that allocates capital to its most productive use, provides reliable and inexpensive payments services, makes available remunerative and safe deposit facilities and offers entrepreneurs access to a suitable range of sources for short- and long-term funds. The support extends to the Ministry of Finance and RBM in their efforts to improve the legislation, regulation and supervision frameworks for banking, capital markets, microfinance, and pensions.

⁴⁸ The four urban municipal bodies ('Assemblies) levy a property based tax ('rates') to fund operations.

4.5 Implications for Policy-makers and Practitioners

There are several **implications for policy development and practitioners from the supply side**:

1. Policy-makers should encourage the development of banks and particularly MFIs as the main formal sector financial service providers that reach into rural areas – this **requires appropriate regulation that encourages outreach and innovation**.
2. Policy-makers should consider how to **facilitate the development and promotion of micro-insurance by practitioners** relevant to rural areas.
3. Policy-makers should **facilitate the development of M-money services by practitioners**, as these can potentially find rapid acceptance as convenient, low cost alternatives.
4. Policy-makers and practitioners should **promote group-based savings and credit** approaches.
5. Policy-makers and practitioners should consider how to **address the role and practices of informal individual lenders (Katapila)**.

4.6 Summary

There is a need to allow the new legislation to be absorbed by financial sector service providers and for the regulator to begin to manage its new powers appropriately with a view to promoting investment, outreach and innovation in rural Malawi.

There are a number of existing meso-level support institutions for the financial sector. These assist to different degrees in the development of the financial sector through facilitating the exchange of information among sector players, as well as organising inputs, and advocating on behalf of the members with the Regulator and GoM. From the GoM and Regulator's perspectives, it is useful to have a single body through which to communicate to the more numerous member institutions.

There are four types of financial service providers, being: commercial banks, non-bank formal finance providers, microfinance providers and informal finance providers.

In practice, banks have limited rural presence, but several are taking more interest in the rural market potential. They have established a presence through alternatives to the costly full branch, such as agents, banks-on-wheels, kiosks and PoSDs. They are starting to utilise technologies, particularly cellphone-based m-money.

Other formal finance providers are limited in reach, particularly insurance. However, there has been innovation around weather index-based insurance, livestock and crop insurance, credit life and funeral benefit insurance. There are also initiatives in health insurance. Overall, there seem to be attempts to increase the range of insurance on offer and to improve their outreach.

Payroll lenders grew rapidly prior to 2009, but thereafter the decision of GoM to stop deducting loans through the payroll has led to a reduction in their market share. Parastatal MFIs play a considerable role, particularly MRFC and MARDEF, but they continue to perform poorly and arguably considerably distort the market. NGO owned MFIs have grown and will soon be making choices about whether to become deposit-takers under the new legislation. SACCOs are relatively limited in Malawi compared to other countries, and the number has been reducing overall.

MFIs still benefit from donor support to some extent and there are considerable **capacity development needs to be addressed among MFIs and SACCOs**.

Informal financial service providers are readily accessible at village level. Group based providers include VSLAs, ROSCAs and other community groups. These are effective at mobilising community savings and on-lending, but are limited in the overall capital available. Informal individual providers include katapila operators, retailers and money transfer service providers. Although katapila operators charge high interest, the transaction costs are nil or very low as they are located in the community and can lend immediately, meeting a key need for rural people with limited access to formal providers. Retailers provide credit as part of promoting their product/service, while informal money transfer providers enable international transfers into Malawi.

There are regular and irregular transfers of money, particularly from urban to rural areas. These mainly use personal methods of delivery, involving the cost of transport and considerable time. The opportunity for m-money services appears to be considerable, given relatively high levels of cell-phone ownership and familiarity with basic tasks such as texting.

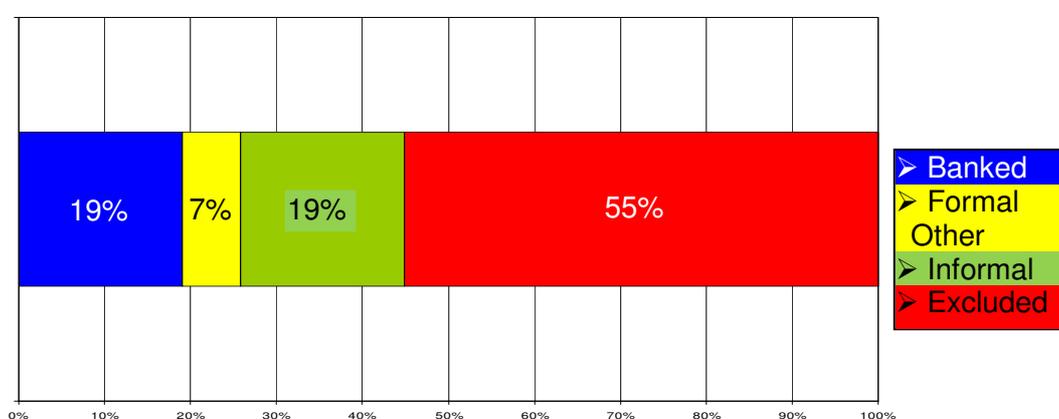
Policy-makers should encourage the development of banks and particularly MFIs as the main formal sector financial service providers that reach into rural areas – this requires appropriate regulation that encourages outreach and innovation. They should also facilitate the development and promotion of micro-insurance, facilitate the development of m-money services, facilitate the development of m-money services and support the promotion of group-based savings and credit.

5 Access and Inclusion

A number of over-arching studies, such as World Bank (2011), identified weakness in physical infrastructure and public services as impacting on access and inclusion in rural areas. Inevitably, it is possible to recognise and recommend that improvements in physical infrastructure and public services could have a positive impact on rural life and that these would promote improvements in income and reduce access costs, thereby promoting inclusion. However, the obvious response is that these issues need significant investment and effort by GoM and the range of development partners to address, and will only have an indirect effect on inclusion. It is beyond the scope of a study such as this to recommend or support these. This section focuses on actions that can be taken by financial sector stakeholders.

The overall **financial access strand** for Malawi, using FinScope (2008) data is:

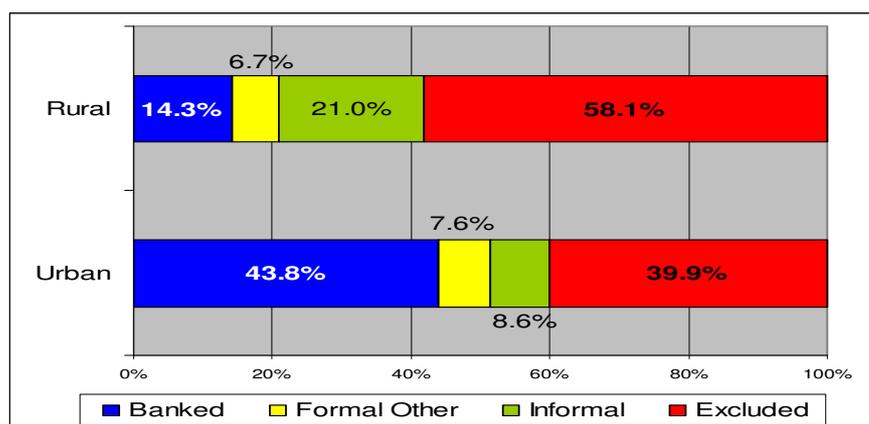
Figure 18: Financial Access Strand, 2008



Source: FinScope Malawi 2008

Comparing urban and rural inevitably shows that rural access is even more limited:

Figure 19: Financial Access Strand, Rural/Urban Comparison, 2008

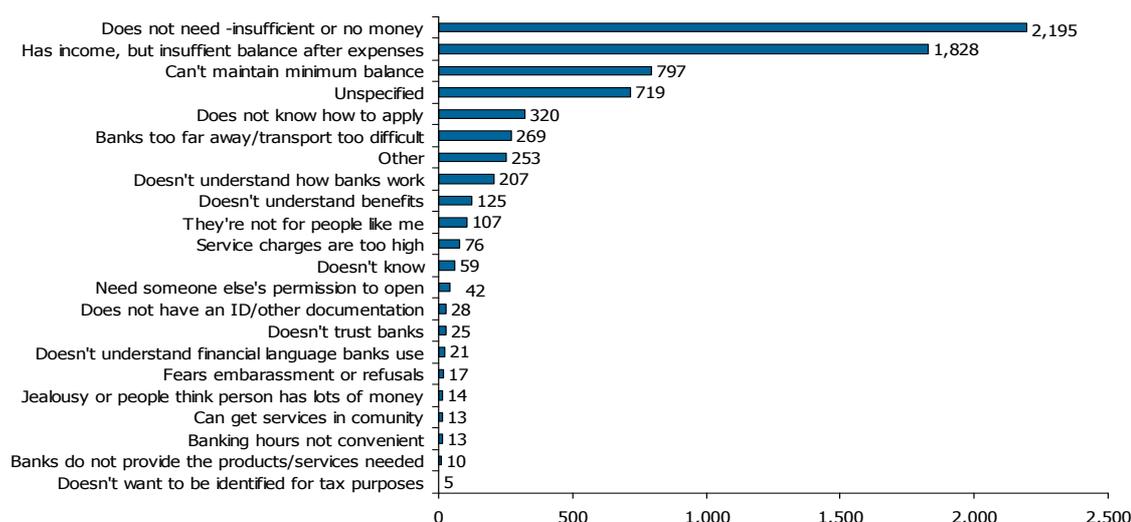


Source: FinScope Malawi 2008

Eighty:20 (presentation, April 2009) analysed access to banks, drawn from FinScope (2008) data. The table below gives the estimated number of adults excluded for each of the listed reasons, based on the responses in the sample.⁴⁹

⁴⁹ Uses the 2008 Census data that recorded 6.053 million adults (over 18) in the country.

Figure 20: Reasons for Not Having a Bank Account, Unbanked Adults ('000s)



Source: Eighty:20, presentation April 2009

The key access issue is that a large proportion of the population is too poor (or perceives that it is) to have sufficient funds to hold in a bank account. The three most common responses were: 'insufficient or no money', 'has income but insufficient balance after expenses', and 'can't maintain minimum balance'. All these, and the issue of 'service charges are too high' relate to poverty, which is beyond the scope of a financial sector study of this nature to address

However, what could be addressed by financial institutions is the issue of **minimum balances**. Some banks already compete on this issue, setting the minimum at around MK 1,000 (\$7).⁵⁰

The issue of service charges could also be addressed, but the cost of having a bank account is not just the charges, but, amongst others, also the cost of accessing the bank, if that requires transport. For those that travel to a bank, FinScope (2008) identified public transport as the most important means (59.7% of all banked adults) with walking as the secondary method (14.7%). Eighty:20 assumed a monthly travel cost of MK 340 (\$2), but based on increases in public transport prices in the last two years, this is likely to be much higher in 2012. It is clear that beyond the main cities and towns, poor rural transport and high transport costs do make access more difficult. ***A way forward on access costs is to consider solutions that bring access closer to the users, such as cell-phone-based m-money, potentially following the model of Kenya and M-Pesa.***

Beyond the issue of poverty that constrains access, there are a set of informational constraints, such as 'does not know how to apply', 'does not understand how banks work' and 'does not understand the benefits' and a perception issue ('they are not for people like me'). ***These are educational issues that could be addressed by banks, the RBM and policy-makers.***

Also among the reasons for not having a bank account is the issue of distance - 'Banks too far away/transport too difficult'. However, only 10.0% of respondents said that it took more than three hours to get to a bank (FinScope 2008). Those that responded may be a somewhat biased sub-sample, but it ***does indicate that banks are physically accessible to most adults albeit not necessarily very convenient.***

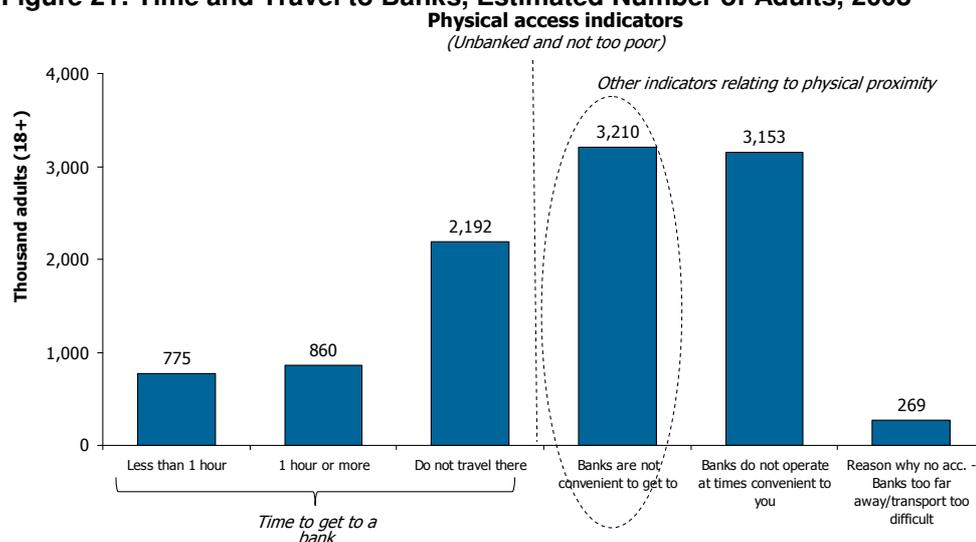
⁵⁰ This is pre-devaluation (2012), so its post devaluation value is about \$4. If it is left at this MK level then its true value is eroded. However, it is too early to say if it will be left or increased.

FinScope 2008 also found that over 83% of adults could walk to their nearest market, with almost all the rest citing own, shared or public transport as other possible means. Only 1% of respondents said that they either never travelled to the market or did not know where it was. In terms of the time to travel to the nearest market, only 8% of respondents said they took more than two hours, and only 4% of respondents took more than three hours. Banks and policy-makers should note that **markets are important focal points of human activity, and the presence of people and trading businesses makes them a natural location for financial activities, beyond traditional bank branches.**

FinScope (2008) also identified that katapila operators are more accessible than either banks or markets. 84% of those that said they knew where to find a Katapila operator, could walk get there is less than one hour, and 72% could get there within 30 minutes. In terms of accessibility and cost of access, then, Katapila, as community based providers, have a very significant access advantage over formal providers offering much lower (or no) transaction costs for the borrower. However, Katapila interest rates are much higher than those charged by banks and MFIs.

The accessibility issue is being addressed by the banking sector through innovation and competition that takes the form of branch network expansion, use of ATMs, PoSDs and use of agents and banks-on-wheels to visit smaller trading centres that do not have bank branches. Some banks have also addressed this through developing different levels of bank outlets, other than full service bank branches. For example OBM has kiosks in markets, with limited opening time and services, but right in the locations where people want to deposit and withdraw cash from their accounts.

Figure 21: Time and Travel to Banks, Estimated Number of Adults, 2008



Source: FinScope Malawi 2008

Source: Eighty:20, April 2009

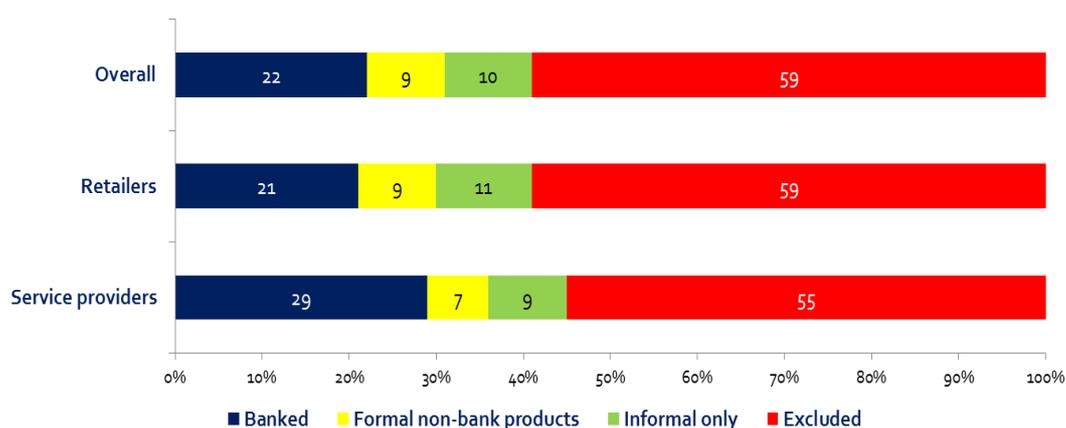
The above figure highlights different time, travel and convenience issues in accessing banks. As noted in the introduction, Malawi is a relatively small densely populated country, which ought to make physical access to banking facilities relatively easier than many other countries in the region. However, in rural areas there are inevitably issues of physical access and the costs related to this. The improved outreach indicated in the previous paragraph through more flexible forms of bank outlet, beyond the traditional branch, is an important way to increase physical access. **Policy-makers and the regulator should give consideration to allowing**

more flexible forms of banking outlet, balancing the needs for security with the needs for better access.

As with the issue of affordability, **promoting m-banking and linked to it, agency models offer another way of overcoming physical access and cost of transport constraints.**

Turning to MSMEs, FinScope MSME (2012) provides an access strand for MSMEs:

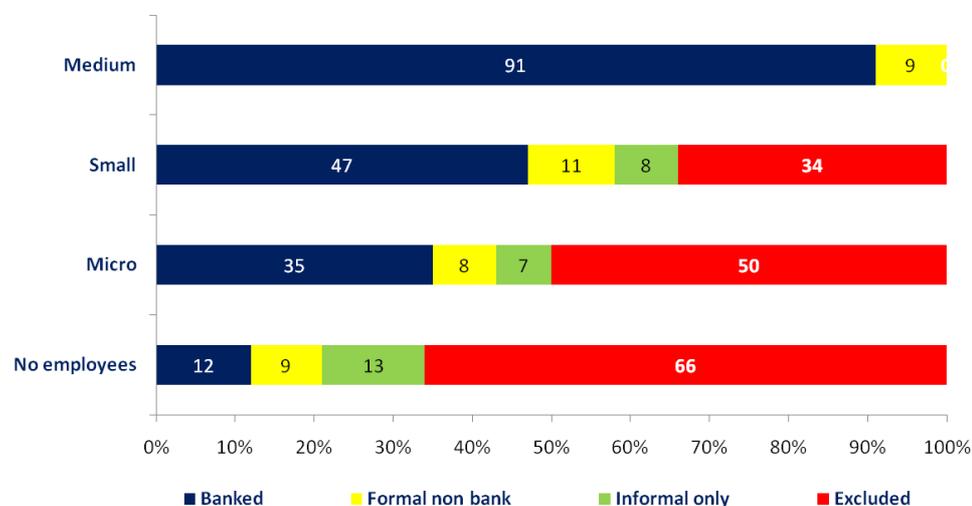
Figure 22: Financial Access Strand, MSMEs, 2012



Source: FinScope MSME (2012), Launch Presentation

Noting that in the above classification, retailers are the dominant category (87% of all MSMEs), the percentage of 'formally served' adds up to 31%, being 22% 'banked' and 9% 'served by other formal financial providers'. Levels of exclusion at 59.0% are higher than for the adult population as found by FinScope (2008) at 55.0%. Looking more closely at the different sizes of MSME, the percentage 'banked' and 'formally served' increases with the size of the enterprise, so that those with no employees are only 21% 'formally included', whereas medium sized businesses are 100% 'formally served'. Use of informal sources and exclusion is highest for those with no employees, declining with size.

Figure 23: Financial Access Strand, by Size of MSME, 2012



Source: FinScope MSME (2012), Launch Presentation

The savings and borrowing strands have already been highlighted in the section on demand. The issues identified for consumers in FinScope 2008 are relevant for MSMEs, particularly micro enterprises and those with no employees.

The conclusions of FinScope MSME (2012) were:

“1. Focus on assisting individually owned and micro-businesses to become more formal through encouraging registration of businesses, membership of MSME support institutions and appropriate banking services.

2. Better marketing and awareness generating of MSME support institutions

3. Appropriately priced, easy to use products and services – particularly products with flexible solutions that allow for an irregular income.”

The same issues of addressing access and cost are relevant to MSMEs, as identified in FinScope (2008) above, **namely, continued innovation of access options by banks, supported by policy makers, to expand the range of banking outlets beyond the traditional branch, and developing m-banking solutions utilising cell-phone platforms. Improved financial education can underpin this.**

6 Disabling and Enabling Factors

6.1 Predominantly Disabling Factors

The following predominantly disabling factors have been identified:

6.1.1 Societal Factors

a. High Economic Instability

The greatest current challenge for rural finance development is the macro-economic instability that Malawi has experienced since 2010, as discussed in depth in section 2.1. Economic instability significantly disrupts the rural economy, as well as deters investment by financial service providers.

On a positive note, Malawi has now changed several key policies in the last two months and negotiated an agreement with the IMF, opening the way for resumed donor support. The challenge will be to manage the very difficult adjustment period that the country has now entered and to stick to more orthodox policies to sustain the gains that will be made.

Ironically, despite the overall economic instability, banks have been able to make good profits through a combination of lending to government, foreign exchange trading and banking services that target larger companies and urban high-end individuals. Due to relatively good returns, there has been limited incentive to target rural areas.

b. High Agricultural Volatility

Rural incomes are heavily dependent on agriculture, which in turn is heavily dependent on rains and world markets.

Malawi has had three major droughts in the last 11 years, and when these occur the risk of widespread default is high, resulting in major credit portfolio losses. It is unlikely that Malawi will make much progress on smallholder irrigation in the short to medium term and so will continue to be highly weather dependent.

The production risks are supplemented by market risks. The adjustment needed as a result of the burley tobacco ban, which affects a substantial portion of Malawi's major export crop by value, is going to be very significant and has only just started. This will exert major downward pressure on rural incomes and economic activity in the short to medium term. In addition, unpredictable international price volatility for other export commodities, such as cotton, create problems for producing households and those that provide financial services to them, particularly loans.

c. Weak Rural Infrastructure

Although Malawi is relatively small and densely populated, there are remote areas that are hard to access with services, particularly in the rainy season. Malawi's road infrastructure is probably better than many other countries in the region, due to its compact geography, but there are significant challenges in movement in the rainy season that make access more costly and time consuming.

Malawi has one of the lowest electrification rates in the region at 7-8%. Lack of power is a serious disabling factor for economic activity, particularly in rural areas.

d. Poor Identity Verification

The absence of a national identity scheme makes it difficult to track down individuals, who may deliberately change their names to secure loans. Voter registration cards

have been used by some financial institutions, but there are challenges to follow up individuals who default on loans.

e. Weak Property rights

Land ownership in the rural areas is largely customary and based on traditional rules of allocation. This reduces the incentive to invest in land, as property is not secure. The lack of titling means land cannot be used as loan collateral.

f. Limited Regulatory Experience

With so much new legislation in the last two years, the RBM as regulator needs time to develop its capacity and undertake its new roles in ways that are conducive to growth, rather than in ways that stifle growth, such as by indecision or inappropriate regulation. The delay in licencing credit reference bureaus is an example of indecision and the occasionally mooted suggestion of controlling MFIs' interest rates is an example of what would be an inappropriate use of a power that exists .

6.1.2 Demand factors

g. Substantial Rural Poverty

Malawi is a very poor country in a relatively poor region. Although it has benefited from political stability compared to some of its neighbours, it is still one of the poorest countries in the World and has fallen behind Mozambique and Tanzania in recent years in GDP per capita terms. Poor economic policies and poor governance have been major contributing factors over many years, but the resulting poverty, much of it in rural areas, makes the rural market less viable to financial service providers.

h. Fear of Debt

There is concern among a large majority of the rural population about getting into debt. This limits the demand for rural finance, particularly credit.

i. Low Financial Literacy

Low levels of financial literacy and poor communication by financial service providers, result in considerable knowledge and information gaps, limiting demand for services, particularly insurance.

6.1.3 Supply factors

j. Weak Institutional Capacity

In general, there are considerable weaknesses in many Malawian financial institutions, with only a limited cadre of micro-finance professionals available.

Many institutions have a development motivation mixed with a desire to be sustainable, but are unable to deliver needed services viably. Those that subsidise their services or make continued losses undermine the more market oriented providers. There is a need to strengthen the supply side, and to bring about a more commercial mindset towards delivery.

k. Government Involvement as a Financial Service Provider

GoM is still heavily involved as a provider of credit and savings through institutions like MARDEF, MSB and MRFC. The subsidised service from MARDEF, in particular,

and related schemes⁵¹ undermines other MFIs targeting these groups and creates unrealistic expectations by rural people of what financial services should be like.

l. Inappropriate Product Design

Although there is evidence of innovation, many formal finance products are not well designed. Savings at banks generally have a high minimum balance and are not available at accessible points for many rural people, contributing to high levels of hiding money in the home. Credit relies too heavily on collateral. Insurance is poorly explained and relatively costly. Money transfers do not reach many rural areas.

It is interesting to see how rural informal providers have adapted to the needs of rural people. Katapila Operators do not generally face repayment problems, nor do VSLA groups or retailers, and none of them routinely take collateral. There is much more scope for improved product design that will increase acceptance and outreach for the range of rural financial services that already exists.

6.2 Predominantly Enabling factors

The factors enabling access to agricultural and rural finance are set out below:

6.2.1 Societal Factors

a. Enabling Legislation in Place

As noted in section 4.1, much of the necessary enabling legislation has been passed in the last two years. Although there are likely to be some weaknesses in the legislation that has been passed that will only become clear as the finance sector becomes familiar with how it is implemented, at least there is a high degree of certainty over the rules.

A key factor will be how the RBM as regulator interprets the legislation and its own powers to regulate. It will be important for RBM to see the powers as about enabling, not just controlling and restricting financial institutions' operations. Overregulation will add cost, deter investment and stifle innovation and outreach.

b. High Rural Population Density

A relatively high population density means that there are greater opportunities to reach critical mass in service uptake, at least in many rural areas.

c. Good Communication infrastructure

Due to its compact size, Malawi has relatively good cellular telephone coverage and a rapidly growing subscriber base. This enables the potential for m-money services, particularly as the research found that most users could use texting.

6.2.2 Demand Factors

a. High Latent Need

The demand section highlighted that there are considerable unmet needs in rural areas for savings, insurance, money transfer and credit. The challenge is the high level of poverty in rural areas which means that 'needs' may not be turned into 'effective demand'. The key for microfinance providers is to find more cost effective ways to deliver their products, and to design products that fit the latent needs better than the more standard formal finance offerings that are in the market.

⁵¹ Like the Youth Enterprise Development Fund.

b. Opportunities for Contract Farming

There are examples of where crop and produce buyers and processors have stepped in to provide credit to farmers that they buy from, in cotton, tobacco, tea, sugar, dairy and cotton. This suggests that there is significant potential to work with these buyers to develop more effective arrangements that involve the formal finance sector.

6.2.3 Supply factors

a. Available Informal Providers

At village level there are likely to be informal providers in the form of Katapila Operators, small-scale retailers/traders and VSLA type groups. There would be gaps in service in some areas, but the scope and potential benefits of promoting informal services and of linking informal with formal has not been fully exploited.

The idea of working with Katapila Operators would not be very popular with FFIs or others because of the high interest charged, but it is undeniable that these individuals do provide convenient, immediate access to small amounts of credit at very low transaction (travel and time) cost.

Building links between VSLA-type groups and MFIs is something being considered by some providers. It appears to be a natural progression that benefits both parties.

b. Evidence of Innovation

Despite weaknesses among financial service providers, there have been innovations in Malawi, such as it being the first country to pilot weather index insurance. Other innovations have occurred in livestock insurance, multi-risk cover for crops like tobacco, hospitalisation insurance (CUMO), funeral benefit cover and credit life cover. The innovations in micro-insurance look set to continue, with NICO General in particular demonstrating a relatively high degree of willingness to innovate.

Some of the banks, such as OBM, NBS and FMB, have been innovating in the use of card-based accounts that have facilitated rapid increases in the banked population, as well as using bank-on-wheels and agencies with PoSDs to extend outreach.

With the advent of m-money, looking at the experience of Kenya, there seems to be an opportunity for considerably more innovation and relatively rapid uptake.

c. Competitive Pressure

With 12 banks in competition and pressure on the urban economy from devaluation and slowing growth, these banks will need to consider how to reach the large majority of the population who live and work in rural areas. Failure to do so to date has meant that a large proportion of the potential market for banks is not being competed for. MFIs have been filling the gap, but with limited resources, but it seems unlikely that the banks will continue to neglect rural areas when there are competitive pressures to grow.

The potential for partnerships between banks, MFIs, SACCOs and informal providers offers the opportunity for better integration and outreach.

6.3 Summary of Predominantly Enabling and Disabling

In broad terms, the following enabling and disabling factors have been identified. Where the factor is not judged to be of significance, then no entry is made in the fields provided by FinMark Trust.

Table 7: Predominantly enabling and disabling factors for Malawi

Type of factors	Nature of effect		Type of Service affected	Level of financial system affected	Comments
	Enabling	Disabling			
Societal factors					
1. Market liberalisation	X		All	Macro; micro supplier and client	The market is liberalised within an appropriately regulated structure.
2. Financial Inclusion		X	Credit , Savings	Macro; micro supplier and client	Financial inclusion is low.
3. Trade Protocols			Not applicable	Not applicable	
4. Mobilisation and access to credit		X	Credit	Micro supplier and client	Formal credit is not very accessible, yet informal is.
5. Contractual and information frameworks		X	Credit	Macro; micro supplier and client	There is weak contract enforcement and information systems are poor.
6. Regulatory system	X		All	Macro; micro supplier and client	All sub-sectors are regulated, but RBM needs time to learn its new role and to proceed in a facilitative rather than a controlling manner.
7. Physical infrastructure	X	X	All	Macro; micro supplier and client	Good cellular, relatively good roads, but still many isolated areas within this
8. Financial infrastructure			Not applicable	Not applicable	
9. Property rights		X	Credit	Macro; micro supplier and client	Require changes to customary land titling.
10. Sector specific reforms			Not applicable	Not applicable	

11. Informal development sector	X		All	Macro; micro supplier and client	High potential to work with the informal sector, but requires a mindset shift by formal sector.
12. Literacy levels		X	All	Macro; micro supplier and client	High levels of illiteracy constrain economic development.
13. Poverty and education		X	All	Macro; micro supplier and client	High levels of poverty reduce potential demand and viability.
14. Legislative framework	X		All	Macro; meso, micro supplier and client	Legislative framework is in place.
Supply factors					
1. Retail-level rural finance institutions	X	X	All	Macro; meso, micro supplier and client	There are plenty of MFIs and SACCOs, but some are very weak.
2. Public ownership of finance institution & programmes		X	All	Macro; meso, micro supplier and client	High public ownership undermines private provision.
3. Micro finance institutions	X	X	All	Macro; meso, micro supplier and client	There are plenty of MFIs and SACCOs, but some are very weak.
Demand Factors					
1. Transaction costs		X	All	Macro; micro supplier and client	High transaction costs for formal FIs limit outreach
2. Underdeveloped economy		X	All	Macro; micro supplier and client	Malawi is probably the poorest country in the region. Limits outreach
3. Social capital	X		All	Macro; micro supplier and client	Gaps filled by social capital – it generally works.
4. Product design	X	X	All	Macro; micro supplier and client	Some innovation has occurred in Malawi, but also some poor product design using traditional thinking.

7 Recommendations

This section sets out recommendations for policy makers and practitioners – these are combined for the supply and demand sides:

Primarily for public policy and policy makers, it is recommended that:

- 1. Policy-makers should encourage rural financial services development though *implementing regulation in ways that that encourages outreach and innovation.***
- 2. Policy-makers should support and facilitate the development of micro-insurance for rural areas.**
- 3. Policy-makers should facilitate the development of m-money services as convenient, low cost alternatives for current formal sector offerings.**
- 4. Policy-makers should promote group-based savings and credit approaches, as they are very relevant to relatively poor rural communities.**
- 5. Policy-makers should support linkages between formal providers and informal providers, including considering how to link with Katapila operators.⁵²**
- 6. Policy-makers should support financial literacy training for poor rural households.**

Primarily for private sector practitioners and NGOs/development partners, it is recommended that:

- 1. Formal sector providers should develop and implement relevant micro-insurance, alongside other financial products.**
- 2. Formal sector providers should develop and promote m-money services, targeting rural households, for transactions and savings.**
- 3. NGOs should promote group-based savings and credit approaches.**
- 4. Formal sector providers should create linkages and partnerships with each other spanning banks, MFIs, SACCOs, and with informal groups and individuals to reach much further into rural areas.**

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Kadale: "A small thing blessed for service."

⁵² This might involve willingness to finance, in return for Katapila abiding by certain terms of operation to reduce the excesses that can occur.

Annex 1: Expectations Guide for Revision of Country Report

FINMARK TRUST: THE STATUS OF AGRICULTURAL AND RURAL FINANCIAL SERVICES IN SOUTHERN AFRICA 2011

EXPECTATIONS GUIDE FOR REVISION OF COUNTRY REPORTS

1. Background

As the first leg of a three-year programme to promote rural/agricultural finance policy development in the region, on behalf of FinMark Trust (FMT) the Centre for Inclusive Banking in Africa (CIBA) conducted a study of the status of rural/agricultural finance in six Southern African countries – Botswana, Malawi, Mozambique, South Africa, Zambia and Zimbabwe – during 2010-11. The intention was – and remains – that the study be based mainly, if not entirely, on secondary information, given resource constraints.

To a greater or lesser degree and in varying ways, it is felt that all of the six country reports need revision to bring them up to publication standard and to serve adequately to inform the second leg of the programme – already under way – to conduct a study of innovations and best practices in rural/agricultural finance in Africa and abroad to assist the process of policy and strategy framework (re-)formulation in the region.

It is CIBA's opinion that, in many instances:

- full advantage has not been taken of the secondary information available
- more recent data could have been used
- logic and structure are loose, and
- too little has been done to develop description into analysis, conclusion and recommendation for policy development.

On occasions, references for data and arguments have also not been provided.

The objective of revising the reports is to address these deficiencies, where they exist.

This is a non-prescriptive guide for revision of the reports, based on the terms of reference that were given to 'first round' authors. It should be read in conjunction with the generic terms of reference for revising the reports that have been forwarded to the country specialists who have been approached to undertake the task.

While the focus on rural/agricultural finance is clear, CIBA feels that broad expertise in the field of country financial policy, general familiarity with rural/agricultural finance and competent English language writing skills should be sufficient to carry out the revision successfully, as the essence of the task is:

- to make the structure of reports more uniform
- to develop and tighten argument
- to fill gaps of substance, and
- to ensure that referencing is adequate.

Style and language editing will be done by specialist editors in the run-up to publication.

As per the generic terms of reference for revision, it is required of each country specialist to use this guide to assess the nature and extent of revisions needed to the report concerned and to draw up her/his proposal and quotation for revision to CIBA accordingly. This will be approved or amended in agreement with the specialist within one week of submission of the proposal and quotation.

It is recognized that a number of factors, such as paucity of secondary information, may make it difficult for all country reports to be revised to conform to the 'model'

outlined below. Where a specialist is aware of such limitations in advance, he/she is requested to draw them to the attention of CIBA in the proposal. Specialists may find it helpful to refer to the short regional summary report (attached) as a possible example of how country reports could be approached.

2. Overall structure

The structure of country reports should conform to the structure of the short regional summary, viz.:

- Executive summary
- Background to the study
- Introduction
 - Objectives, ambit, methodology
- Demand for and supply of agricultural and rural financial services
 - Demand
 - Supply
 - Access to and inclusion in rural financial services
- Disabling and enabling factors
 - Predominantly disabling factors
 - Predominantly enabling factors
- Recommendations for national- or local-level action.

3. Executive summary

Not more than 3 pages.

4. Background to study

This contextualizes country studies in FMT's overall three-year policy development programme. CIBA will provide a standard version to be used in all reports, similar to the short regional summary report, but also covering such generic issues as the ambit of financial services and the relationship/differences between agricultural and rural financial services.

5. Introduction

- Socio-economic profile of the country, including incidence of poverty in rural areas
- Relationship between agriculture/other rural enterprises and economic growth/rural poverty reduction; how improving access to/quality of agricultural and rural financial services could enhance agriculture's/other rural enterprises' contribution to growth/poverty reduction; what might be needed to improve inclusion, i.e. uptake of such services by agriculture/other rural enterprises
- Why it is important to assess current status of agricultural and rural finance in country
- Objectives, ambit and methodology of report.

6. Demand for and supply of agricultural and rural financial services

6.1 Demand

- Focus on market at client level
- Broad overview of demand for agric/rural financial services, current levels and trends, ...
- Need to use data for value/number of financial products used by rural clients as proxy for demand; assumptions, shortcomings; factors determining/limiting

- demand as measured on this basis
- To extent possible from data, distinguish between agricultural/other rural enterprise/household demand; demand for short, medium, long term purposes; demand for formal (bank, non-bank), informal services; value chain demand
- Implications for public policy development, e.g. for promotion of financial literacy, transport infrastructure development, regulations governing use of mobile phones for financial services; and for private formal/informal financial institutions' practices, e.g. marketing products/services by using local indigenous language(s), lowering entry thresholds and transactions charges; relate to 'disabling/enabling factors', 'recommendations' (see 7, 8 below)
- Most recent country FinScope is essential source, but Google for others, e.g. Zambia Business Survey (see short regional summary)
- Summary

6.2 Supply

- Focus on market at macro, meso, micro levels
- Broad overview of financial sector: services provided (existing/potential), role-player groups, regulatory structure, domestic/global involvement, outreach (existing vs potential market size, urban/rural percentages), current levels and trends, ...
- Role players: formal private sector banks, non-bank suppliers, e.g. insurance companies, input supply/output processing companies; formal sector for-profit/non-profit microfinance institutions (MFIs); informal sector financial services providers, e.g. village savings and loan associations (VSLAs), savings and credit cooperatives (SACCOs), rotating savings and credit associations (ROSCAs), funeral societies; state/parastatal institutions, e.g. land/agricultural banks, post-banks, public 'wholesale' lending institutions, rural enterprise development banks/financiers, state social/development grant distributors; public/private support institutions, e.g. regulators, credit registries, ...
- Types of products/services, values, number/locality/sector of clients served: savings, transactions/transmission, loans, insurance, foreign exchange (especially important for cross-border small producers/traders), ... ; sub-divide by purpose/period/sub-sector/value chain, where possible
- Delivery mechanisms: branch, ATM, mobile distributors, retail non-bank chains, mobile phones
- Donor institutions (international/domestic): nature of involvement, e.g. technical assistance/support services, capitalization, subsidization
- Implications for public policy development, e.g. to establish conducive, yet prudent, policy environment for broader/deeper private sector participation in agricultural/rural financial services delivery, public-private rural financial services partnership development; for private formal/informal financial institutions' practices, e.g. strategic re-evaluation of rural markets by banks, (re-)training of staff on agricultural/rural markets, research on value chains, development of links with informal financial service providers; and for NGO support institutions, e.g. development of risk reduction mechanisms (loan guarantee schemes, ...), technical assistance to informal financial services providers, small scale farmer groups promotion of small producer organization development, ...), small business development services; relate to 'disabling/enabling factors', 'recommendations' (see 7, 8 below); ...
- Most recent country FinScope is essential source, but Google for others, e.g. Zambia Business Survey (see short regional summary)
- Summary

6.3 Access to and inclusion in financial services

- As far as possible from data in 6.1 and 6.2, assess level of access by agricultural/rural enterprises/households (measured, perhaps, by average distance/travelling time or cost to nearest ATM) in relation to level of inclusion/uptake for various financial products/services and deduce size, nature of 'access-inclusion gap'(see, e.g. analysis for Zambia, pp7-8, short regional summary)
- Consider and, as far as possible, assess impact of possible reasons for self-exclusion, e.g. turnover of farm/rural enterprise too small, transactions costs/minimum balances too high, lack of understanding/distrust of cell phone-based financial services, unable to provide collateral of kind required by banks; relate to 'disabling/enabling factors' (see 7 below); ...
- Draw out implications for public policy development and for financial services private sector/NGO practices (see, inter alia, 6.1, 6.2 above) ; relate to 'recommendations' (see 8 below)
- Most recent country FinScope is essential source, but Google for others, e.g. Zambia Business Survey (see short regional summary)
- Summary

7. Disabling and enabling factors

- Standard classification into macro, meso, micro (supply-driving/constraining) and client (demand-driving/constraining) sets of factors
- Drivers of and constraints on access, inclusion sometimes clear-cut, but often ambiguous: ref. 'predominantly disabling', 'predominantly enabling'
- See short regional summary pp30-33 for factors identified in 'first round' country reports; this summary in no way exhaustive; see also, e.g. 6.1, 6.2, 6.3 above, FinScope and other (e.g. Google-search) sources.

8. Recommendations for national- or local-level action

- Follow directly from 6.1, 6.2, 6.3, 7 above
- Important to bear in mind current country political/economic/financial context and be realistically implementable
- Could helpfully be classified into (table?):
 - demand-led
 - primarily for public policy
 - primarily for private sector/NGO practice
 - supply-led
 - primarily for public policy
 - primarily for private sector/NGO practice.

9. References

- Please reference 'adequately', but don't delay unduly if some references can't be found.
- Much of this done already. Will put report revisers in contact with respective 'first round' authors where sources of existing data/opinions to be retained in final report not yet referenced.
- Please use referencing style adopted in short summary report as guide, i.e. Harvard.

Annex 2: References

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