



MAKING ACCESS POSSIBLE

map

Making Access Possible (MAP) Malawi

Stakeholder workshop

Lilongwe, 23 April 2015



Mal Making financial markets work for the poor



Presentation notes

This presentation sets out some of the key findings from the MAP diagnostic analysis. The presentation was done to solicit feedback from stakeholders to refine the diagnostic findings. The research behind the presentation is set out in detail in the diagnostic report to be released later in the year.

Agenda

- MAP overview
- Consumer experience
- Provider and product overview
- Priorities
- Towards a roadmap
- Next steps

Importance of financial inclusion for Malawi

Financial Inclusion for growth and welfare



Generate growth and employment



1. Farming as an employer and to sustain livelihoods.
2. Formal SMMEs as an engine of growth.
3. Remittances to facilitate reallocation of income.



Develop human capital



1. Financial services for access to education.
2. Financial services to mitigate of health risks.



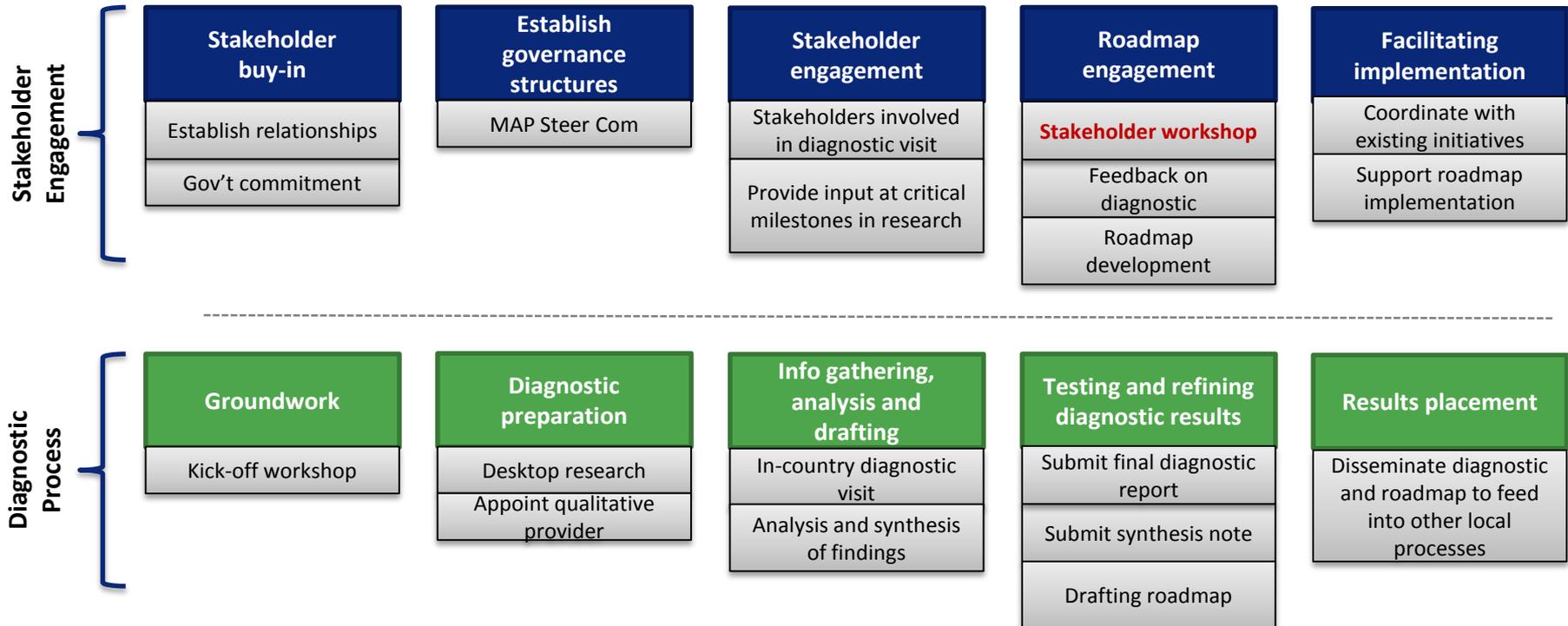
Improve household welfare



1. New technologies reduce cost and improves access.
2. Financial services to mitigate households risks.
3. Asset accumulation.

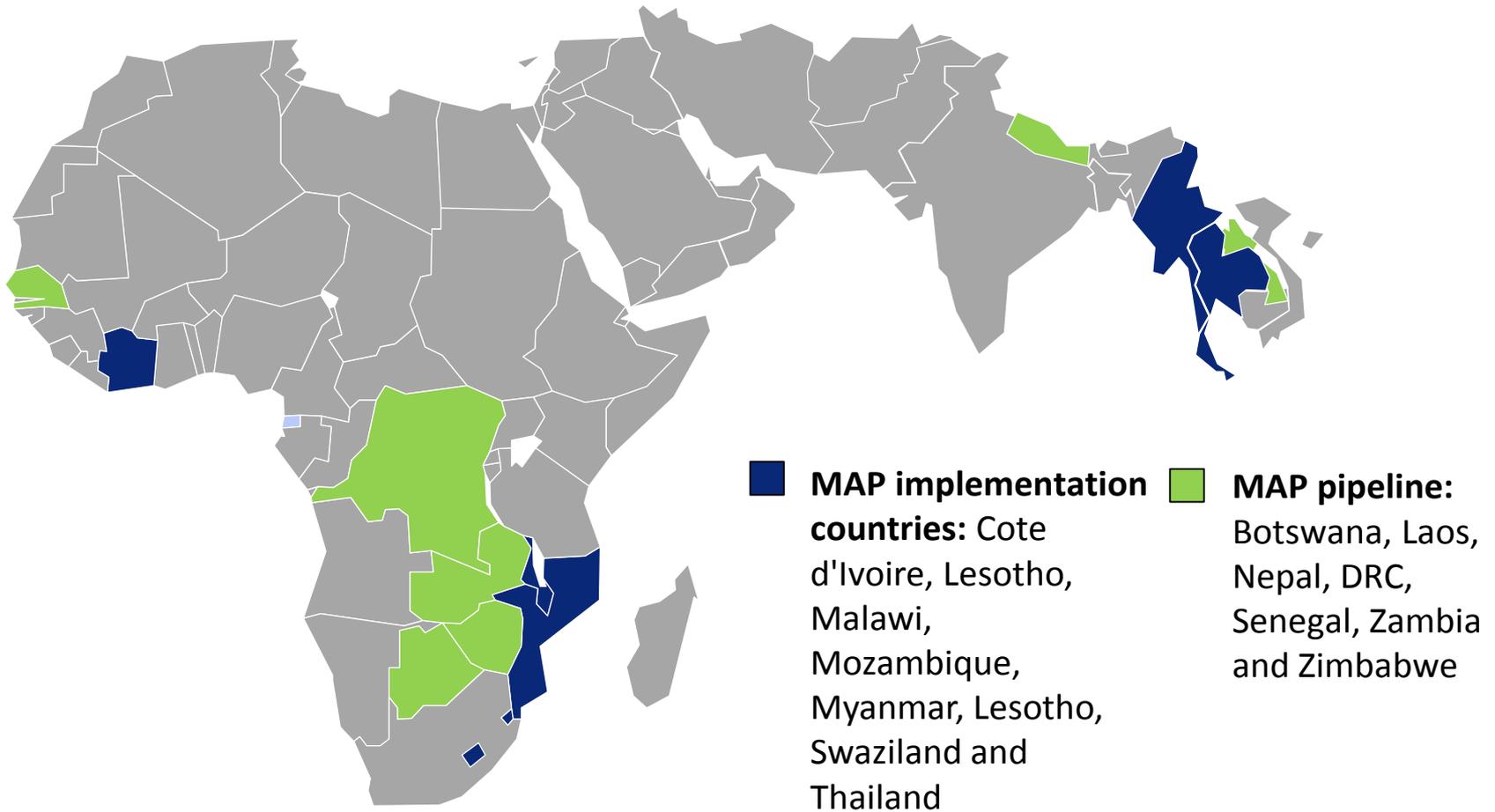
MAP Process

An overview of the MAP process



Where is MAP happening?

MAP implementation and pipeline countries



MAP analyses demand, supply and regulation – formal and informal

Discrete target markets



Demand

- FinScope 2008 and 2014
- FinScope MSME 2013
- Consumer interviews

Product and provider landscape (informal and formal)



Supply

- Interviews
- Annual reports
- Product data
- Mystery shopping
- Distribution

Public policy objectives and Regulatory barriers



Regulation

- Review regulation and policy in FS and related areas
- Interviews

Financial inclusion imperatives

Context drives FI realities

Significant macro-economic challenges

- **Toughest macro-economic situation per WEF**
 - Ltd growth, high inflation environment **26%**, volatile exchange rate
- **Limited infrastructure**
 - **9%** access to electricity, mobile access **69%** of adults, irrigation **0.53%**, paved roads **45%**
- **Constrained private sector** - Ease of doing business: **164/189**, transport cost at **56%**, accessing electricity, acquiring financing

Poverty stricken, limited education and health outcomes

- **Poverty**: lowest GDP per capita in region
- **Education**: Literacy improving, but educational attainment limited (**24%** > primary education)
- **Health**: Life expectancy increased to **55 years**, but **50%** of children under 5 stunted
- **Urbanisation & migration**: increasing (**3.8%**), urban unemployment **50%**, migration trends likely underestimated at **230k**

Agricultural dependence

- **GDP**: **31%** from agriculture (but only 15% of agricultural goods reach market)
- **Subsistence**: **90%** of population involved in farming
- **Trade**: Exports mainly consists of agricultural produce (**65%**)
- **Natural disasters**: Vulnerable to supply side shocks due to adverse weather conditions
- **Unmonetised**: High levels of unmonetised income due to subsistence farming
- **Land tenure**: **90%** communal land

Large donor presence

- **% of GDP**: **\$1bn** of \$4.3bn GDP
- Prior to cash-gate, ~ **33%** of budget donor funded
- **Volatile**: Withdrawal in 2012 and 2014

Existing policies and FI initiatives



Relevant policies

- The Malawi Growth and Development Strategy II
- National Export strategy, ASWAp
- Financial Sector Development Strategy (FSDS) 2010-2015
- National Strategy for Financial Inclusion (FIS) 2010-2014
- MSME policy 2012 (draft)



FI Regulation & initiatives

- Unit responsible for FI
- Deposit taking MFI regulation
- Bank agency regulation
- E-money guidelines
- Credit bureau amendments underway
- Consumer protection and financial literacy initiatives
- Microinsurance legislation considered
- MFI Hub



Donor role in FI

- FSAP and FSTAP (World Bank) – incl MFI Hub, National switch, Financial education
- The Mobile Money Accelerator Programme (USAID) – FHI360
- UNCDF
 - The Financial Inclusion in Malawi till 2011 & Youthstart programme till 2014
 - Mobile Money for the Poor (MM4P)
 - MicroLead
- MFIs incl OIBM
- CARE

Emerging regulatory issues

Judicial process ineffective

- Legal system affected by political change
- Disruptive changes from 1966-2011 caused: limited skills, lack of trust, lack of effective access
- Court cases take **2-3 years** to be heard
- **Up to 70%** non-compliance with court orders on specific matters

Impact upon credit

Legislative process slow, limited transparency

- Small window to get legislation through parliament
- Technically strong Bills, changes occur from Bill to Act
- Technical assistance on legislative process useful

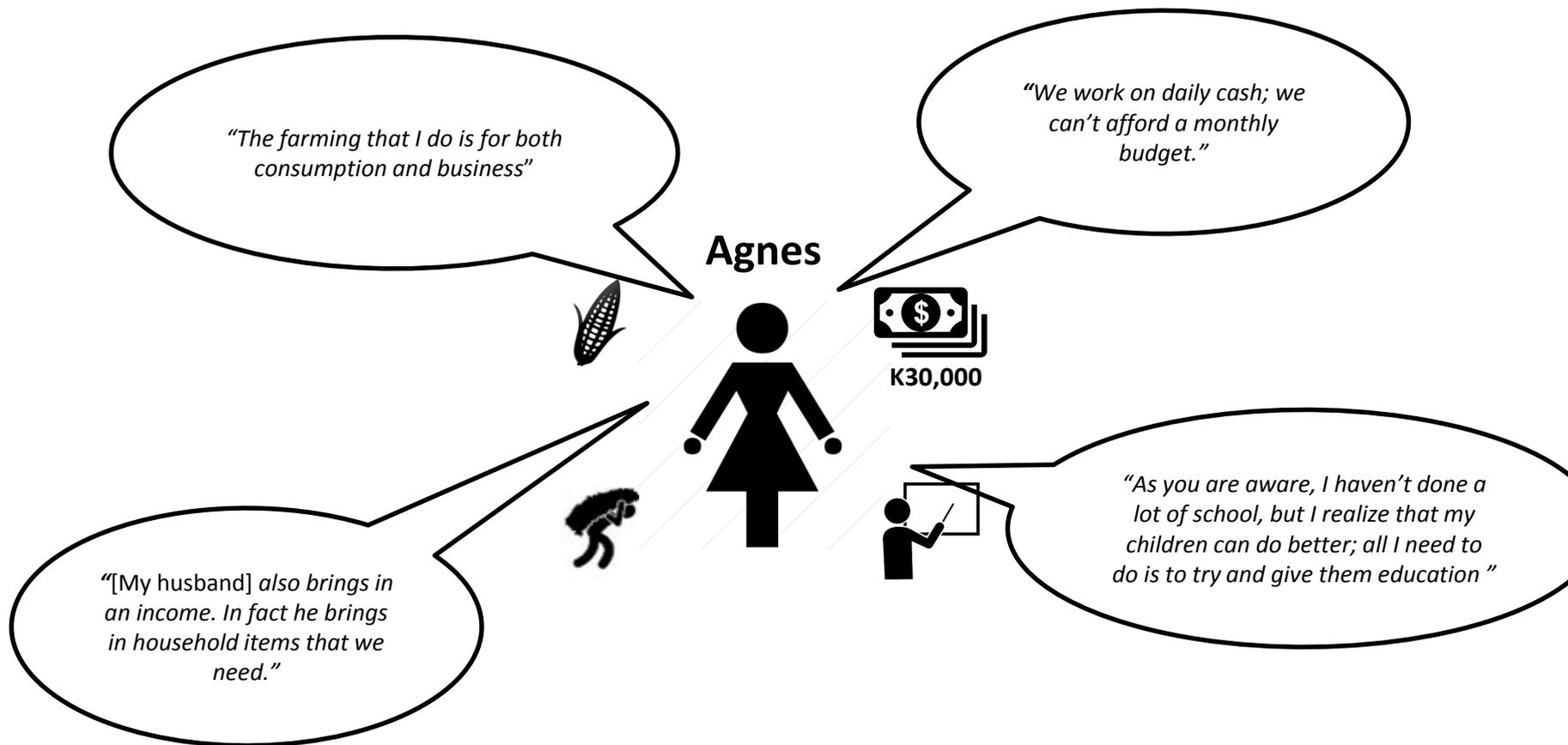
Key regulatory gaps

| | |
|---|--|
| Population Register and Identity Documents | No current integral legal framework for the maintenance of a population register and database underpinning the issuance of formal identification documents. |
| Legality of electronic communications and transactions | No comprehensive legal framework for electronic documents, electronic commerce and the legal standing of transmitted documents e.g. email, faxes, electronic documents, mobile payments. |
| NPS Bill | Bill not yet enacted after a protracted period. The version reviewed does not formulate any inter-operability principle or requirement for NPS. |
| Consumer protection | Legislation is in place but uncertainty as to the overlap of regulatory bodies on issues concerning financial conduct. |
| Comprehensive credit regulation | Aspects of credit regulation appear piecemeal in various pieces of legislation but there is no comprehensive framework nor regulator. <ul style="list-style-type: none">• Confusion with regard to prescription of debts.• Questionable legal basis for payroll deductions.• Credit reference bureau legislation in isolation to consumer rights, credit assessment and over indebtedness. |
| AML/CFT Legislation Problematic | <ul style="list-style-type: none">• Risk based approach seen as too onerous and a compliance risk by financial institutions.• Effectiveness of current approach is questioned given reported illicit capital flows. |



Consumer Experience

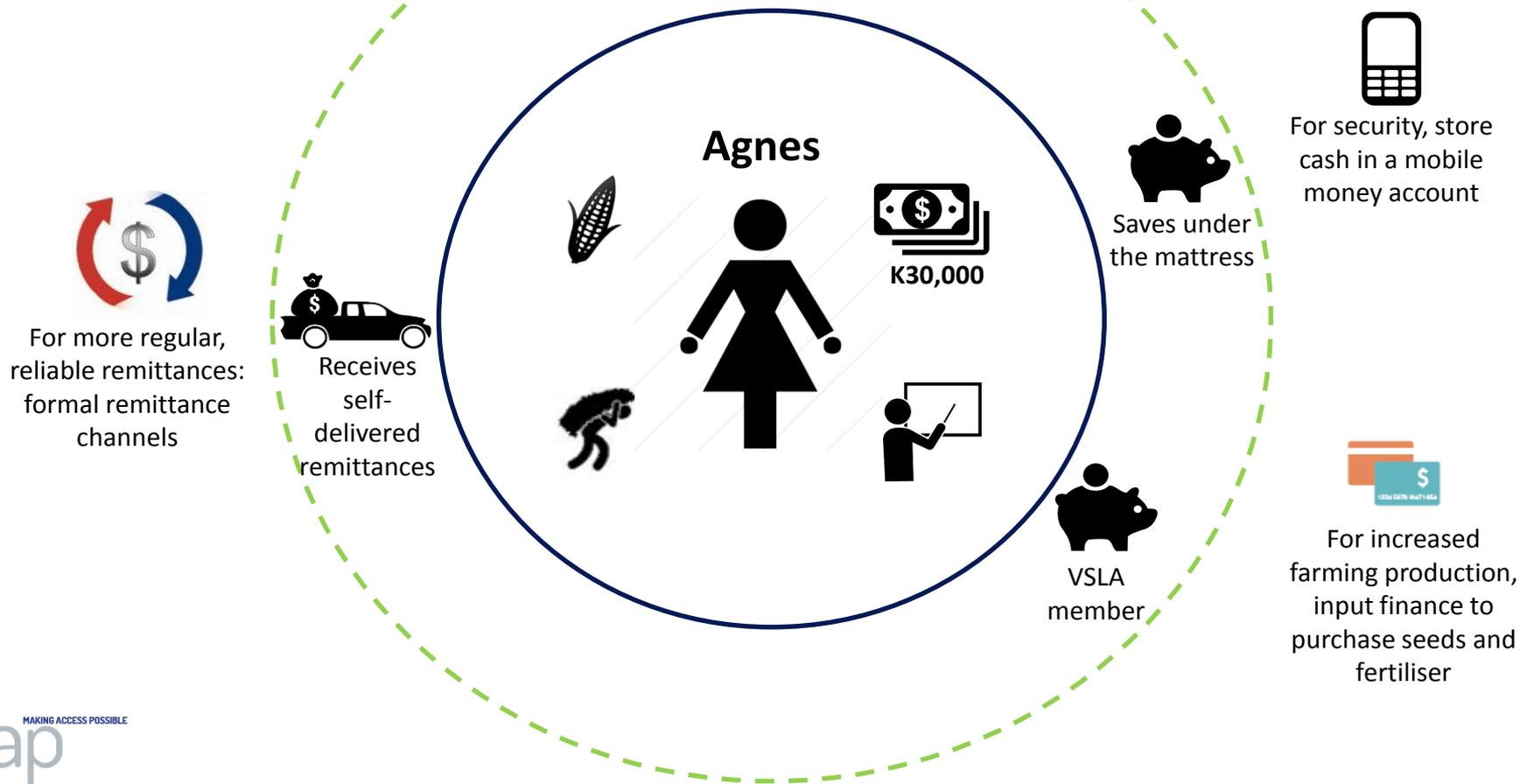
Rural, female population with short-term budgets



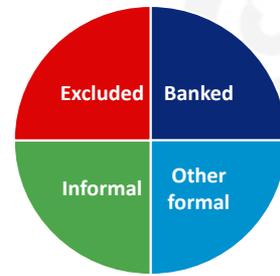
Rural, female population with short-term budgets

Potential financial products that could enhance welfare

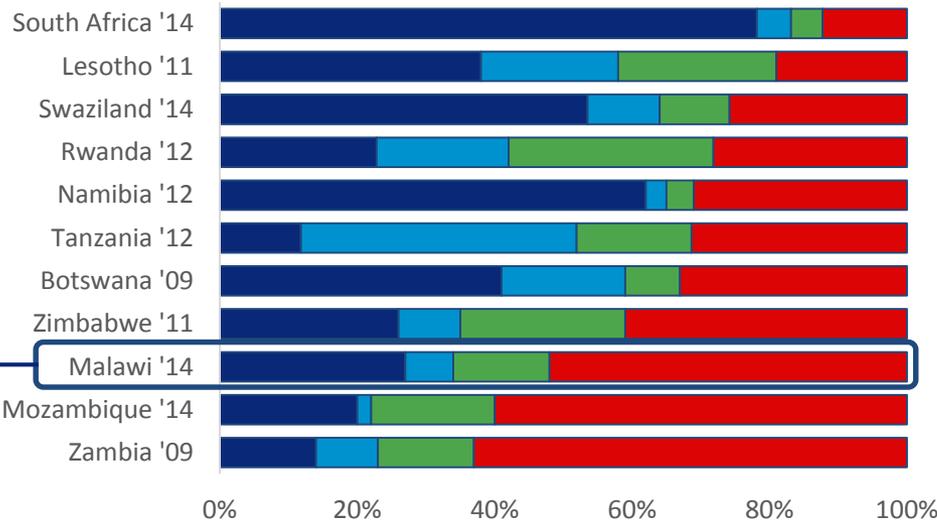
Current financial products



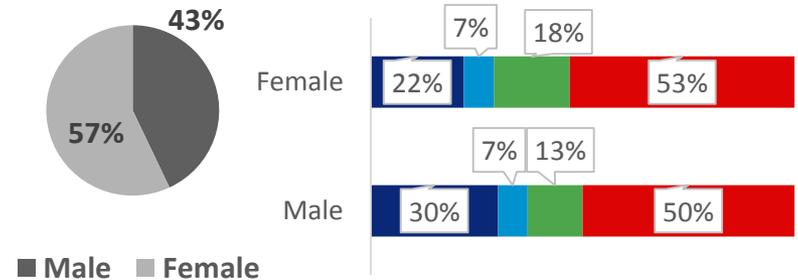
Overall access: Regional, Male vs. Female and Urban vs. Rural



Total Access: Region and change from 2008

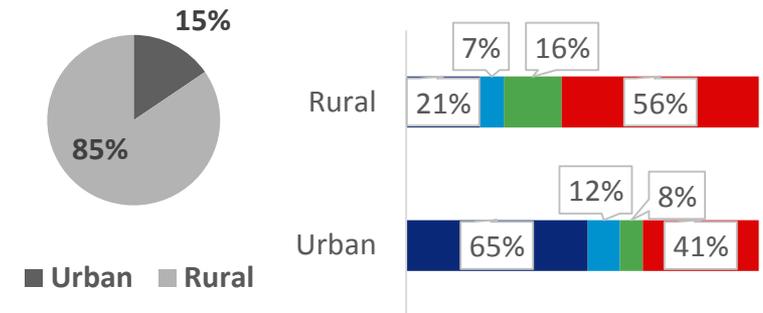


Total Access: Female vs. Male



Female average income half that of males

Total Access: Urban vs. Rural



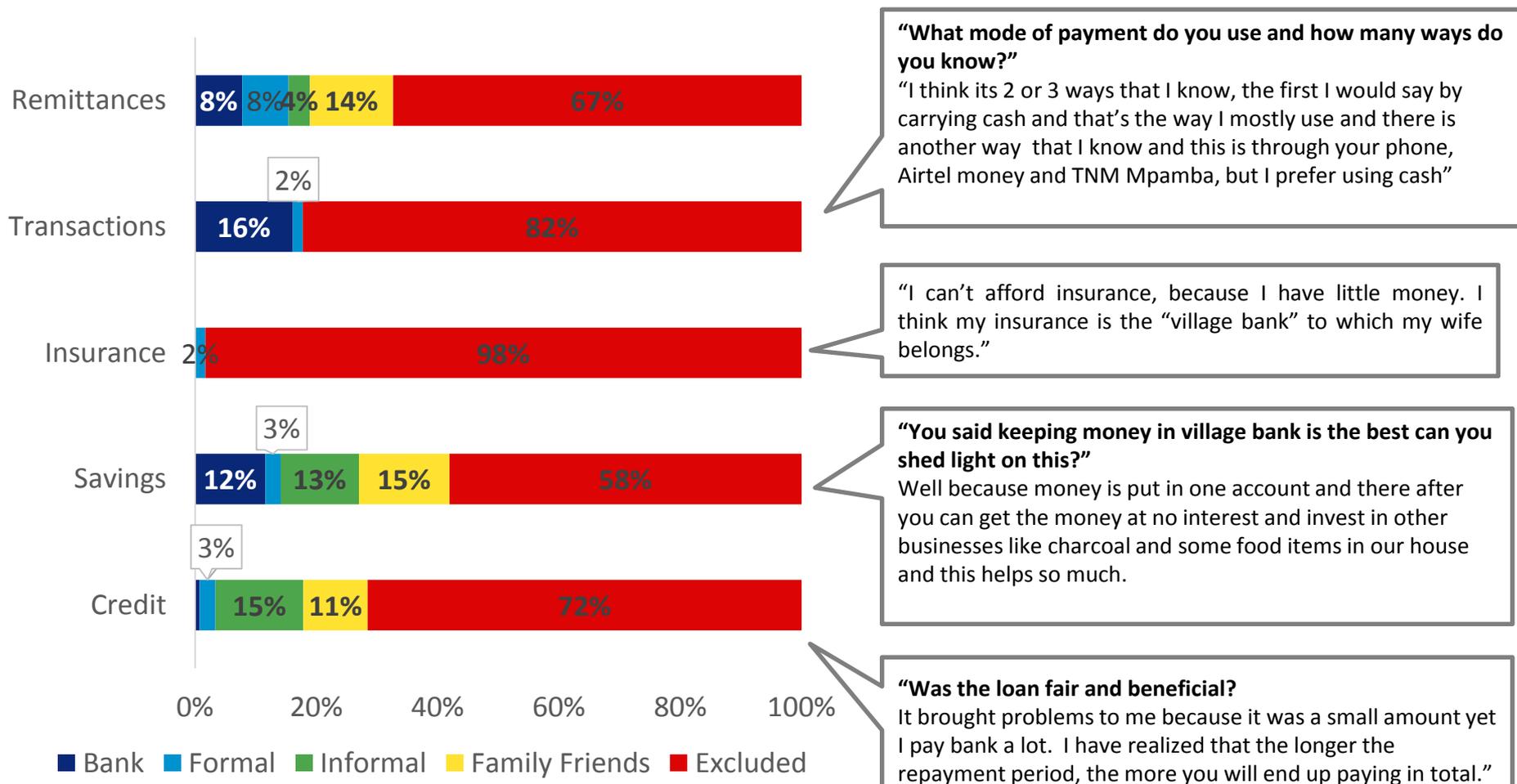
Total adults: 8,023,571



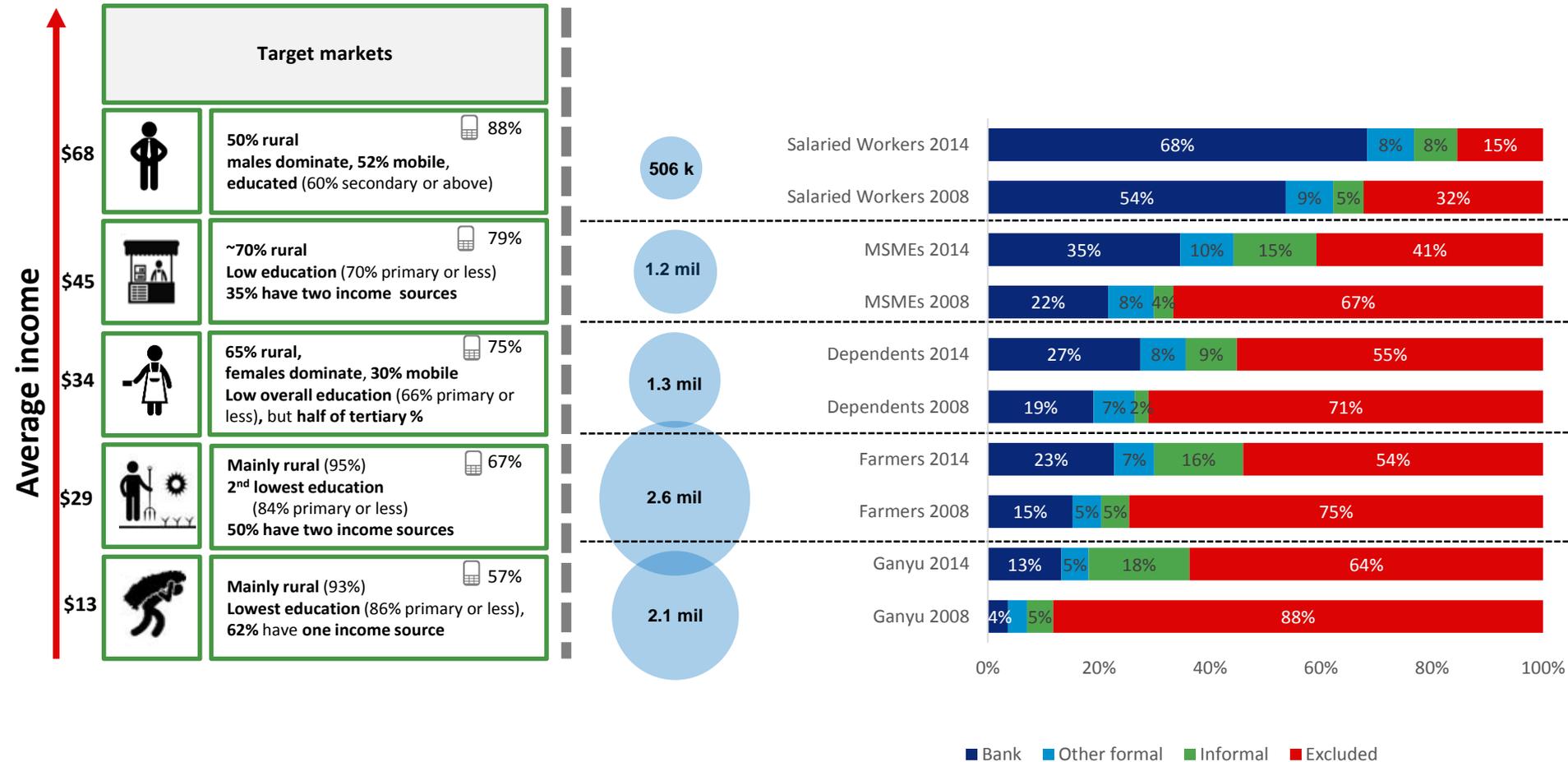
Total adults: 6,050,715



Breadth of access – per product category



Introducing target markets - Breadth



Introducing target

"Medical insurance is being introduced by my employers so hopefully next time you come around I will be on MASM. I am aware of insurance types - medical, car, life insurance. I might get additional insurance 'when I decide to have children' or when I buy a car (for accident cover); I am not as about to die soon so I guess I do not need life insurance"

Tell me about your dreams and aspirations?
"I want to be independent and do my own business and help myself in a way that I want."

What were the disadvantages and advantages of sending through a friend?

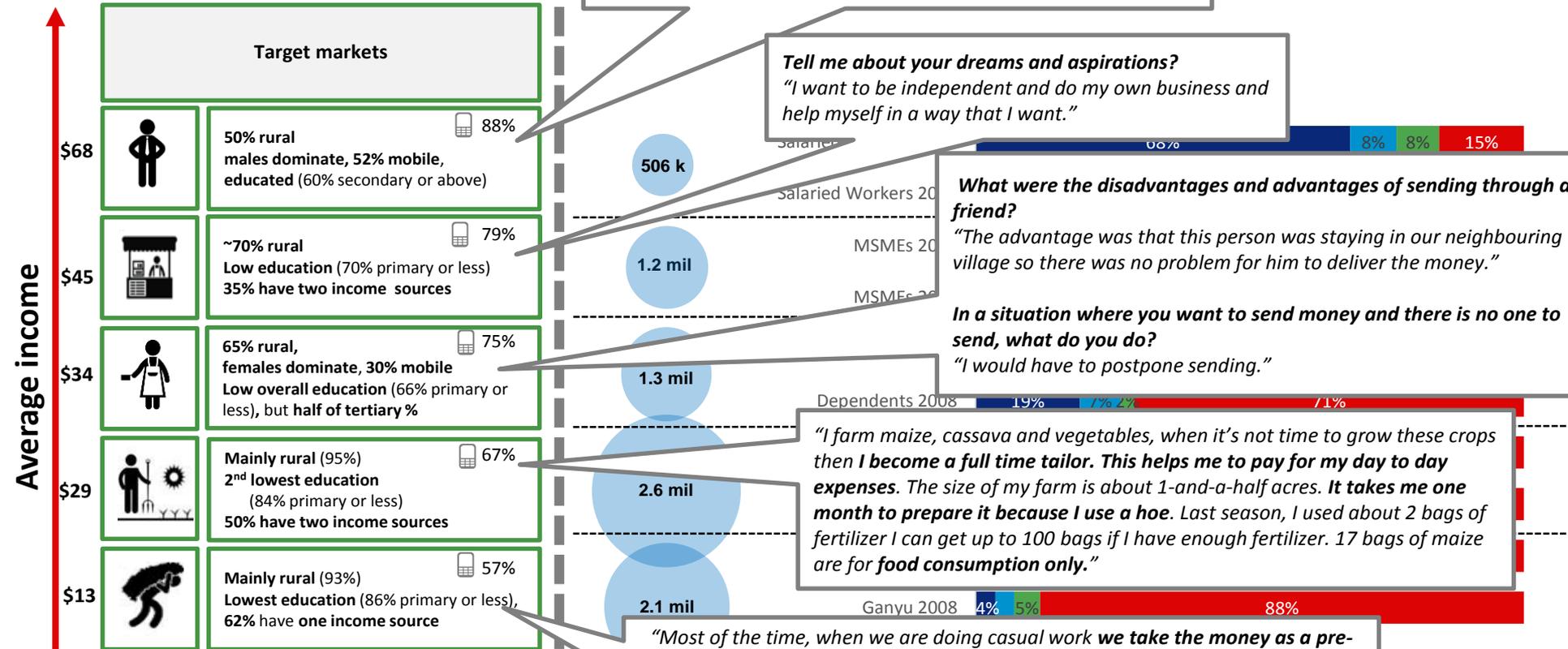
"The advantage was that this person was staying in our neighbouring village so there was no problem for him to deliver the money."

In a situation where you want to send money and there is no one to send, what do you do?

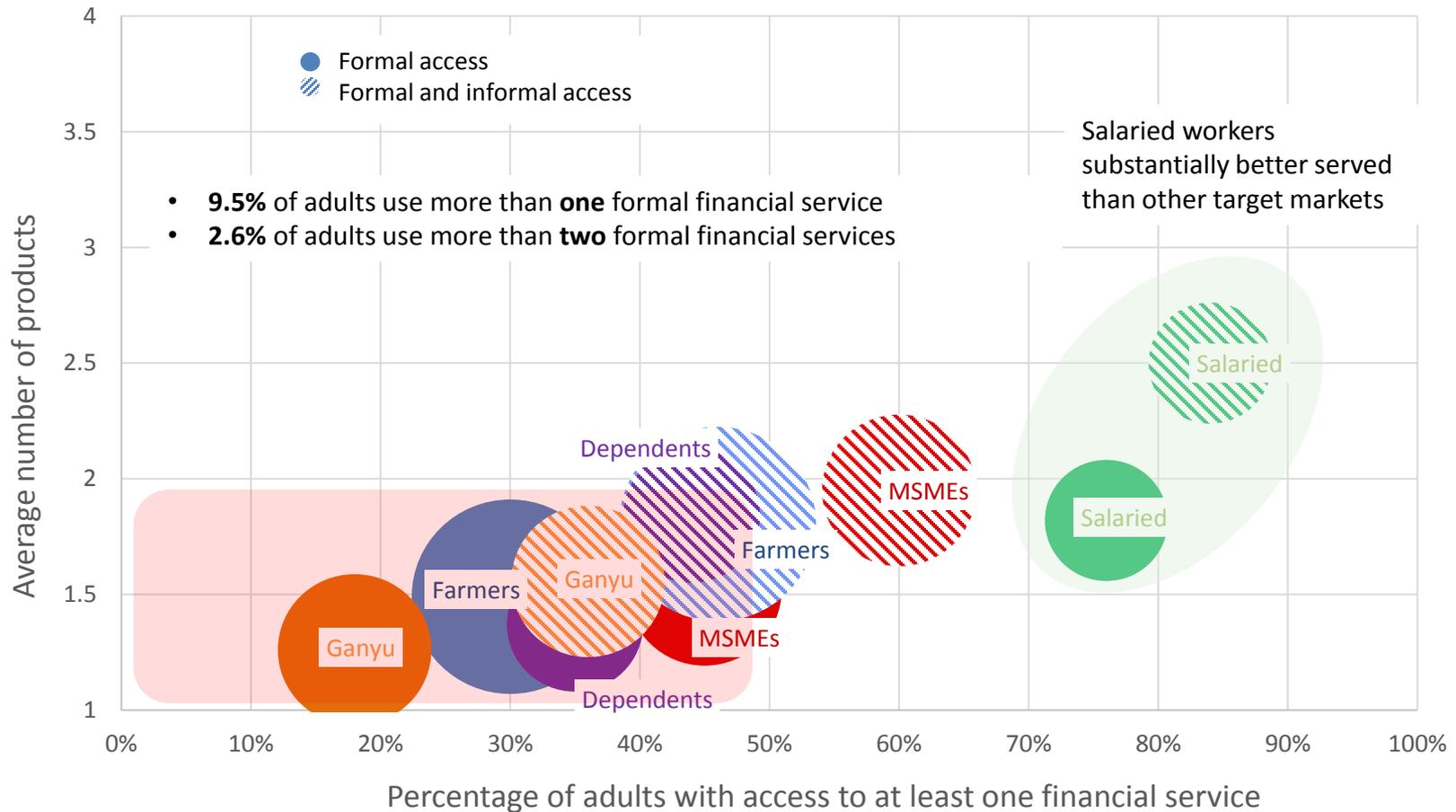
"I would have to postpone sending."

"I farm maize, cassava and vegetables, when it's not time to grow these crops then I become a full time tailor. This helps me to pay for my day to day expenses. The size of my farm is about 1-and-a-half acres. It takes me one month to prepare it because I use a hoe. Last season, I used about 2 bags of fertilizer I can get up to 100 bags if I have enough fertilizer. 17 bags of maize are for food consumption only."

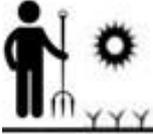
"Most of the time, when we are doing casual work we take the money as a pre-payment so we can buy maize meal and relish and eat for the day and it's gone. The following day you also have to do the same thing. By the time you finish all the work, all you have managed to buy is soap, so that you can at least, look presentable. Then you start your search again."



Introducing the target markets - Depth



Key target market needs

| Target Market | Size | Key Needs |
|--|-------------|---|
| Salaried Workers  | 506k 7% | <ul style="list-style-type: none">• Depth rather than breadth focus• Bank account as channel to distribute other financial services• Main potential market for insurance• Potential need for long term savings |
| MSMEs  | 1.2m 15% | <ul style="list-style-type: none">• Need a portfolio of financial services• Different types of MSMEs require different types of intervention |
| Dependents  | 1.3m 17% | <ul style="list-style-type: none">• Remittance receivers require cheap, reliable payments channel• High number of females: Those left behind by migrants, as head of household, will require a portfolio of products. |
| Farmers  | 2.6m 33% | <ul style="list-style-type: none">• Key source of income to sustaining livelihoods• Underserved due to distance from financial services• Particular need for capital up front for inputs• Consumption smoothing of seasonal income |
| Ganyu  | 2.1m 26% | <ul style="list-style-type: none">• Most vulnerable group, state support required, FS limited role• Consumption smoothing of irregular income |

**PAY
USING
VISA
HERE**

N3 The Bank of the Nation



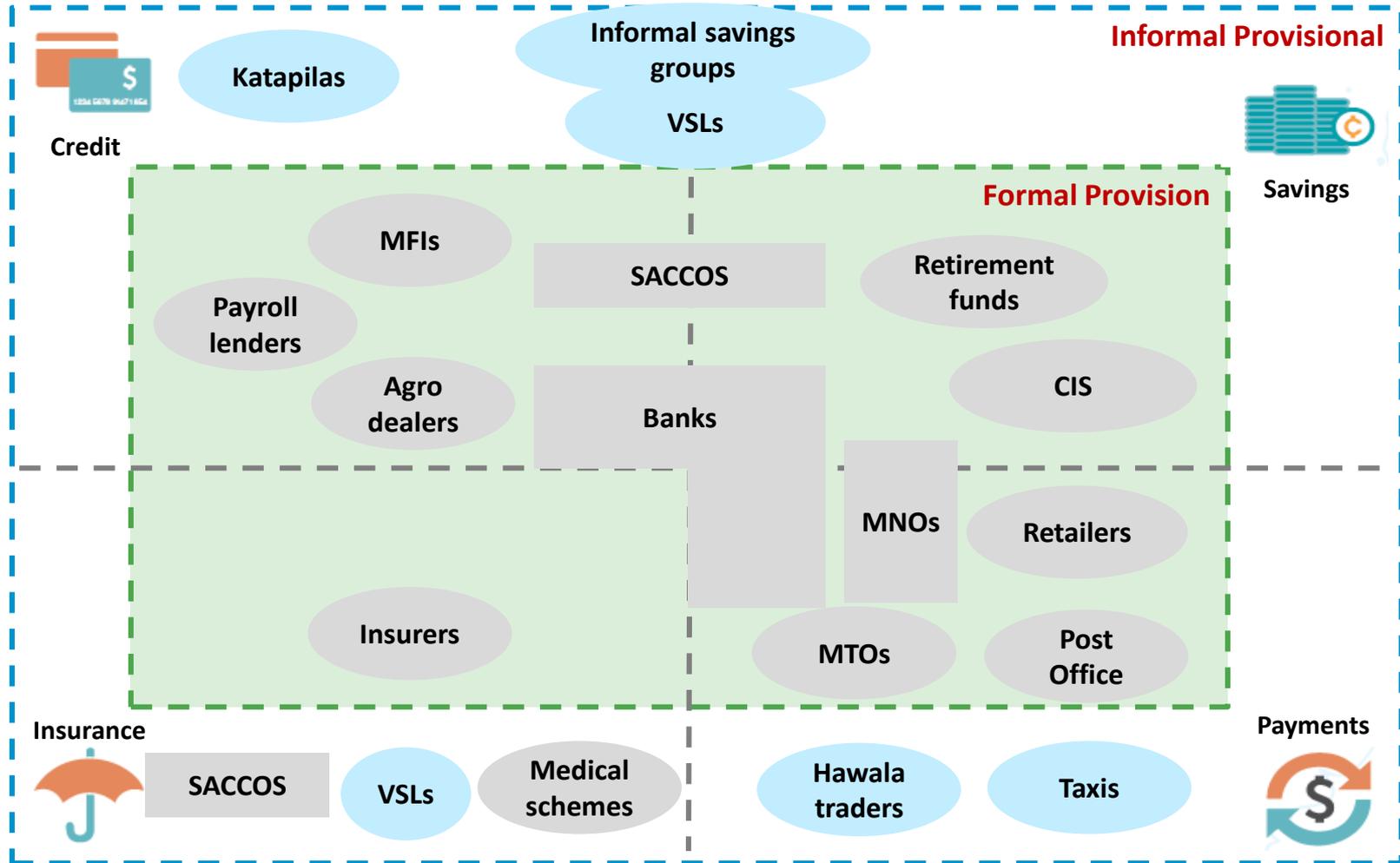
airtel
money khusa

- buy airtime
- send money
- pay bills

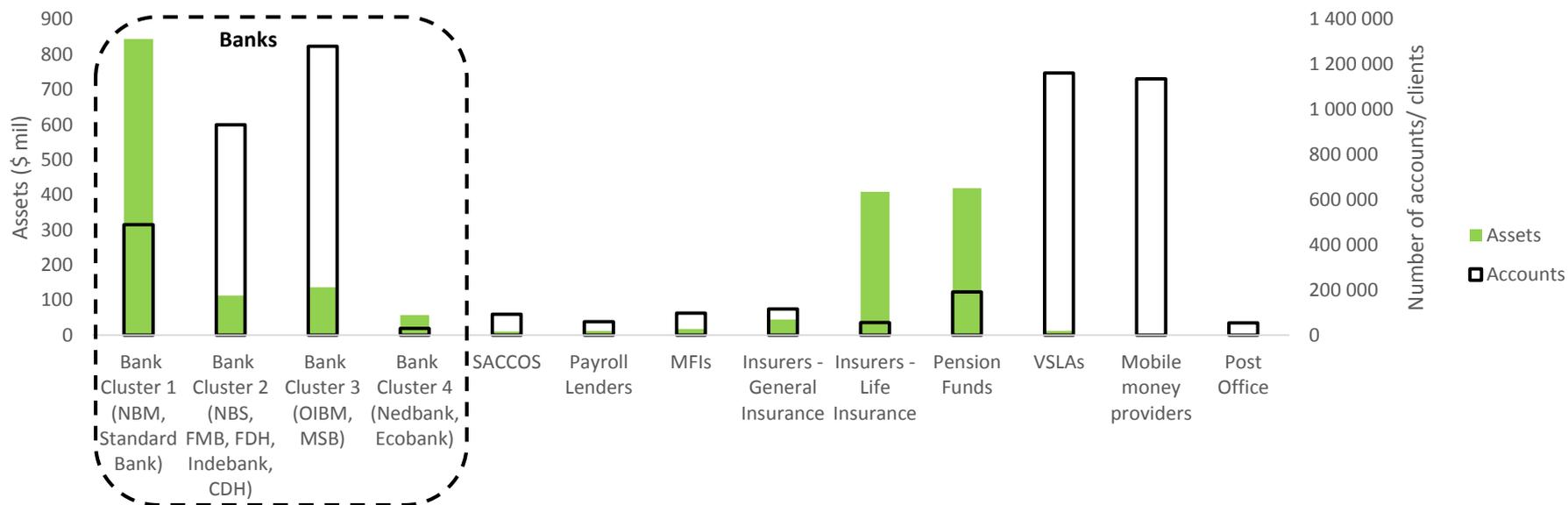
helps your money do more

PRODUCT MARKETS

Landscape of providers



Provider overview

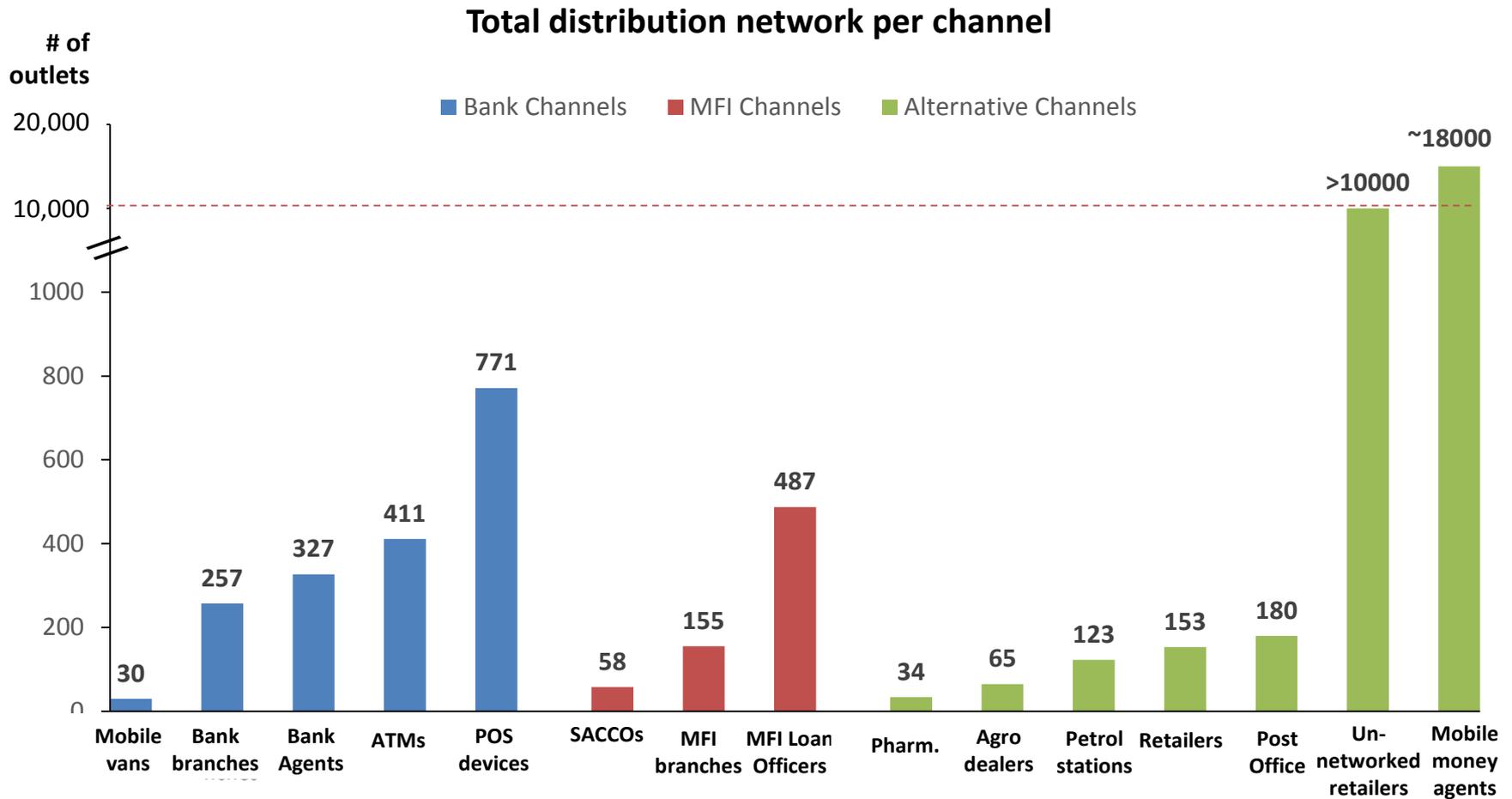


| | Bank cluster 1 | Bank cluster 2 | Bank cluster 3 | Bank cluster 4 | Total Banks | SACCOS | Payroll Lenders | MFIs | Insurers | Pension funds | VSLAs | MNOs | Post office |
|----------------------------|----------------|----------------|----------------|----------------|------------------|--------|-----------------|--------|----------|---------------|-----------|-----------|-------------|
| Accounts/clients | 490 000 | 932 908 | 1 280 000 | 30 484 | 2 733 392 | 93 196 | 60 054 | 98 315 | 172 999 | 191 256 | 1 162 732 | 1 136 538 | 55 000 pm |
| Assets (\$ million) | 844 | 113 | 137 | 58 | 1 152 | 11 | 12 | 18 | 454 | 419 | 12 | | |
| Profitability | 32% | 15% | 4% | 6% | 17% | | | | 64% | 41% | | | |
| Operating ratio | 36% | 34% | 41% | 63% | 37% | 82% | | | 11% | 5% | | | |
| No. of institutions | 2 | 5 | 2 | 2 | 11 | 58 | 5 | 8 | 11 | 1,777 | 65,000 | 2 | 1 |

*expense ratio

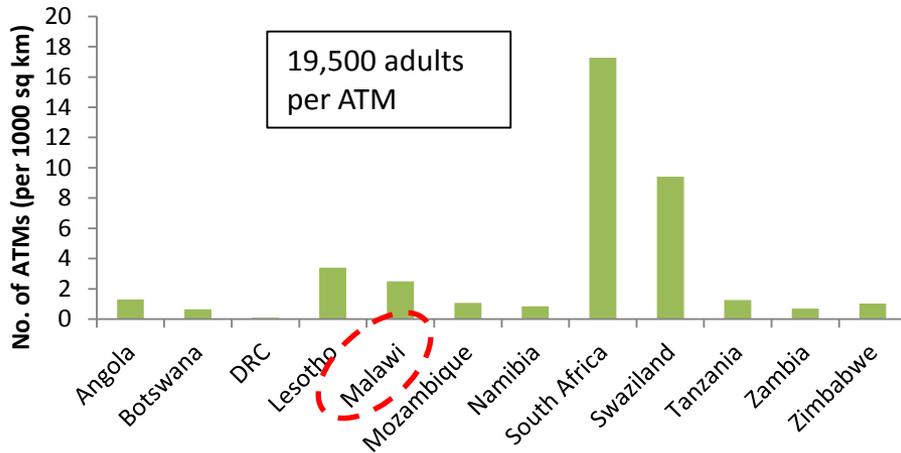
Source: Provider consultations and annual reports, 2014; RBM, 2014; MAMN, 2014; MUSCCO, 2014; FinScope, 2014

Landscape of distribution

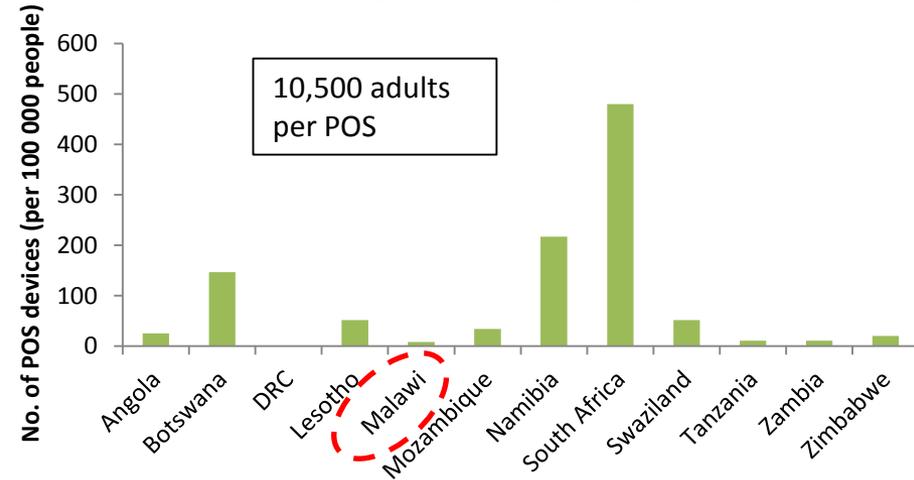


Bank infrastructure low compared to region

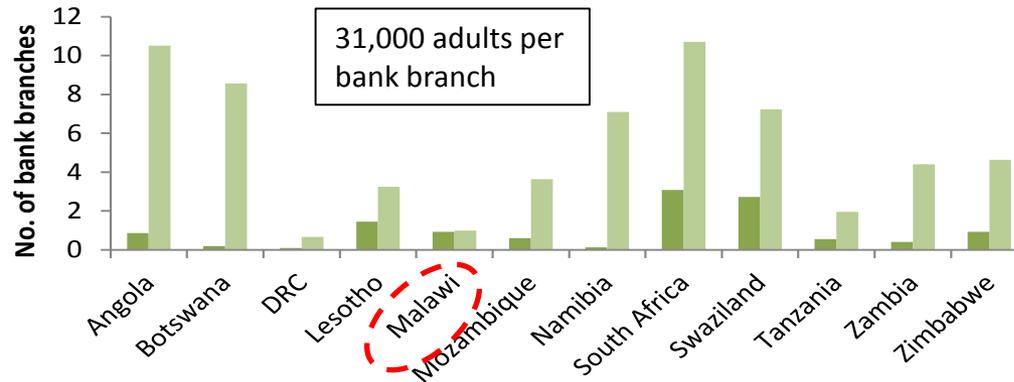
SADC ATM infrastructure



SADC POS infrastructure



SADC bank branch infrastructure



■ Branches (per 1 000 sq km)

■ Branches (per 100 000 people)

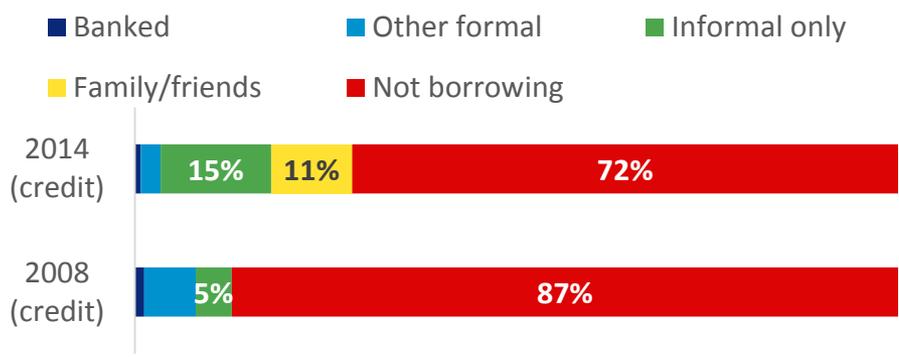


CREDIT

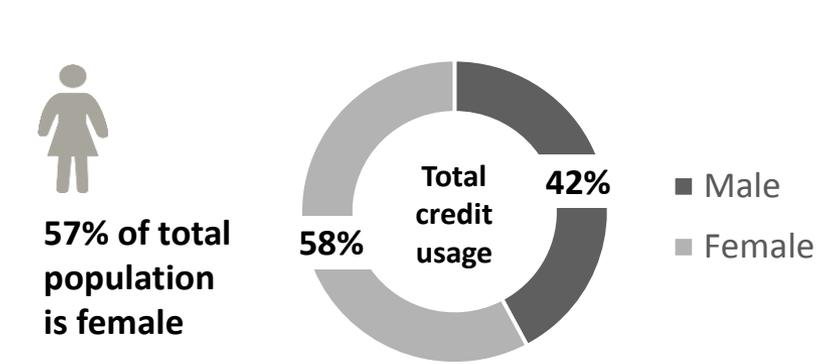
Credit usage: Formal decreased, informal larger role

275,000 use formal credit
2.8m use any credit
53% have used credit in last 12 months

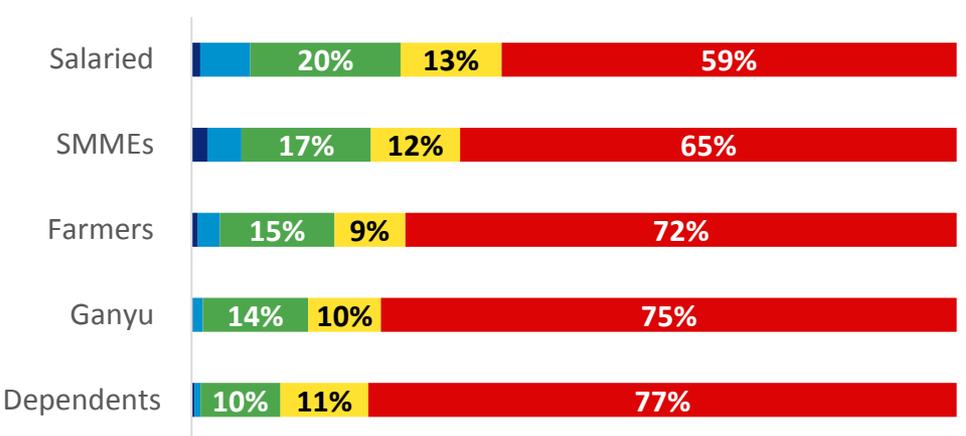
Total credit usage: 2008 - 2014



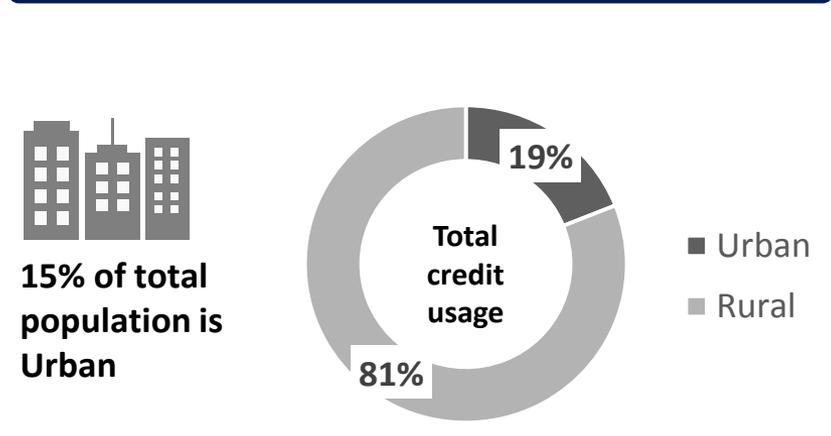
Total credit usage: Male vs. female



Total credit usage: Target markets

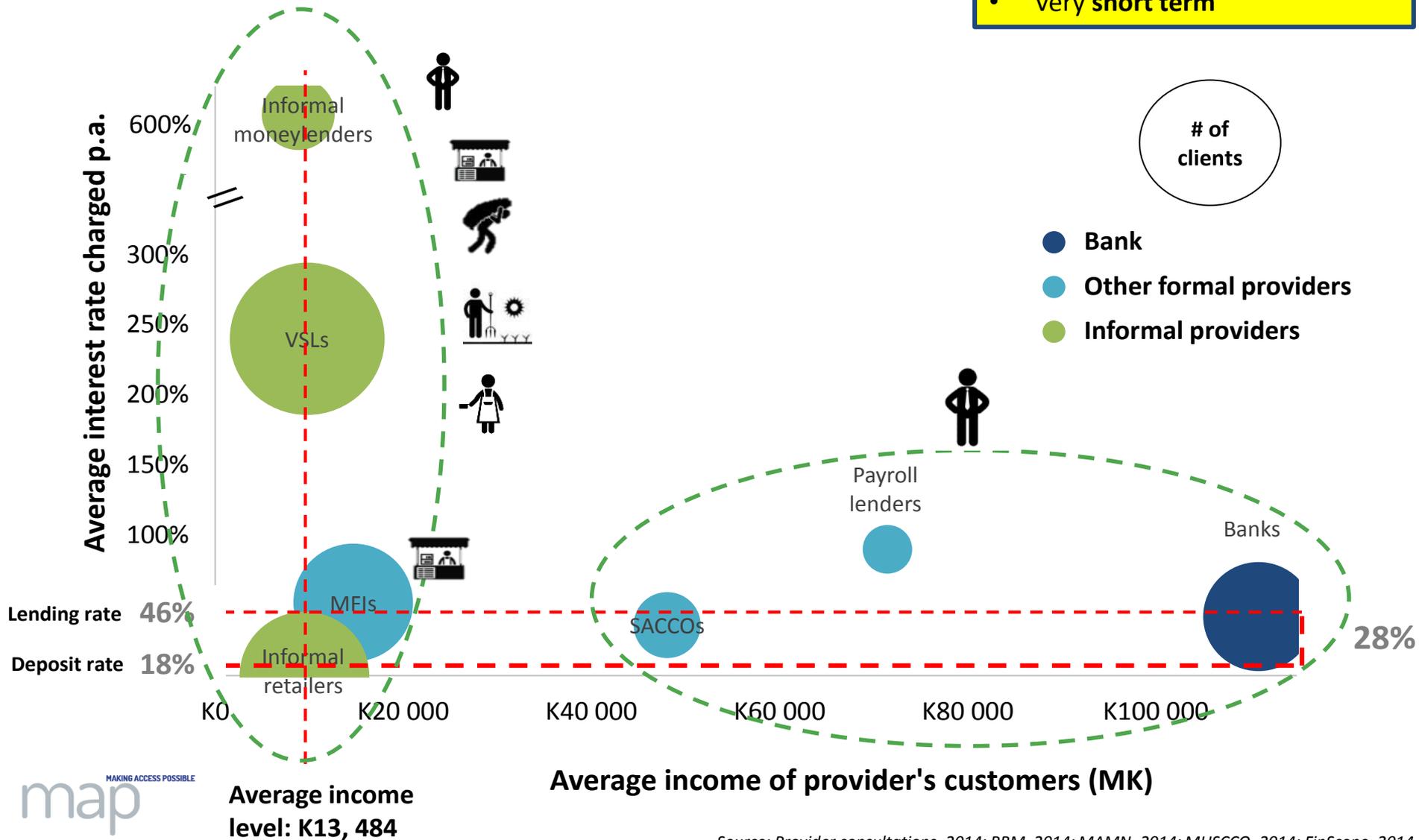


Total credit usage: Urban vs. Rural



Overview of credit provision

- **Very high cost of credit**
- **Limited provision of agricultural credit**
- Potential to **leverage VSLs** as conduits for formal loans
- **Very short term**



Source: Provider consultations, 2014; RBM, 2014; MAMN, 2014; MUSCCO, 2014; FinScope, 2014

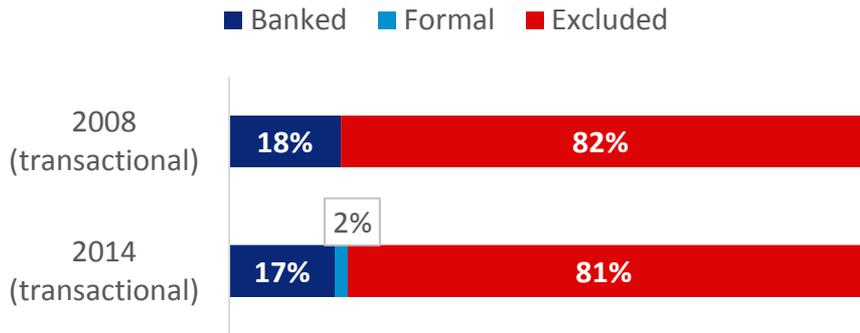


PAYMENTS

Uptake of transactional products

1.3m adults with bank accounts
1.5m adults with transaction accounts
99.7% of transactions in cash

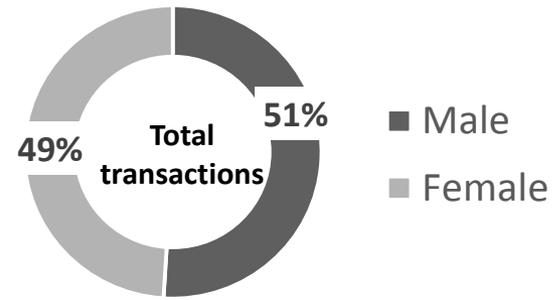
Total transactional usage: 2008 - 2014



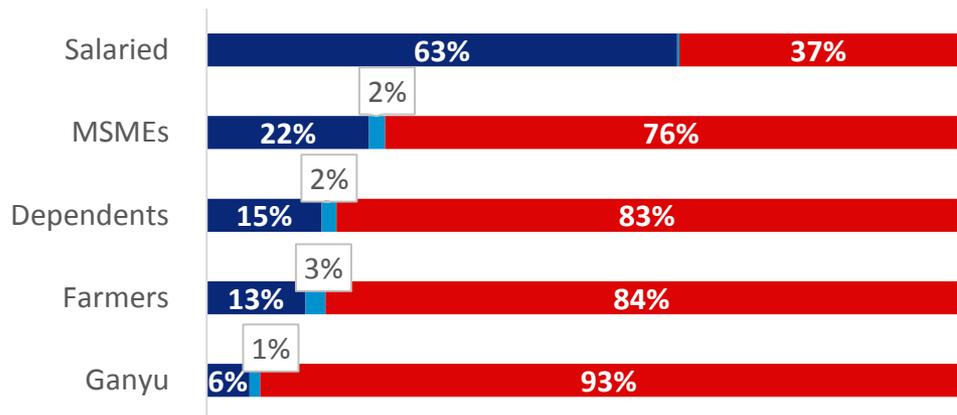
Total transactional usage : Male vs. female



57% of total population is female



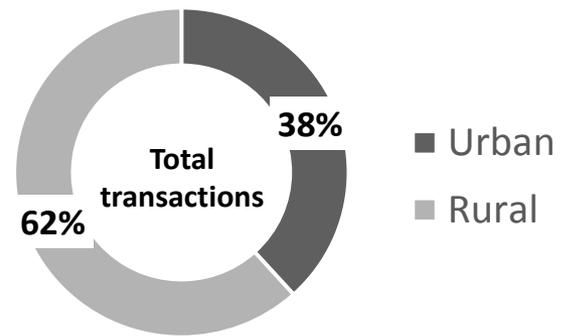
Total transactional usage : Target markets



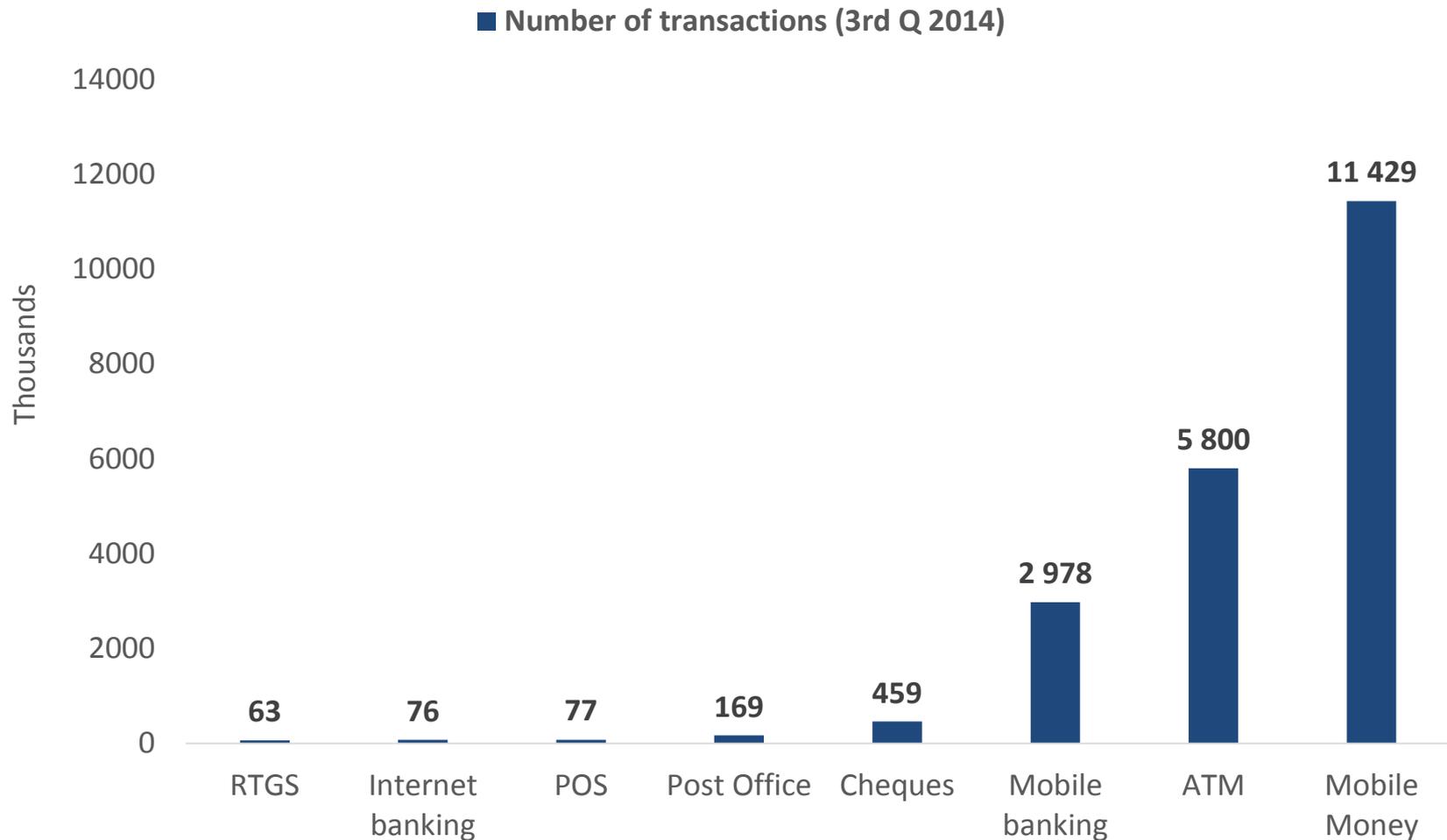
Total transactional usage : Urban vs. Rural



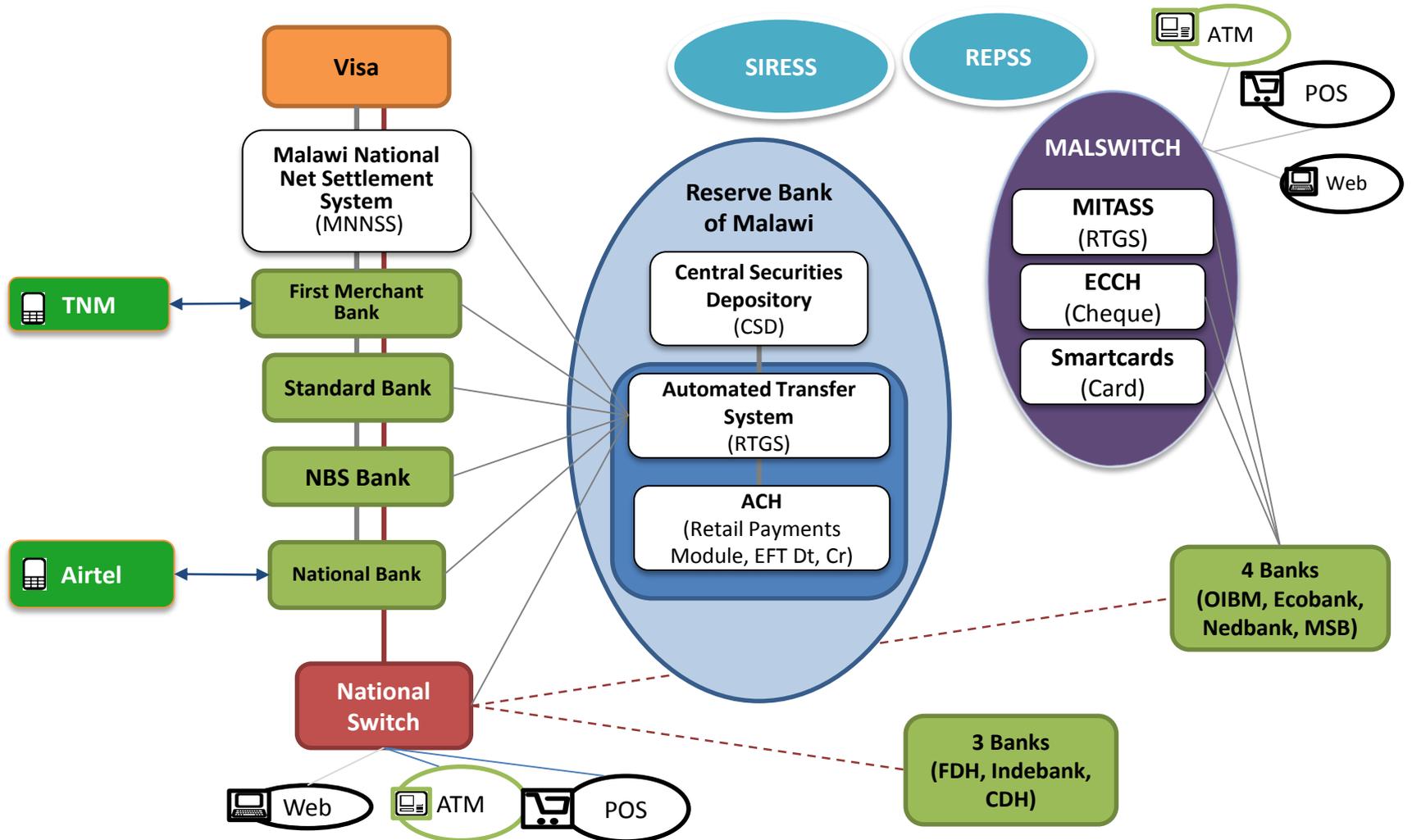
15% of total population is Urban



Payment channels used in Malawi



NPS Landscape

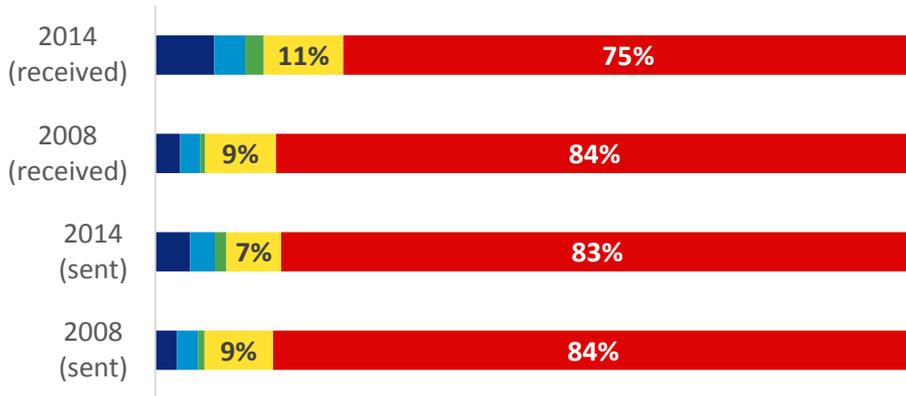


Remittances usage

1.2m adults send or receive remittances through formal channels
2.6m adults send or receive remittances through all channels
20% of all target markets (except Ganyu) send and receive remittances

Total remittance usage: 2008 - 2014

- Through a bank
- Informal
- Not sending/receiving remittances
- Other formal
- Family & friends



Total remittance usage : Male vs. female



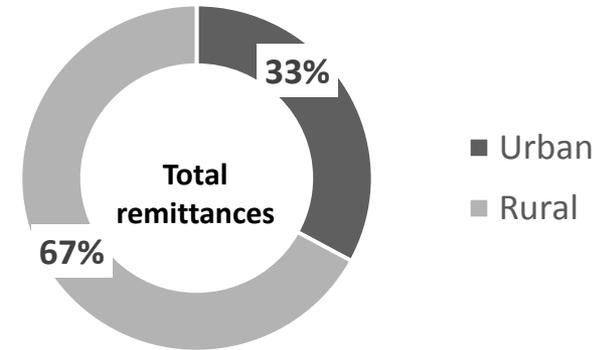
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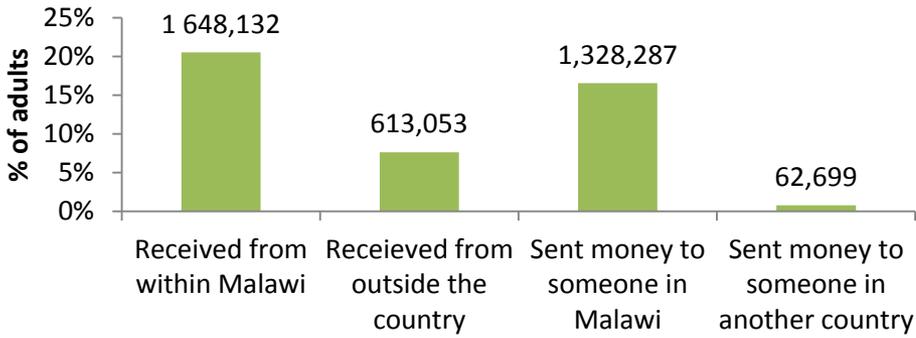
Total remittance usage : Urban vs. Rural



15% of total population is Urban



Total remittance usage : Cross-border vs. domestic





SAVINGS

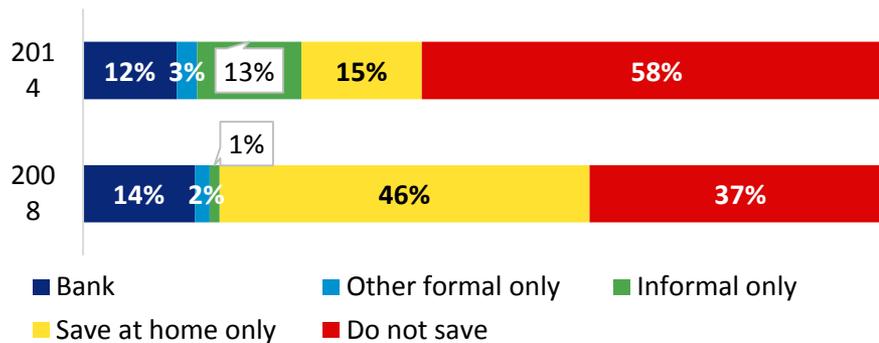
Savings usage: Overall savings decreased, informal increased

Total adults saving:

2014: 3 365 379

2008: 3 791 079

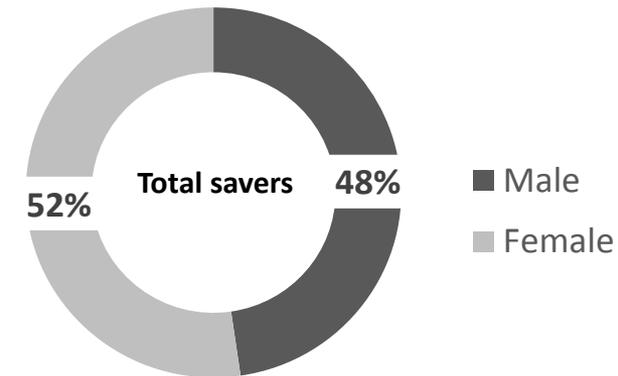
Total savings usage: 2008 - 2014



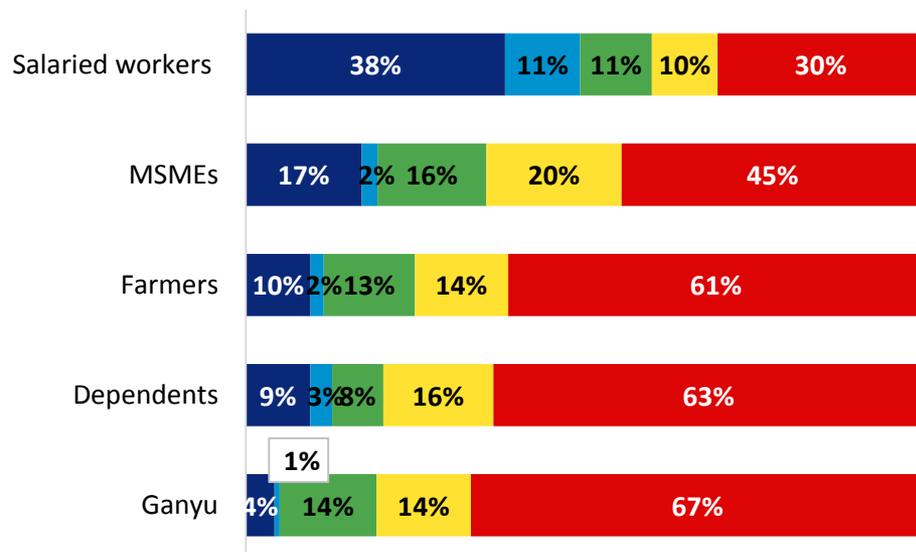
Total savings usage : Male vs. female



57% of total population is female



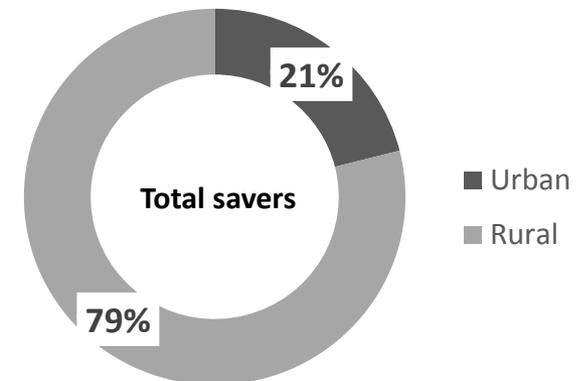
Total savings usage : Target markets



Total savings usage : Urban vs. rural



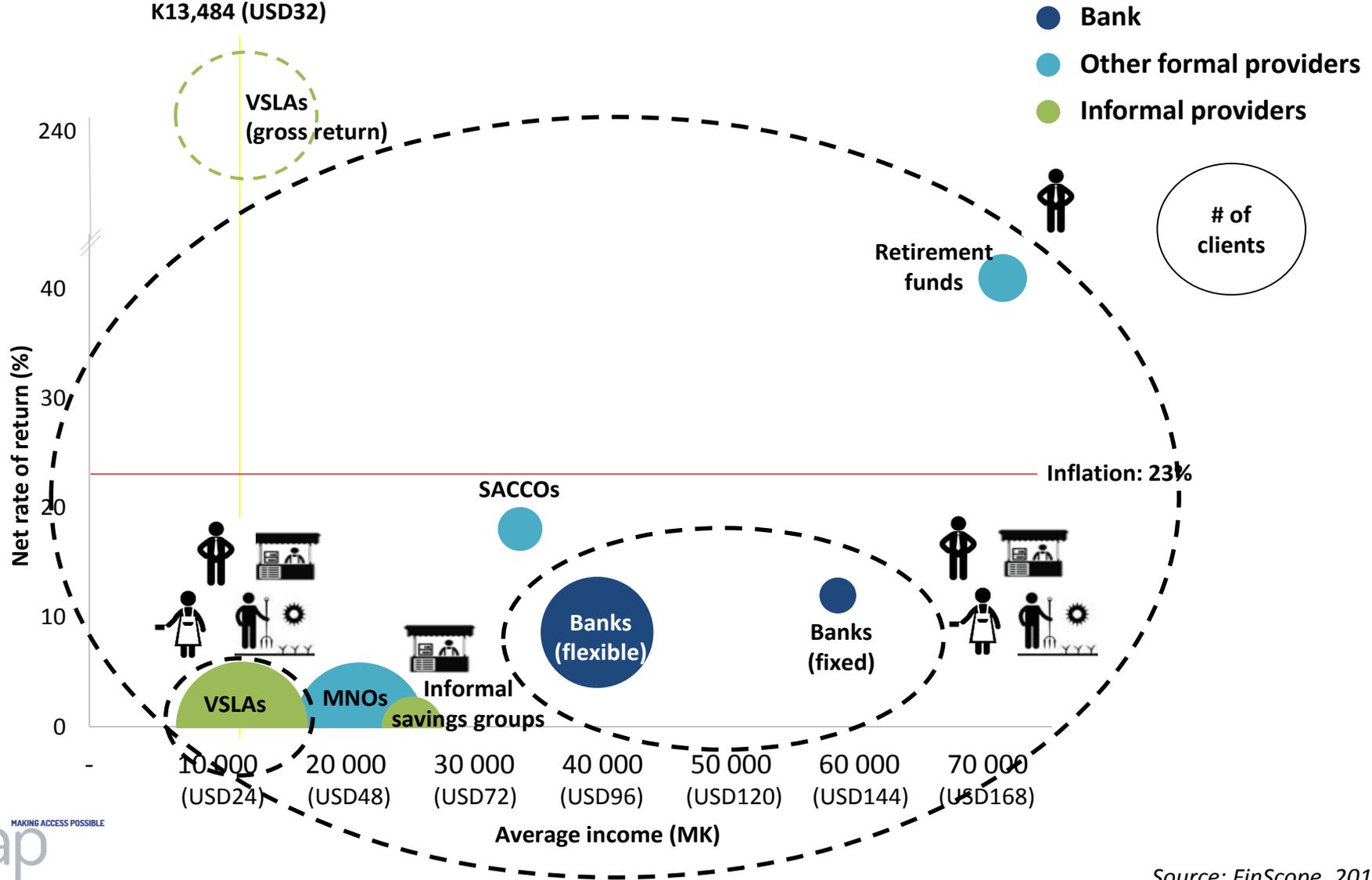
15% of total population is Urban



Banks, MNOs and VSLAs dominant providers
Main product is short-term savings

Provider overview

Average monthly income:
 K13,484 (USD32)



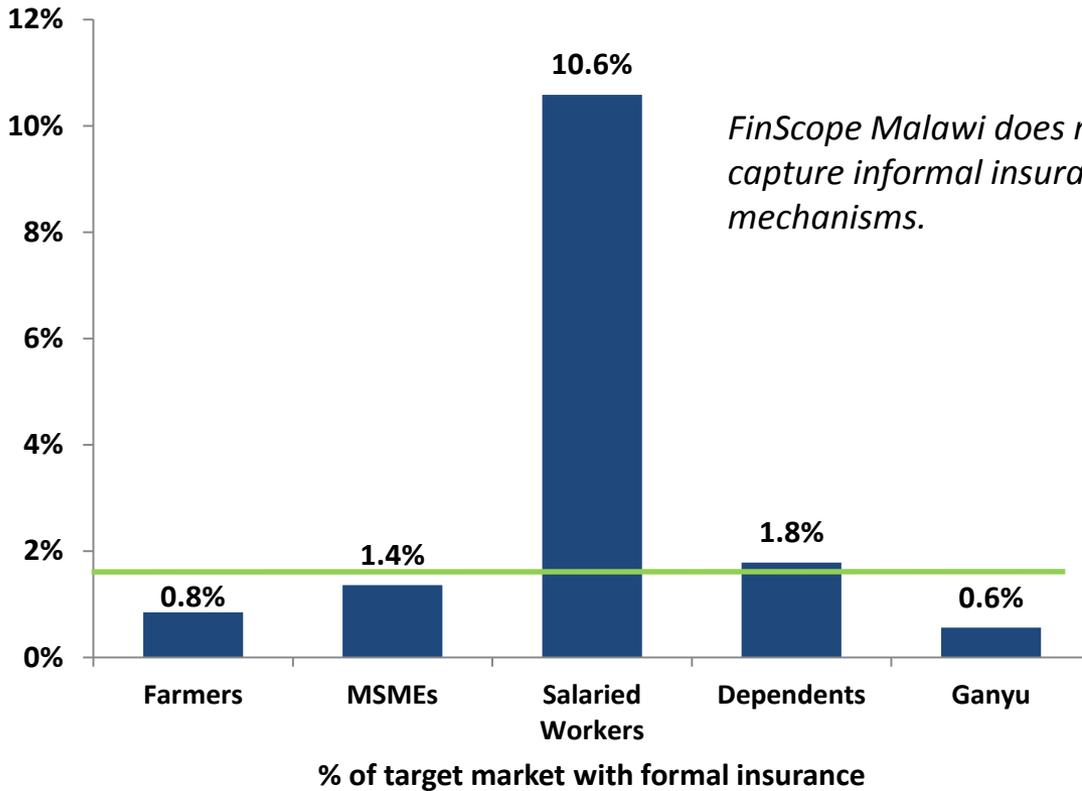


INSURANCE

Insurance uptake: Low insurance penetration

Total adults insured:
 2014: 136 000
 2008: 193 623

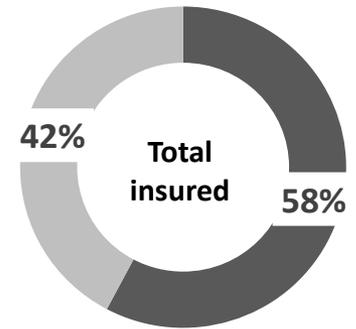
Total insurance usage : Male vs. female



FinScope Malawi does not capture informal insurance mechanisms.



57% of total population is female



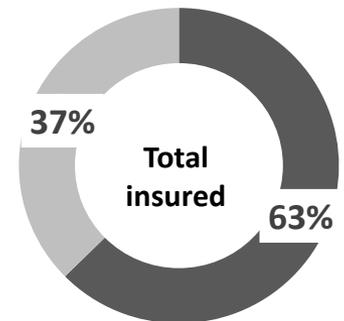
■ Male ■ Female

Total insurance usage : Urban vs. rural

Percentage of insured adults:
 1.7%



15% of total population is Urban



■ Urban ■ Rural

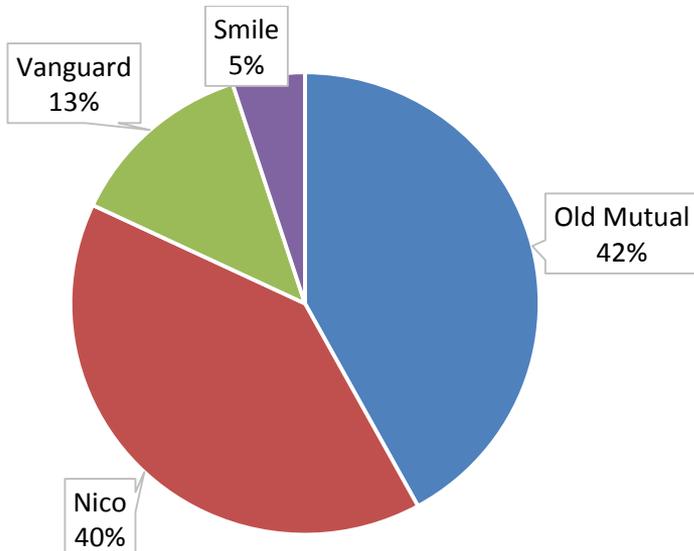
Total adults insured:
2014: 136 000
2008: 193 623

Providers overview

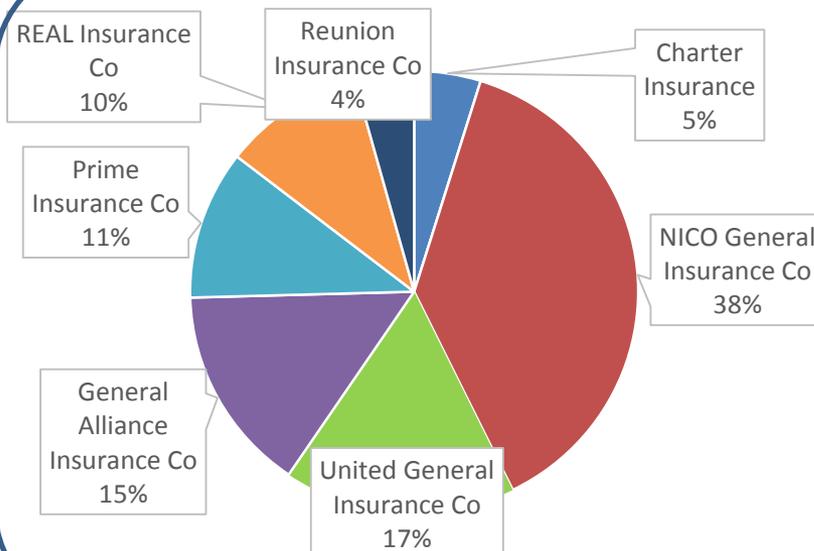
| Providers | No. of institutions | Claims ratio | Expense ratio |
|-------------|---------------------|--------------|---------------|
| Life | 4 | 15% | 3% |
| General | 7 | 62% | 28% |
| Reinsurance | 1 | - | - |

Medical schemes: MASM (120,000 clients) + smaller providers such as Liberty, Metropolitan and Horizon

Life insurers market share (premium)



General insurers market share (premium)





PRIORITIES

Use cases across product markets

Credit



- Consumption smoothing (30%)
- Risk mitigation (11%)
- Investment:
 - Farming (8%)
 - Starting or expanding a business (7%)

Payments



- Bill payments (P2P, P2B, B2B)
- Spot payments (P2B)
- Remittances (P2P)
- Social welfare transfers (G2P, D2P)

Savings



- Consumption smoothing (17%)
- Investment - farming (7%)
- Risk mitigation
 - General (13%)
 - Health (5%)

Insurance



- Health risk (27%)
- Theft risk (22%)
- Natural disaster risk (18%)

Barriers to financial inclusion

Low ✓ Med ✓✓ High ✓✓✓

| | Access Barriers | | | | Usage Barriers | | | | |
|-----------|-----------------|------------------|-------------|---------------|----------------|-------|-------------------|---------------|-------|
| | Proximity | Product features | Eligibility | Affordability | Capability | Value | Doorstep barriers | Hassle Factor | Trust |
| Payments | ✓✓✓ | | ✓✓ | ✓✓✓ | ✓✓ | ✓✓✓ | ✓✓ | ✓✓ | ✓✓ |
| Credit | ✓ | | ✓✓✓ | ✓✓✓ | ✓✓ | | | | |
| Savings | ✓✓✓ | ✓✓ | ✓✓ | | ✓✓ | ✓✓ | ✓✓ | ✓✓ | |
| Insurance | ✓✓ | ✓✓ | | ✓✓✓ | ✓✓✓ | | | | |

Limited physical infrastructure

Cost of accessing services high (transport, lending rates, premiums)

Limited knowledge to effectively engage with financial services

Negative real returns on savings and lack of liquidity for effective payments

Financial inclusion potential in Malawi

Financial Inclusion for growth and welfare



Generate growth and employment



1. Critical reliance on savings
2. Finance for MSMEs and agriculture



Develop human capital



1. Critical reliance on savings
2. Develop the payments ecosystem



Improve household welfare



1. Develop the payments ecosystem
2. Critical reliance on savings
3. Risk mitigation to reduce vulnerability
4. Consumer empowerment and education

Developing a payments ecosystem

Financial Inclusion for growth and welfare



Generate growth and employment



1. Critical reliance on savings
2. Finance for MSMEs and agriculture



Develop human capital



1. Critical reliance on savings
2. **Develop the payments ecosystem**

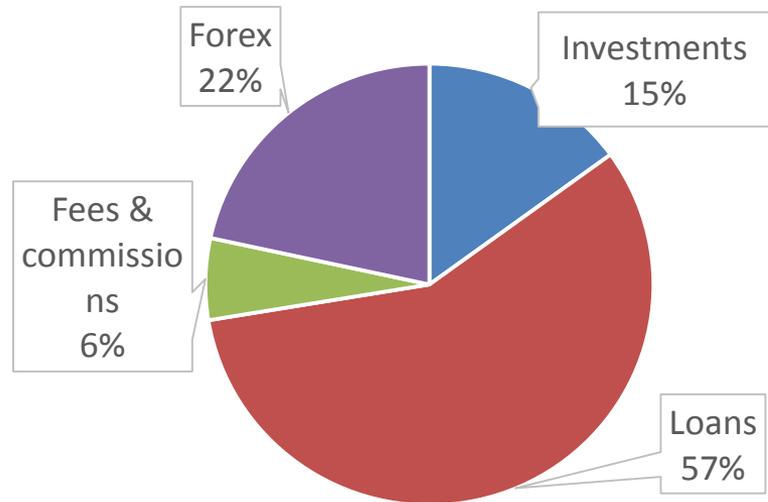


Improve household welfare



1. **Develop the payments ecosystem**
2. Critical reliance on savings
3. Risk mitigation to reduce vulnerability
4. Consumer empowerment and education

Banks' business model credit based - limits incentive to increase distribution

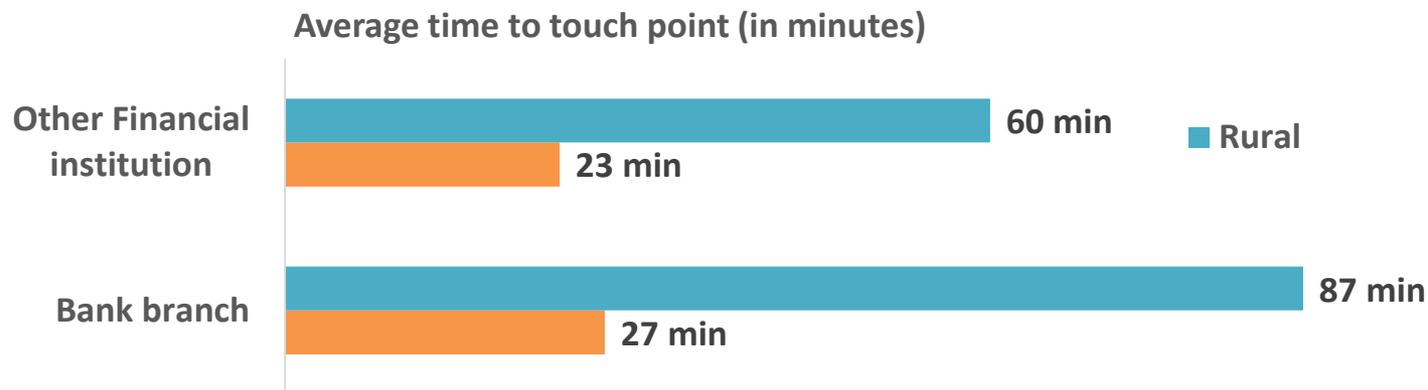


Distribution infrastructure

- 10,500 adults per POS devices
- 19,500 adults per ATM
- 31,000 adults per bank branch
- 25-30 mobile vans
- 327 bank agents between two banks

| | Malawi current account | Malawi savings account | Swaziland | South Africa | Lesotho |
|---|------------------------|------------------------|-----------|--------------|---------|
| ATM withdrawals--on us (w/d: \$10 each) | \$0.12 | \$0.12 | \$0.40 | \$0.43 | \$0.42 |
| Deposit (\$50) – counter | \$0.00 | \$0.00 | \$1.83 | \$1.08 | \$1.18 |

Many Malawians must travel long distances at great expense to access banks



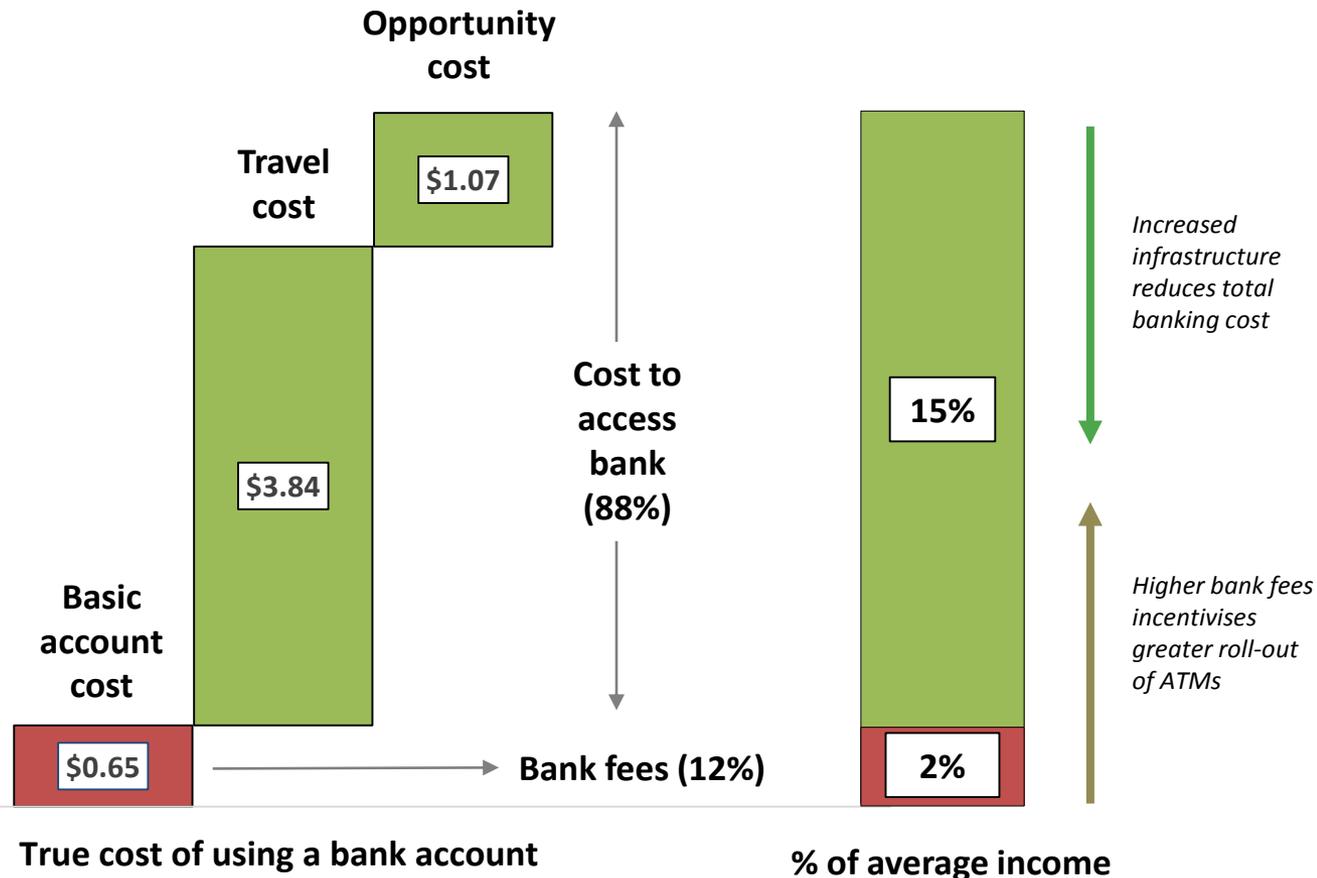
| Provider | Never goes | Average time taken (minutes) | % within 30 mins | Most common method of travel | Cost using public transport (K) |
|----------------------|------------|------------------------------|------------------|------------------------------|---------------------------------|
| Banks | 74% | 65 | 33% | Public transport | 801 |
| Other formal | 84% | 49 | 53% | Walk | |
| Post office | 73% | 60 | 41% | Walk | |
| Market | 5% | 43 | 59% | Walk | |
| Private money lender | 83% | 37 | 71% | Walk | |

Cost to access bank infrastructure the primary cost of using a bank account

Opportunity cost = average trip to a bank takes ½ a day (FinScope, 2015)

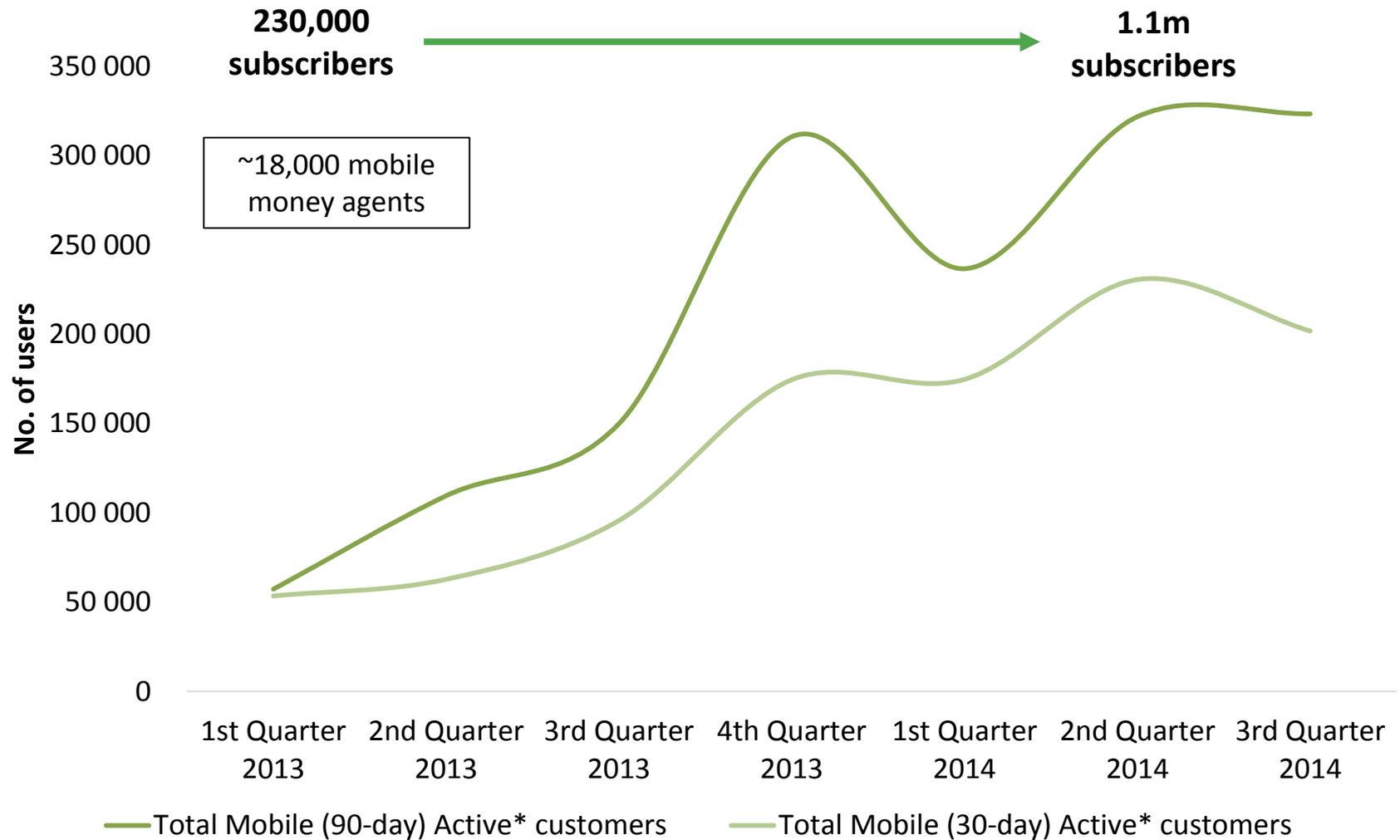
Travel Cost = average 2 trips monthly using public transport (FinScope, 2015)

Basic account cost = monthly fee + 2 ATM withdrawals + 1 deposit on a basic savings account

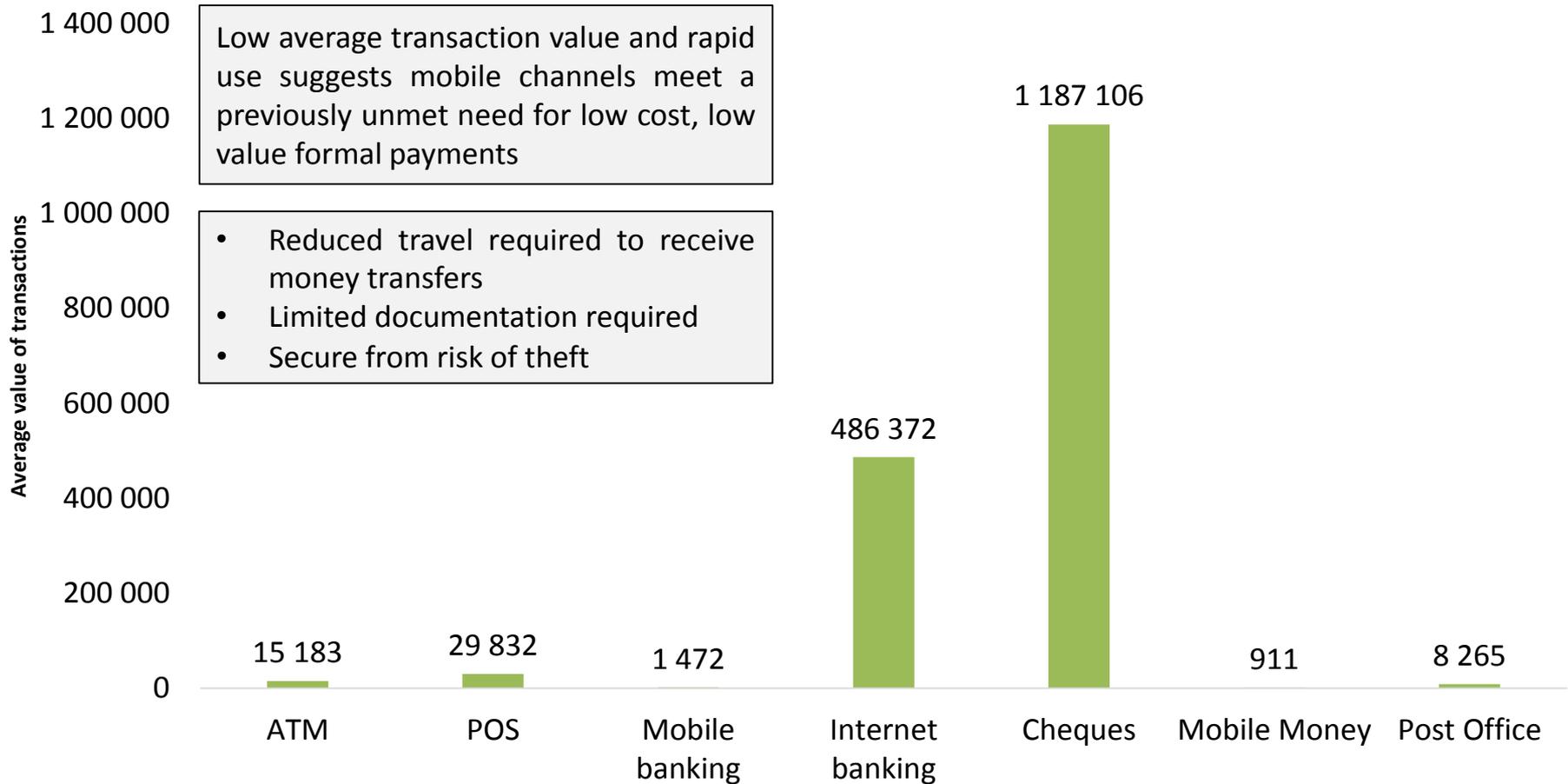


Increasing the cost of encashment would reduce the cost of banking for customers if it incentivised banks to increase infrastructure
BUT size of interchange fee accruing to the acquiring bank critical (opportunity for next 3 years limited)

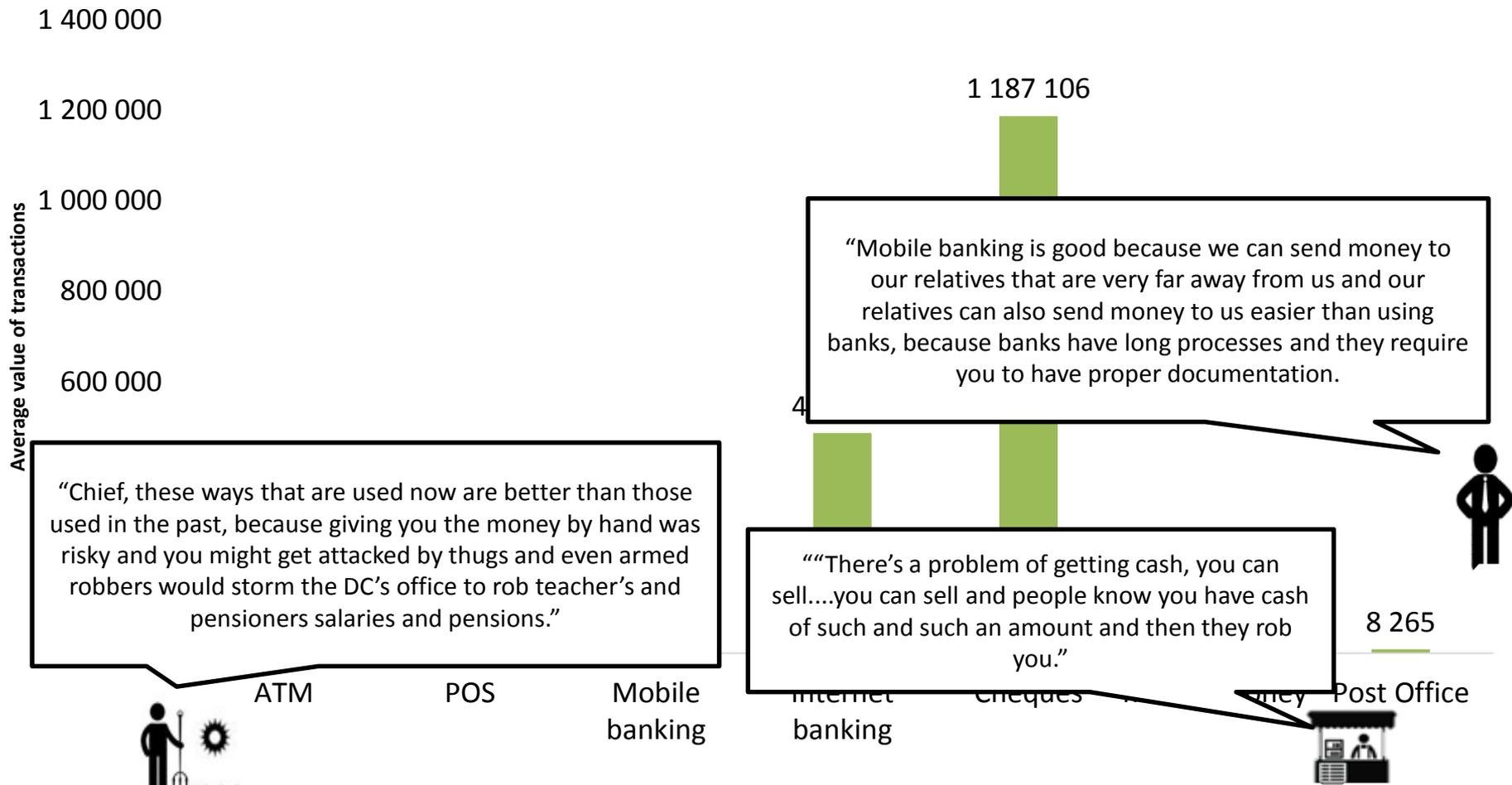
Rapid uptake of mobile money...



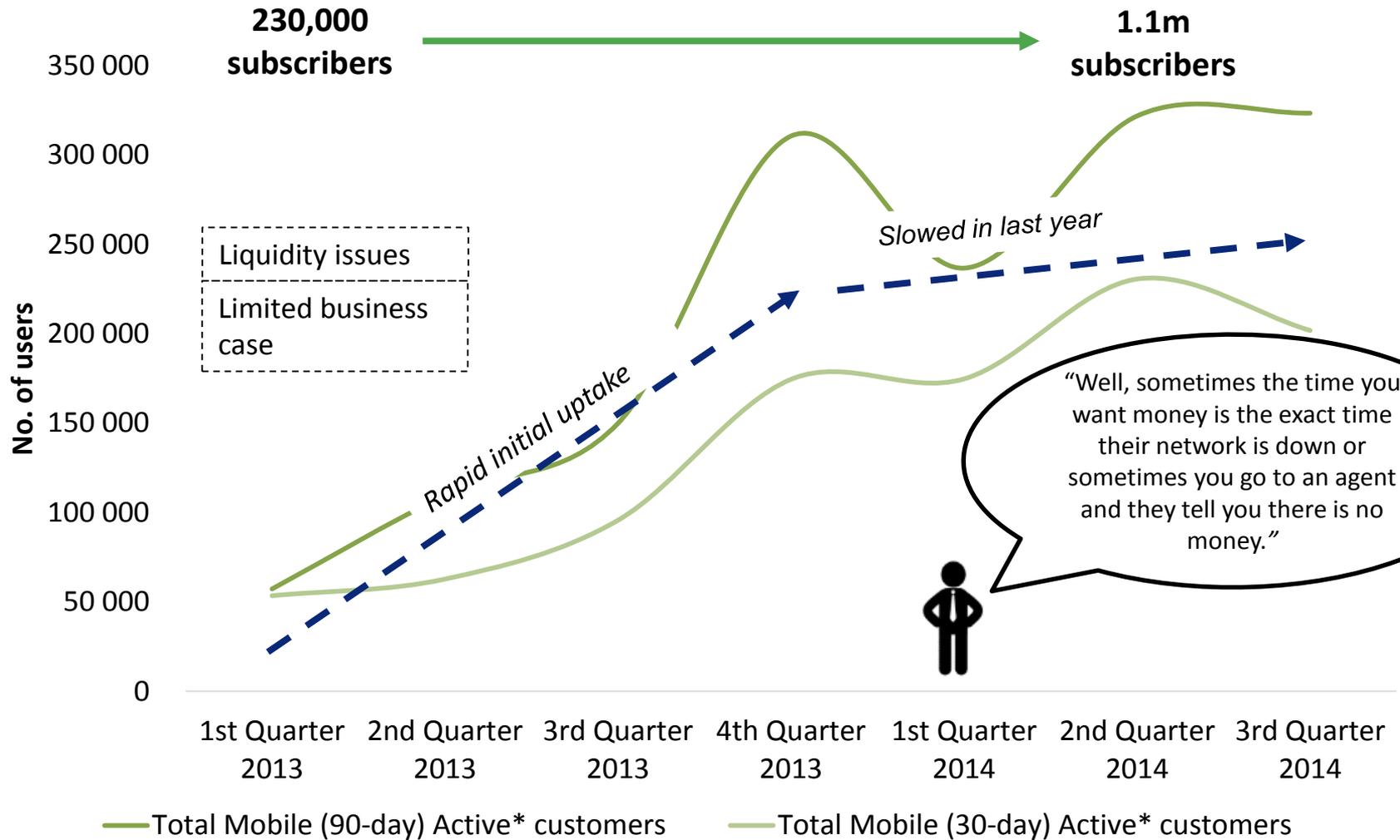
... as it meets a previously unmet need



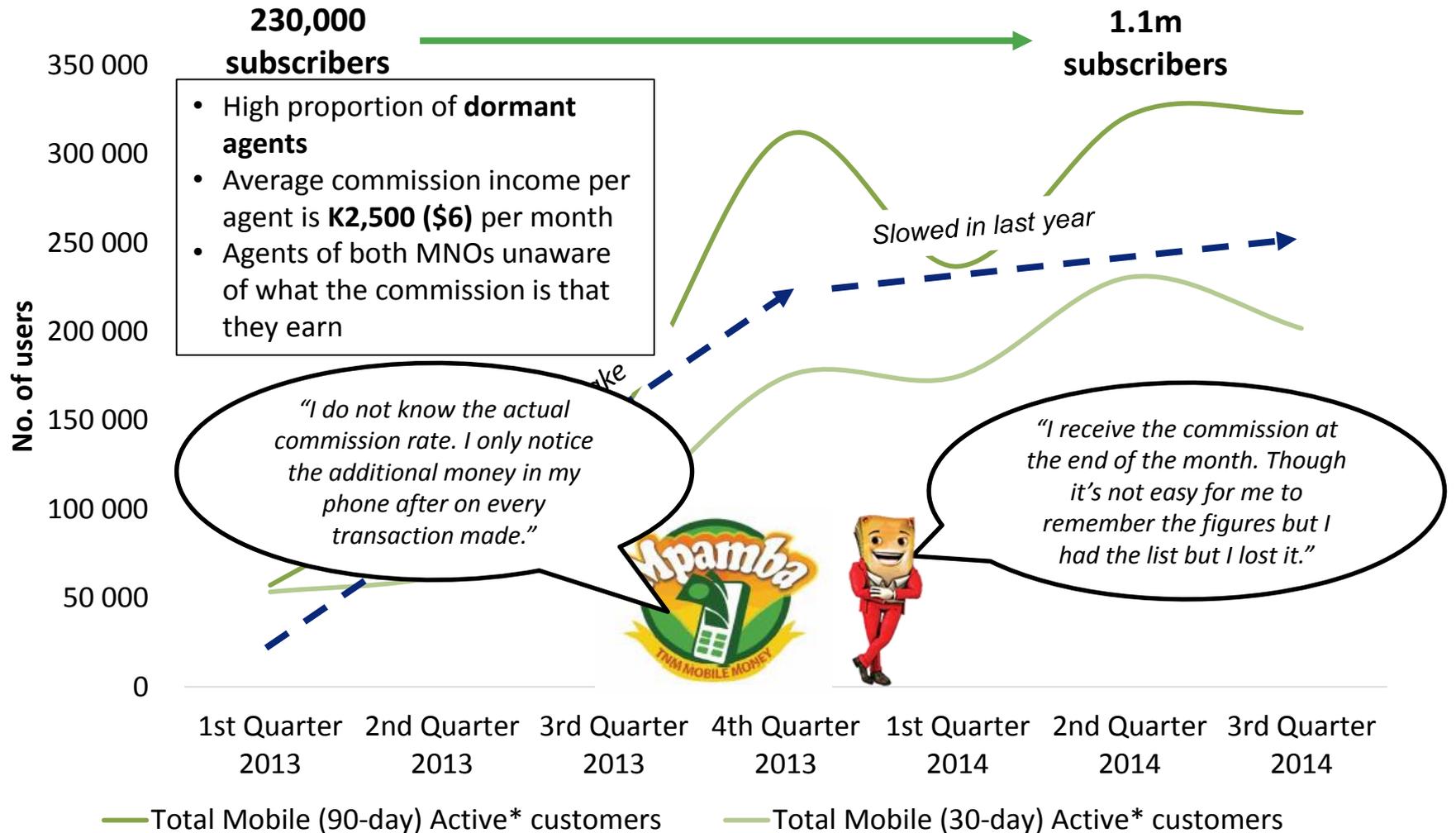
... as it meets a previously unmet need



However, initial growth has slowed

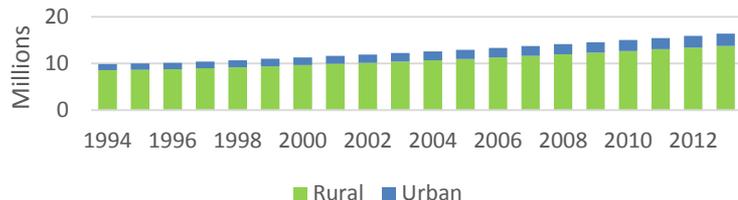


However, initial growth has slowed



Rapid population growth and migration increasing demand for low cost, efficient remittances

Malawi Population



- Population growth rate: 2.8%
- Rate of urbanisation: 3.5%
- 138 people per sq. km; 8th in Africa, more than twice the global average
- Farm sizes declining

| | Percentage cost | Time taken | No. of clients |
|--|-----------------|----------------|----------------|
| Domestic remittances | | | |
| Post Office | 10% | Immediate | 120 000 |
| Banks (account)* | K219 (\$0.53) | Up to 48 hours | 585 033 |
| Banks (non-account)** | 5% | Immediate | |
| Retailers*** | 5-10% | Same day | - |
| Mobile money | K250 (\$0.60) | Immediate | - |
| Informal | ~10-20% | | 203 608 |
| Family & friends | - | | 882 283 |
| Cross border remittances (SA to Malawi) | | | |
| Post Office | 3% | >6 days | 111 481 |
| MTAs | 13-16% | Same day | |
| Banks | 27% | 3-5 days | 190 279 |
| Informal | ~10-20% | | 111 481 |
| Family & friends | - | | 376 780 |

*To send using a bank account the basic cost was calculated as the weighted average across all 11 banks of the monthly service fee of an account + the cost of a cash deposit + the cost of a cash withdrawal

** Zakika

*** Zoona & Peoples

Finance for MSMEs and agriculture

Financial Inclusion for growth and welfare



Generate growth and employment



1. Critical reliance on savings
2. **Finance for MSMEs and agriculture**



Develop human capital



1. Critical reliance on savings
2. Develop the payments ecosystem



Improve household welfare



1. Develop the payments ecosystem
2. Critical reliance on savings
3. Risk mitigation to reduce vulnerability
4. Consumer empowerment and education

MSME Context



1.2m
15%

MSME Policy (2012)

- Increase and diversify MSMEs' contribution to GDP by increasing competitiveness
- Capacitate MSMEs and increase access to finance
- Coordinate stakeholders and reduce regulatory costs of doing business

Enabling environment

WB BESTAP: Reduce regulatory burden and cost of doing business

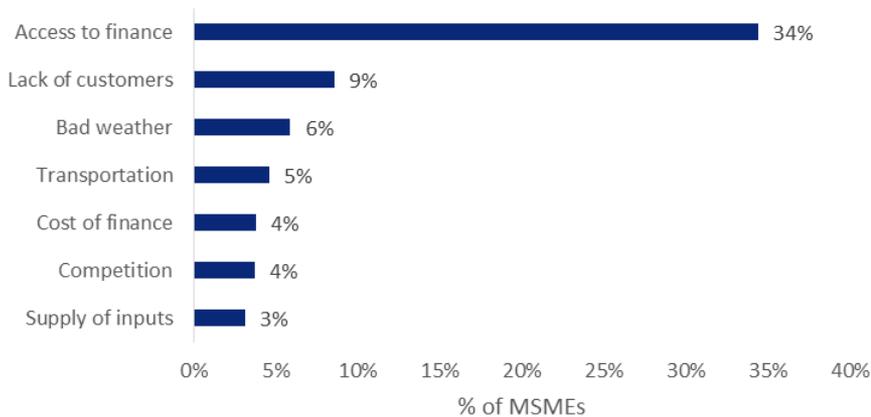
Training

- SMEDI acts as coordinator of government, donors and MSMEs to promote MSME development
- Private training providers
- MFIs linked to loans

Subsidised credit

- 10-15 providers
- 100,000 loans (\$18m)
- Average loan size: \$180 (range from \$20 – \$5,000)
- NPL ratio: 4%

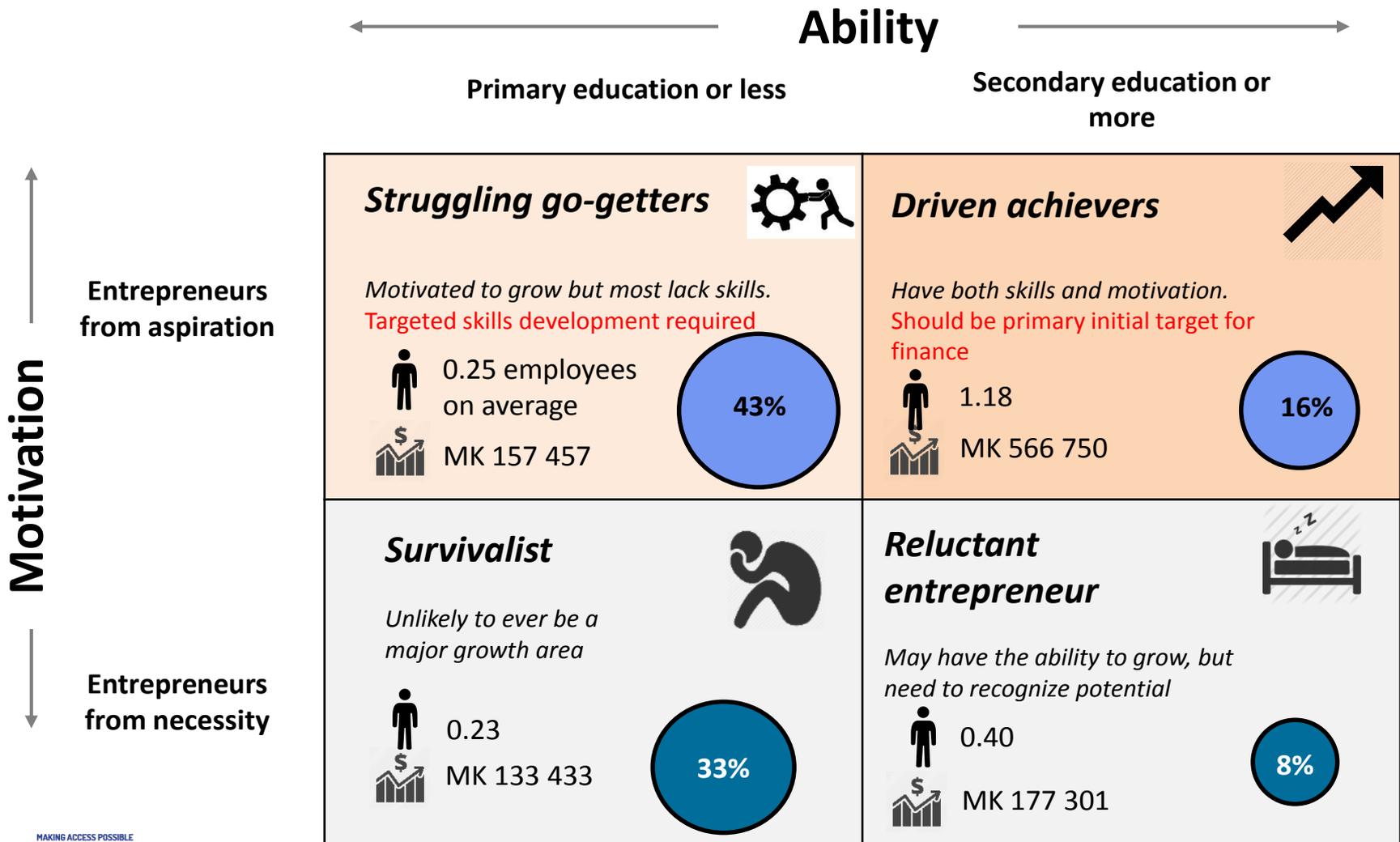
Biggest obstacle to growth



Ease of doing business (Rank out of 189)



Segmenting the MSMEs



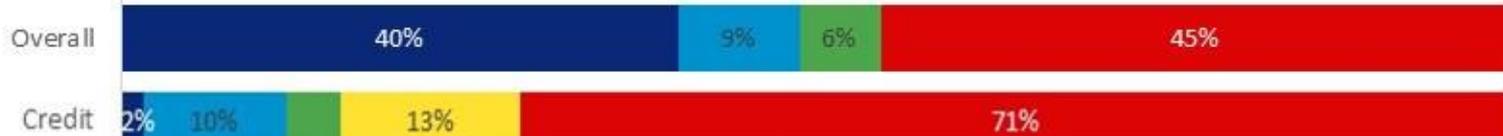
MSMEs' access to credit



Driven achievers



Reluctant entrepreneurs



Struggling go-getters



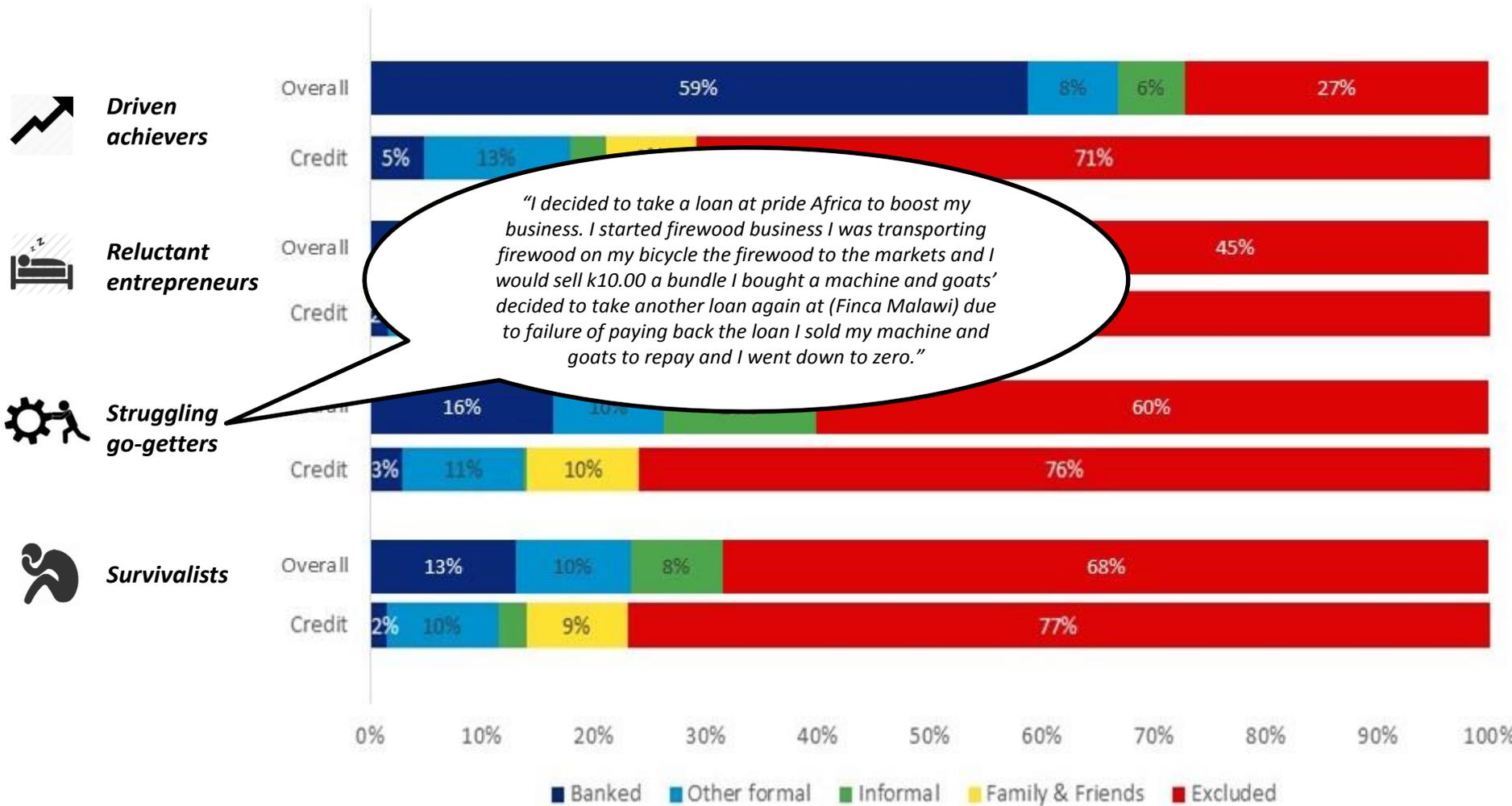
Survivalists



0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

■ Banked ■ Other formal ■ Informal ■ Family & Friends ■ Excluded

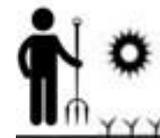
MSMEs' access to credit



Farmer context

Key issues for agriculture production:

- Land degradation and ownership (fragmentation)
- Large % of rain-fed crops
- Inadequate access to inputs
- Low output prices (as compared to inputs)
- Minimal access to credit
- Inadequate use of technology
- Production of cash crops & maize export ban
- Low beneficiation
- Infrastructure ltd
- Natural disasters



2.6mil adults
33% of popl

Gov support initiatives:

Draft NAP (National Agricultural Policy)

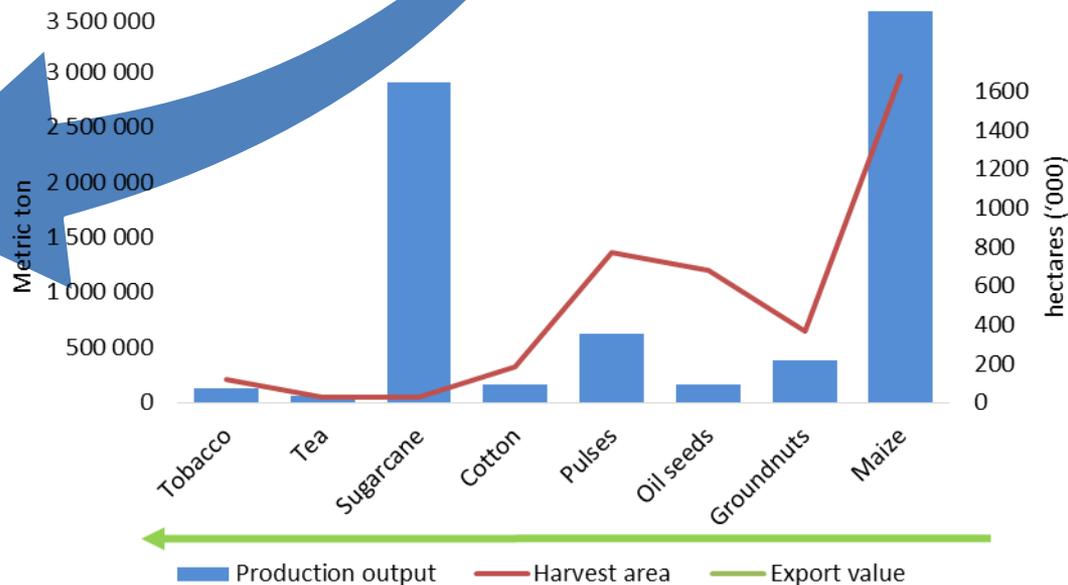
ASWAp (Agriculture Sector Wide Approach)

FISP (Farm Input Subsidy Programme)

NWDP (National Water Development Programme)

Ltd extension services (training)

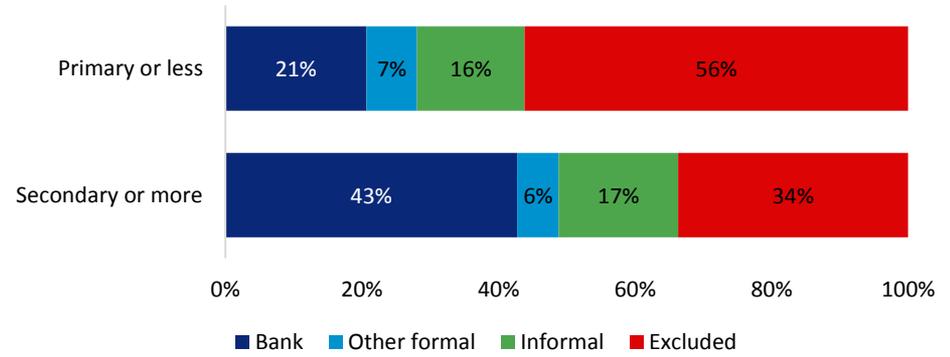
Various donor schemes



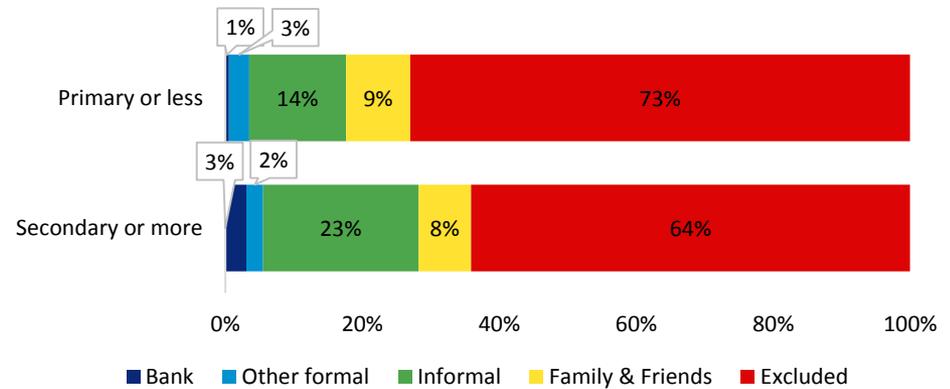
Farmer education dividend

| | Primary education or less | Secondary education or more |
|---|---------------------------|-----------------------------|
| No .of  | 2 376 017 | 255 476 |
| % of  | 43% | 62% |
| Ave. \$ | MK 10 149 | MK 25 278 |

Overall access



Credit access

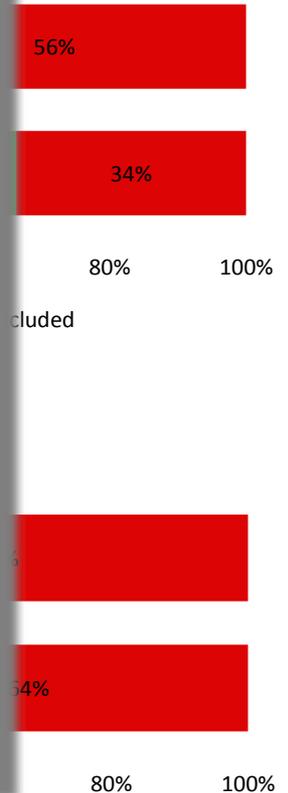


Farmer education dividend

Key issues for farmer credit access:

- Cost of credit
- Farmer context increases credit risk
 - Income profile
 - Crop profile
 - Side-selling
 - Natural disaster risk
 - Value chains and beneficiation underdeveloped
- Incorrect product usage – capability and targeted product availability limited

| |
|---|
| No .of  |
| % of  |
| Ave. \$  |



■ Bank ■ Other formal ■ Informal ■ Family & Friends ■ Excluded

Financial services distribution through agriculture value chains

| Produce | No. of farmers | FS available | FS potential |
|-------------|----------------|---|---|
| Tobacco | 1,109,715 |  Bank accounts  Bank credit  Outgrower scheme  Medical insurance |  Extend current initiatives |
| Tea | 15,956 |  Outgrower scheme |  Formal payments need  Extend outgrowers  Extend coop. membership |
| Sugarcane | 46,290 |  Outgrower scheme |  Formal payments need  Extend outgrowers  Extend coop. membership |
| Cotton | 355,878 |  Outgrower scheme |  Formal payments need  Extend outgrowers  Extend coop. membership |
| Pulses | 729,778 |  Warehouse receipt financing |  Formal payments need  Link to NASFAM (distribution) and SACCOs |
| Ground nuts | 1,400,971 |  Warehouse receipt financing |  Formal payments need  Link to NASFAM (distribution) and SACCOs |
| Maize | 2,115,341 |  Warehouse receipt financing |  Formal payments need  Leverage subsidy to extend access |

Critical reliance on savings

Financial Inclusion for growth and welfare



Generate growth and employment



1. **Critical reliance on savings**
2. Finance for MSMEs and agriculture



Develop human capital



1. **Critical reliance on savings**
2. Develop the payments ecosystem

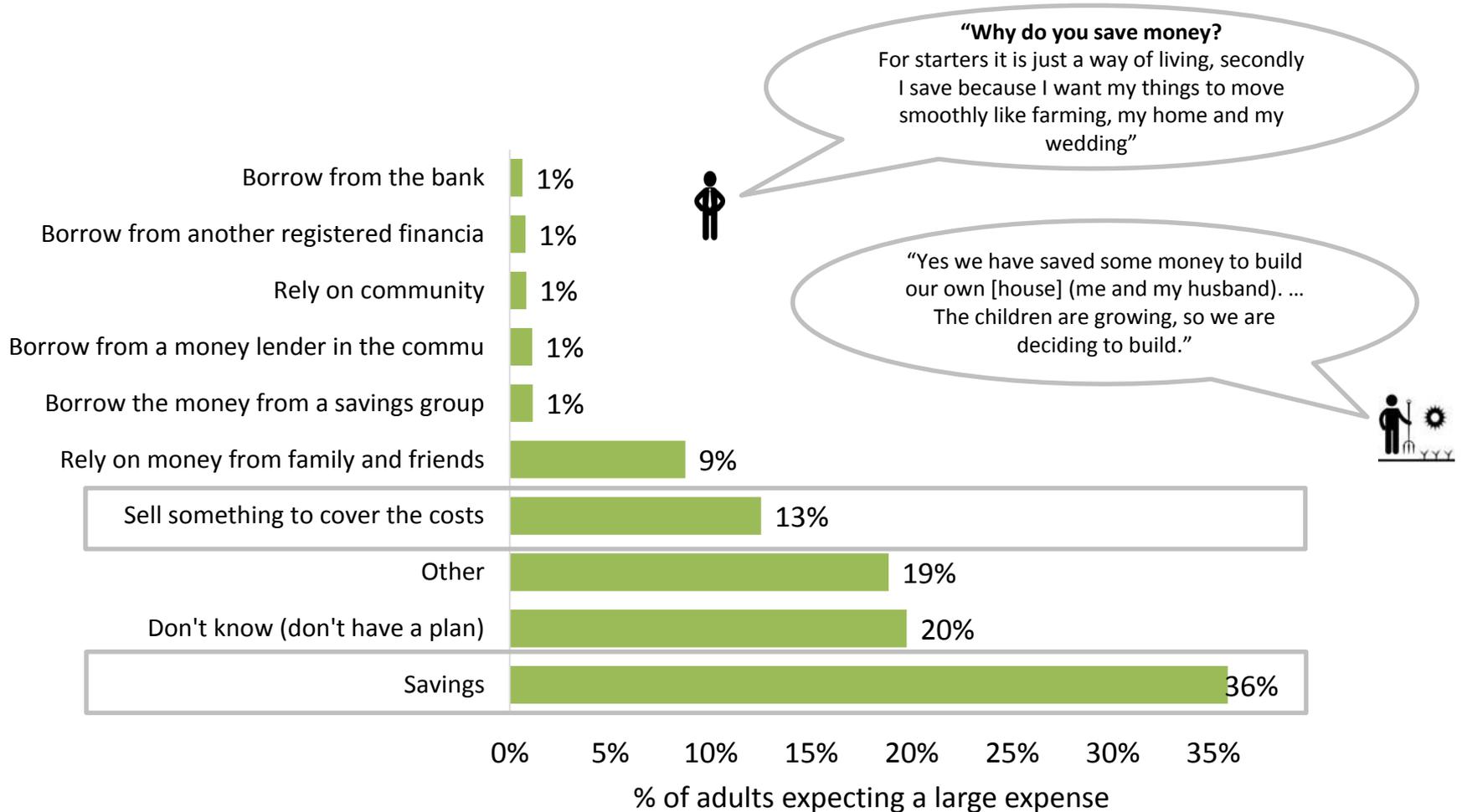


Improve household welfare



1. Develop the payments ecosystem
2. **Critical reliance on savings**
3. Risk mitigation to reduce vulnerability
4. Consumer empowerment and education

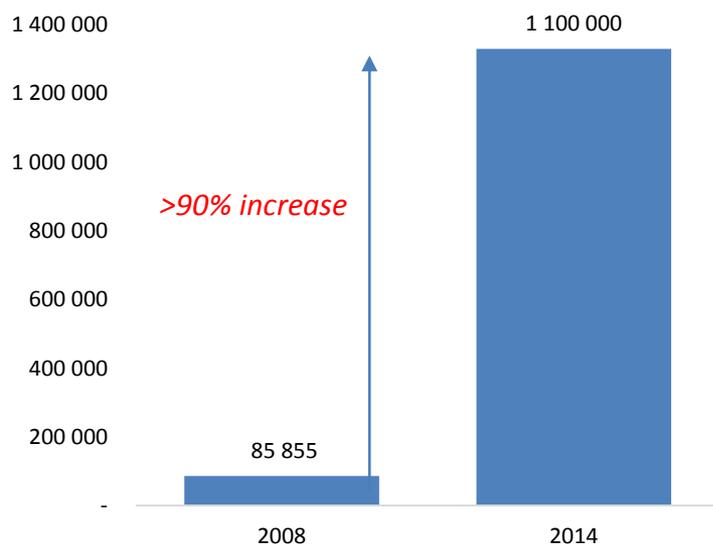
Critical reliance on saving



How adults plan to deal with a big expense

Increasing role of VSLAs

CARE VSLA definition: a group formed by a trainer in which members accumulate savings over time, keep funds in a box with three keys, and allow members to take loans (IPA, 2012)



Informal/VSLA savings: 2008-2014

Average contribution ranges from MK200-MK1000

Savings

Loan repayment

Funeral insurance

Cycle of group: 10-12 months

Ave size: 18 members

Uptake of VSLAs by target market:

| | |
|------------|---------|
| Farmers | 408 262 |
| Ganyu | 279 757 |
| MSMEs | 227 415 |
| Dependents | 122 656 |
| Salaried | 96 069 |

Barriers to uptake

Accessible and affordable savings needed

Barriers

Proximity

Far from formal touch points

Value

Negative real returns

Capability

Incorrect product usage expensive

Affordability

Low incomes

"I do not believe it is expensive to use the banks just that I do not have free time to travel all this distance to Zomba or Blantyre just keep some money."

"So what's the disadvantage of keeping money in the bank?"
Uhm banks are far they require you to travel long distances. They also charge high interest rates, for example one time I was banking with xxx bank I left K5000 and I stayed for about four months without going to the bank. When I went there, I found that all my money was gone and I owed them k1050, I just left and never used that account again."

"I know about banks but for me I keep my cash in the house because it is only for half a day then I use it. Sometimes money can get lost or a house can burn down. But I don't have any money to keep at the bank."

Barriers to uptake

Accessible and affordable savings needed



Risk mitigation to reduce vulnerability

Financial Inclusion for growth and welfare



Generate growth and employment



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Develop human capital



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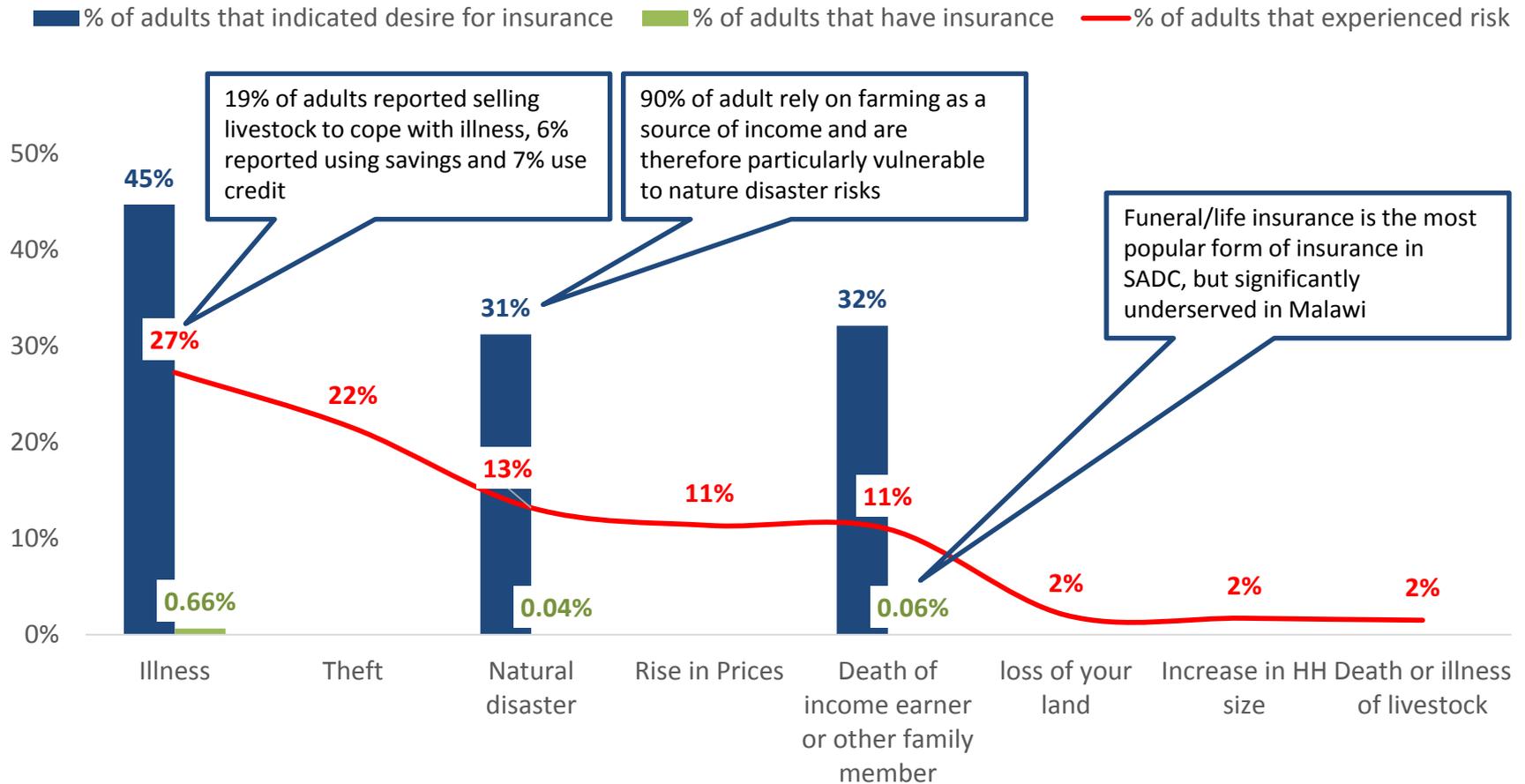


Improve household welfare



1. Develop the payments ecosystem
2. Critical reliance on savings
3. **Risk mitigation to reduce vulnerability**
4. Consumer empowerment and education

Risk Mitigation in Malawi



Consumer empowerment

Financial Inclusion for growth and welfare



Generate growth and employment



1. Critical reliance on savings
2. Finance for MSMEs and agriculture



Develop human capital



1. Critical reliance on savings
2. Develop the payments ecosystem



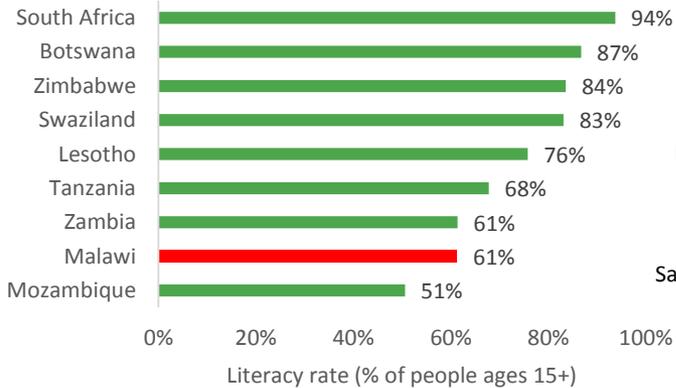
Improve household welfare



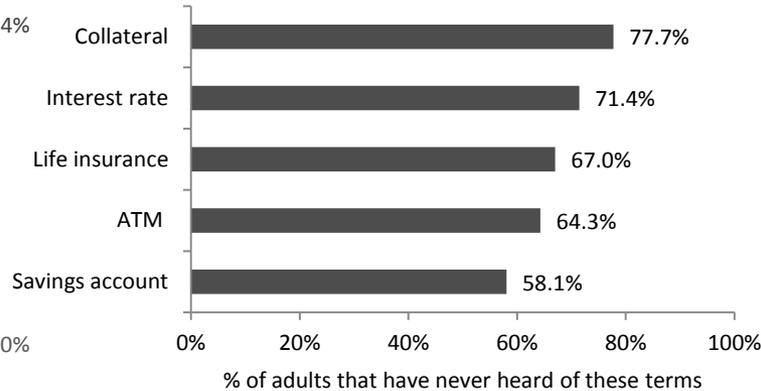
1. Develop the payments ecosystem
2. Critical reliance on savings
3. Risk mitigation to reduce vulnerability
4. **Consumer empowerment and education**

Consumer empowerment and education

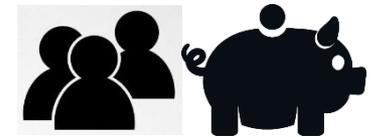
Low education levels



Low financial literacy



But, understand financial concepts



1.1m VSL members

“Let’s say they have sent you money through phone, if any problem rise, it gets hard because it needs someone who **understand English** to make the whole thing straight just for you to get your money. So, because am **not much literate, I always have problems with them.**”

“**Do you have knowledge of the transaction costs at the bank?** Other costs are not well understood; I think they don’t make deductions for every transaction. If they do, then I am not aware. While in ABC bank 500 is deducted every month.”

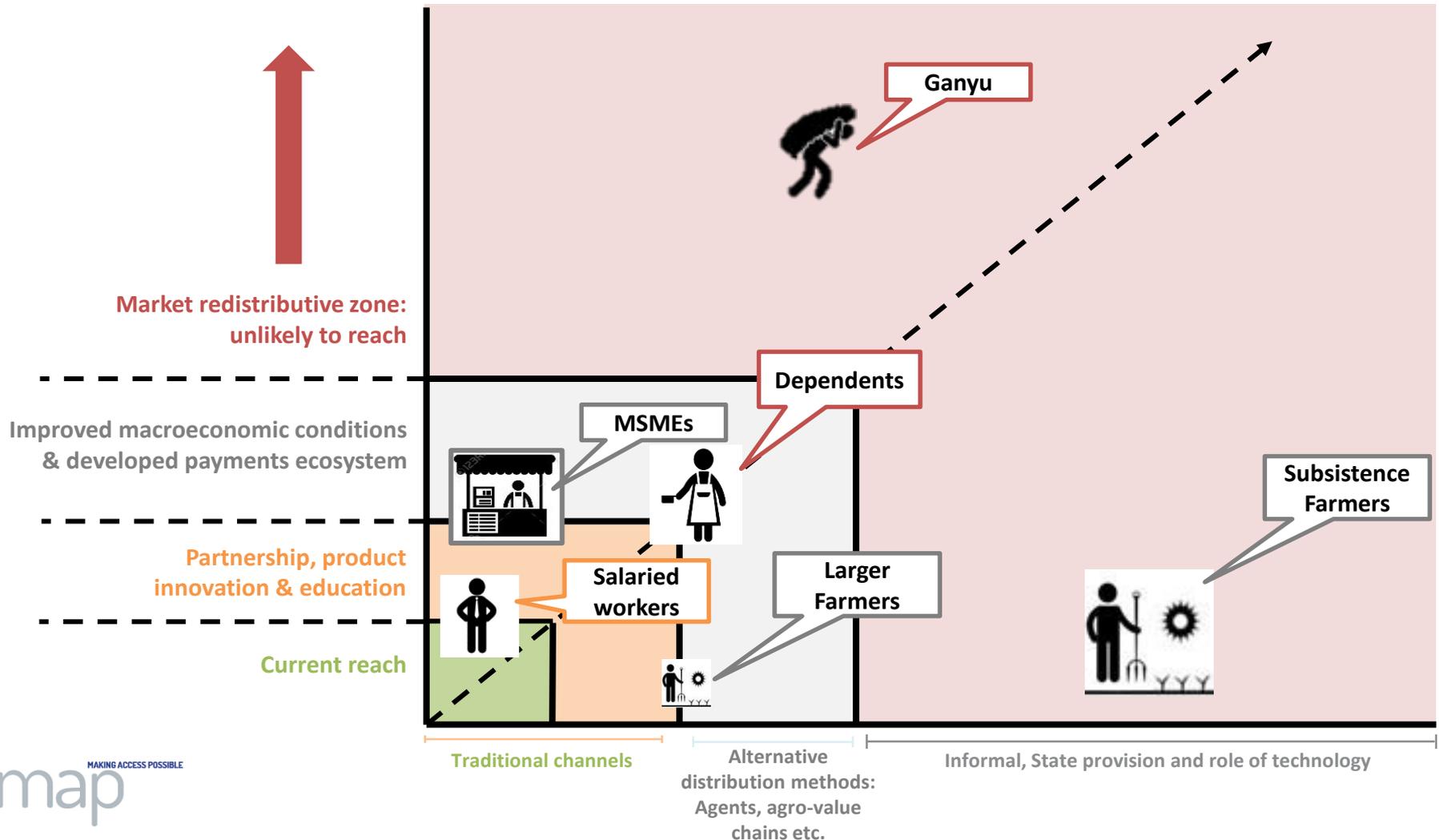
“**How do you go about if say I want to borrow a bag of maize, how do I pay back?** When it is a bag then you pay back a bag plus a pail of maize as an addition to the bag.”

Increased understanding of clients needed to design financial education initiatives.
Increase capability needed to help consumers benefit from finance.
VSLAs, MFIs and remittances natural links to financial education.



TOWARDS A ROADMAP

Different types of interventions required to serve different target markets



Priorities and preconditions to achieve policy objectives with financial services

Priorities

1. **Payment eco-system development** (infrastructure, costing, mobile and agency)
2. **Enabling savings** (VSLAs, saving wallets, improve returns)
3. **Enable productive credit** (target MSMEs/Farmers, reduce cost, extend loan terms, training, agro-value chain development)
4. **Risk mitigation**
5. **Consumer empowerment** (financial literacy, consumer protection)
6. **Enabling policy and regulation**

Pre-conditions

- Political will & coordination
- Improve infrastructure, education, health, judicial process
- Stabilise macro-economic conditions
- Reality check on long term role of donor & government provision

Towards a roadmap

Payment ecosystem and distribution channel development

- **Increase access points**, urban and rural to reduce overall cost of access
 - Hub and spoke of branches, ATMS, POS and agents
 - Leverage partnership – banks, MNOs, retailers, super-agents
 - Development strategy needed to incentivise rollout including approach to tax incentives, infrastructure development, interchange fees
- Revisit structure of **bank costs** to incentivise sustainable roll out
- Improve **agent management** approach (recruitment, training, support, rebalancing, incentives)
- NPS and mobile operator legislation needed

Expand savings

- Leverage **VSLAs and mobile money** as savings vehicles
- Link informal savings to formal channels and develop a **graduation path & mobilise savings**
- Develop **committed products** (e.g. wallets) that drive targeted savings
- **Improve returns**

Enabling productive credit

- **Reduce cost** of productive credit
- **Increase term** of productive loans for capital purchases
- **Coordinate** with MSME and Ag development initiatives to allow MSME and farmer to benefit from credit for productive use
- Target **skills development**, rather than pure credit
- **Enable MFIs** through Apex bodies and alternative capital
- Improve **credit information** sharing to reduce cost and increase access
- **Consumer credit legislation** potential

Towards a roadmap

Mitigating risks

- **Product innovation** to address health and natural disasters (savings and insurance) – retail, wholesale or MFI and government level
- Improve **awareness** of insurance options
- **Partner** for distribution (e.g. agriculture)
- Microinsurance regulation potential

Empowering consumers

- Revisit consumer protection **policies and legislation**
- **Targeted design** of financial literacy initiatives
- Enhance **provider communication** approach to improve client information
- **Transparency of fees and terms** of products provided

Enabling regulation and institutions

- Empower **MoF unit** to drive FI initiatives
- Introduce **key legislation** in consumer protection, credit, payments, AMLC/CFT and medical insurance to address gaps
- Introduce **IDs** or financial identity
- Improve efficiency and transparency of **judicial and legislative process**
- Appropriate FI **measurement** to drive implementation

What to prioritise?



| Products | | Salaried Workers | MSMEs | Dependents | Farmers | Ganyu | Est potential clients ('000) | Impact: | | |
|-----------------------|-----------------------|------------------|--------|------------|---------|-------|------------------------------|---|--------|-----|
| | | | | | | | | High | Medium | Low |
| Number (m) | | 0.6 | 1.2 | 1.3 | 2.6 | 2.1 | | | | |
| Average Income (K) | | 28,153 | 18,963 | 14,153 | 12,144 | 5,427 | | | | |
| Payments Ecosystem | Transactions | | | | | | 8m | Distribution networks to reduce access cost | | |
| | Remittances | | | | | | >2m | Distribution networks to reduce access cost | | |
| Dependence on savings | Consumption smoothing | | | | | | >6m | Secure store of value to manage risk | | |
| | Capital accumulation | | | | | | >3m | Long term return to build assets | | |
| Credit | Productive | | | | | | <500k | Low cost and appropriately targeted interventions for growth and employment | | |
| | Consumption smoothing | | | | | | >100 | Low cost to enable consumption smoothing | | |
| Risk mitigation | Natural disaster | | | | | | >2m | Risk mitigation to enable farming | | |
| | Health | | | | | | >100 | Risk mitigation to build human capital | | |
| | Life | | | | | | >200 | Risk mitigation | | |
| Consumer empowerment | Financial literacy | | | | | | 8m | Enabling consumers to benefit from finance | | |
| | Product awareness | | | | | | 8m | Product price and conditions transparency | | |

Next steps

- Share presentation
- Incorporate feedback in diagnostic
- Steering committee to comment on diagnostic
- Share diagnostic
- Develop roadmap



ROADMAP WORKSHOP

Priorities and preconditions to achieve policy objectives with financial services

Priorities

1. **Payment eco-system development** (infrastructure, costing, mobile and agency)
2. **Enabling savings** (VSLAs, mobile, saving wallets, improve returns)
3. **Enable productive credit** (target MSMEs/Farmers, reduce cost, extend loan terms, skills, agro-value chain development, MFI enabled)
4. **Consumer empowerment** (financial literacy, consumer protection)
5. **Enabling policy and regulation**

Pre-conditions

- Political will & coordination
- Improve infrastructure, education, health, judicial process
- Stabilise macro-economic conditions
- Reality check on long term role of donor & government provision

Payment eco-system and distribution channel development



| | | | |
|---|---|------------------------|--|
| Objectives | Reduce consumers' overall payment cost by reducing travel time and cost through greater payments infrastructure roll-out | Main challenges | <ul style="list-style-type: none"> • Lack of incentive for distribution roll out by banks • Liquidity and business case challenges |
| Potential actions to realise opportunity | <p>Focus areas:</p> <ul style="list-style-type: none"> • Decrease cost of access to payments, increasing card and mobile use • Partnership incl mobile, retailers and agency to reach end clients • Get the interbank pricing right. <p><u>Banks</u></p> <ul style="list-style-type: none"> • Partner to develop infrastructure –ATM, POS and agency networks • Partner to improve interoperability with MNOs • Revisit bank charges for sustainable rural provision to reduce overall bank access costs • Evaluate potential for self-stocked and cash accepting ATMs housed with retailers • Third party service provider potential to reduce costs • Prepaid card potential for salary, grant, harvest payments <p><u>MNOs</u></p> <ul style="list-style-type: none"> • Partner with banks and super-agents to leverage distribution network and for rebalancing • Improve interoperability – with banks and between MNOs • Improve agent management approach for liquidity and consumer value • Consider broader mobile money benefits to drive internal business case <p><u>Post office</u></p> <ul style="list-style-type: none"> • Partner with banks for cash distribution and savings • Develop remittances to allow cross border sending and reduce time to cash out | | |

Payment eco-system and distribution channel development



| | | | |
|---|--|------------------------|--|
| Objectives | Reduce consumers' overall payment cost by reducing travel time and cost through greater payments infrastructure roll-out | Main challenges | <ul style="list-style-type: none"> • Lack of incentive for distribution roll out by banks • Liquidity and business case challenges |
| Potential actions to realise opportunity | <p><u>Retailers and Petrol stations</u></p> <ul style="list-style-type: none"> • Extend mobile money agent and super agent role • Partner with banks to extend card value proposition and increase footfall • Partner with cross border remittance providers to send and receive <p><u>National switch</u></p> <ul style="list-style-type: none"> • Encourage distribution roll out through levels and nature of interchange fees – favour acquiring to incentivise roll out <p><u>Regulation and policy</u></p> <ul style="list-style-type: none"> • Develop a rural payment distribution strategy including incentives for rural roll out (e.g. tax incentives, targeted infrastructure development of communication lines, transport and electricity) • Provide guidelines for AML/CFT requirements to promote enhanced access • Finalise NPS bill and include interoperability requirement • Evaluate bank premises regulation to create equal playing field for bank and MNO agents • Collect distribution data to monitor and target access • License third party service providers to provide support services to banks • Leverage SIRESS to reduce cross border payment costs <p>Evaluate sustainability of current government and donor provision</p> <p>Targeted design of grants and subsidies to develop digital use case</p> | | |



Critical reliance on savings

| | | | |
|---|--|------------------------|---|
| Objectives | Encourage savings to smooth consumption, mitigate risks and accumulate capital to invest in productive activities | Main challenges | <ul style="list-style-type: none">• Low return on formal savings products• Use of inappropriate products• Proximity |
| Potential actions to realise opportunity | <p>Focus areas:</p> <ul style="list-style-type: none">• Enable VSLAs and mobile savings• Improve access through development distribution channels and partnership <p><u>Leveraging VSLAs</u></p> <ul style="list-style-type: none">• Expand VSLA use• Link VSLAs to formal system to mobilise formal savings, provide graduation path and improve security (banks or mobile, training and simplicity key)<ul style="list-style-type: none">○ Link to MFI deposit-taking, existing rural approach and staff trained, cost if roll out at scale○ Graduate to SACCOs if numbers grow, limit cost <p><u>Banks and mobile money providers</u></p> <ul style="list-style-type: none">• Product development for targeted savings (e.g. saving wallets) – bank and mobile <p><u>Banks</u></p> <ul style="list-style-type: none">• Banks to improve customer communication to direct clients to appropriate products• Savings bank potential, given interest margin <p><u>Other formal institutions</u></p> <ul style="list-style-type: none">• Post office saving account potential given reach, partnership ideal• Expand farmer SACCOs, manage cost and ensure stability <p><u>Improve returns</u> capital market development and macro-economic change required</p> | | |



Critical reliance on savings

| | | | |
|---|--|------------------------|---|
| Objectives | Encourage savings to smooth consumption, mitigate risks and accumulate capital to invest in productive activities | Main challenges | <ul style="list-style-type: none">• Low return on formal savings products• Use of inappropriate products• Proximity |
| Potential actions to realise opportunity | <p><u>Regulation and policy</u></p> <ul style="list-style-type: none">• VSLA policy approach needed<ul style="list-style-type: none">○ Expand VSLA usage – village agent model potential for replication and training○ Provide guidelines for use○ Legal identity and framework for VSLAs○ Develop graduation path for VSLAs○ Avoid legislating small groups to encourage use• Leverage mandatory pensions to allow productive access to credit, e.g. collateral for housing finance• Monitor savings market to encourage access and use | | |

Finance for MSMEs and farmers

| | | | |
|---|--|------------------------|--|
| Objectives | Channel credit to MSMEs and farmers with the ability to absorb it and use it to increase their productivity | Main challenges | <ul style="list-style-type: none"> • High cost of credit • Short term of loans • Broader dev challenges |
| Potential actions to realise opportunity | <p>Focus areas:</p> <ul style="list-style-type: none"> • Coordination with MSME and Agriculture development strategies • Improve credit information • Enabling MFIs <p><u>Banks and agro-dealers</u></p> <ul style="list-style-type: none"> • Expanded aggro-value chain financing, particularly for ground nuts given number of farmers and growth potential • Increased partnership for credit provision to target appropriate recipients • Improve disclosure of product information (eligibility, costs and terms) • Support credit information sharing initiatives <p><u>MFIs</u></p> <ul style="list-style-type: none"> • Improve coordination and policy environment for MFIs • Improve system capacity, incl link to MFI Hub • Investigate alternative sources of capital to donor funding/debt (e.g. crowd sourcing) <p><u>MSME initiatives</u></p> <ul style="list-style-type: none"> • MSME skills development, mentoring (potential for programs targeted at women) • Alternative capital opportunities beyond debt to graduate given cost (e.g. venture capital and private equity) • Leveraging VSLAs as a conduit for the provision of formal credit | | |

Finance for MSMEs and farmers

| | | | |
|---|---|------------------------|--|
| Objectives | Channel credit to MSMEs and farmers with the ability to absorb it and use it to increase their productivity | Main challenges | <ul style="list-style-type: none"> • High cost of credit • Short term of loans • Broader dev challenges |
| Potential actions to realise opportunity | <p><u>Regulation and policy</u></p> <ul style="list-style-type: none"> • Legislation <ul style="list-style-type: none"> • Credit information sharing to be enabled • Prescription of debt legislation required • Improved contract enforcement to reduce cost of provision • Consumer credit legislation needed to empower consumers • Contract enforcement strengthened to realise collateral • Introduce ID to improve payment collection and assess risk • Collaborate with MSME and Ag development committees • Strengthen and support associations and coordination bodies (e.g. SMEDI, NasFam) • Avoid politicising credit provision • Avoid interest rate caps, not feasible given market constraints • Develop capital market and improve macro-economic environment to reduce cost of credit • Targeted credit monitoring to effectively supervise for targeted access, abuse and indebtedness • Housing finance strategy potential given urbanisation • Enable payroll lending for business development • Improve credit information by bringing the credit reference bureaus online • Improve consumer credit legal framework <p><u>Treasury bills</u></p> <ul style="list-style-type: none"> • Introduce longer term treasury bills to establish reference rate for longer term debt | | |



Risk mitigation to reduce vulnerability

| | | | |
|---|---|------------------------|---|
| Objectives | Ensure Malawian adults have access to appropriate products to mitigate their risks | Main challenges | <ul style="list-style-type: none"> • Low incomes make insurance unfeasible • Low awareness of insurance |
| Potential actions to realise opportunity | <p>Focus areas:</p> <ul style="list-style-type: none"> • Partnership and distribution innovation (e.g. mobile, MFIs, SACCOs, pharmacies/clinics, agro dealers) • Product innovation and bundling • Health insurance/finance framework <p><u>Insurers and distribution partners</u></p> <ul style="list-style-type: none"> • Bite size health – hospital cash plans, hospital vouchers • Explore partnership with MNOs, pharmacies, agro dealers, SACCOs for distribution • Expand payment options (e.g. mobile, monthly instead of annual) <p><u>MFIs</u></p> <ul style="list-style-type: none"> • Whole sale insurance for natural disasters to improve sustainability <p><u>Regulators and policy makers</u></p> <ul style="list-style-type: none"> • Microinsurance framework potential • Insurance data to be monitored to encourage value to customers (e.g. claims ratio) • AML/ CFT guidelines to encourage access • Develop regulatory framework for medical aid schemes | | |



Consumer empowerment and education

| | | | |
|---|---|------------------------|--|
| Objectives | Empower consumers to fully benefit from finance through education and protection | Main challenges | <ul style="list-style-type: none">• Low literacy levels• Low financial literacy• Cost of consumer protection |
| Potential actions to realise opportunity | <p>Focus areas:</p> <ul style="list-style-type: none">• Many activities in progress• Focus design of private sector initiatives• Revisit legal framework <p><u>Formal providers</u></p> <ul style="list-style-type: none">• Research target audience and train sales team for improved communication during teachable moments• Make statements inexpensive and simple to obtain to encourage usage and trust (first time financial service users check balances often) <p><u>Consumer protection</u></p> <ul style="list-style-type: none">• Clarify lead authority to implement• Ombud across services to reduce cost and improve access to fair treatment• Empower traditional judicial structures to deal with minor financial service cases• Strengthen legislation, bearing cost in mind (don't protect consumers out of the market) <p><u>Financial literacy initiatives</u></p> <ul style="list-style-type: none">• Easy to get wrong. Targeted initiatives needed for impact, appropriate design critical (school, radio etc) | | |



Enabling regulation and policy environment

Legislation and policy

- New FI policy needed, including objectives and measurement approach to drive implementation
- Introduce Consumer credit legislation, finalise credit reference bureau amendment
- Update Consumer protection act
- Extend AML/CFT guidelines to improve access
- Finalise electronic transaction and communication legislation
- Finalise NPS Bill, include interoperability
- Introduce Mobile money operator legislation in-line with emerging international guidelines for increased access
- Clarify Prescription of credit legislation
- Consider microinsurance and health finance framework
- Introduce framework for VSLA development
- Population registration legal framework to support the issuance of identity documents

Process

- Strengthen unit to drive FI, incl coordination
- Improve access to legislation (e.g. central platform for comprehensive set of latest legislation)
- Improve judicial efficiency for contract enforcement by promoting small claims courts and traditional court jurisdiction for lower value financial transactions
- Review legislative process to increase efficiency and improve cohesion of legislation



MAKING ACCESS POSSIBLE

map

Thank You!

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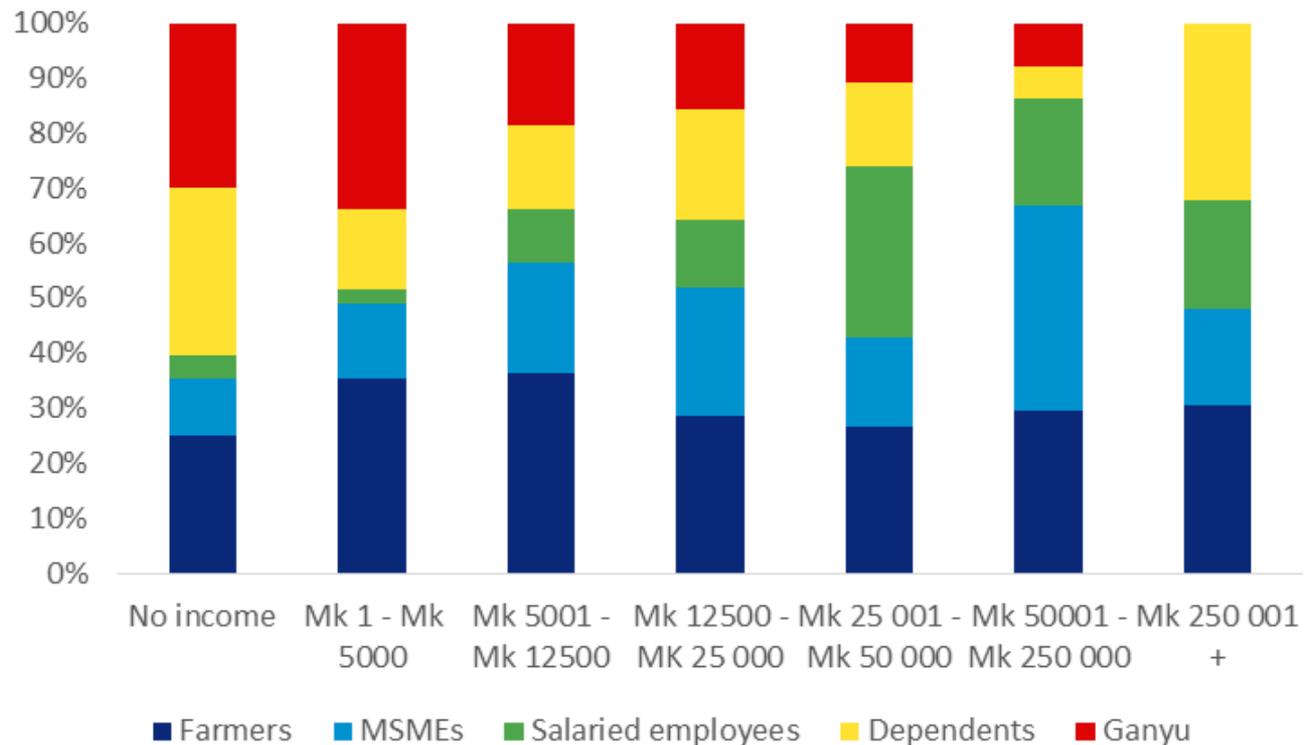
Making financial markets work for the poor



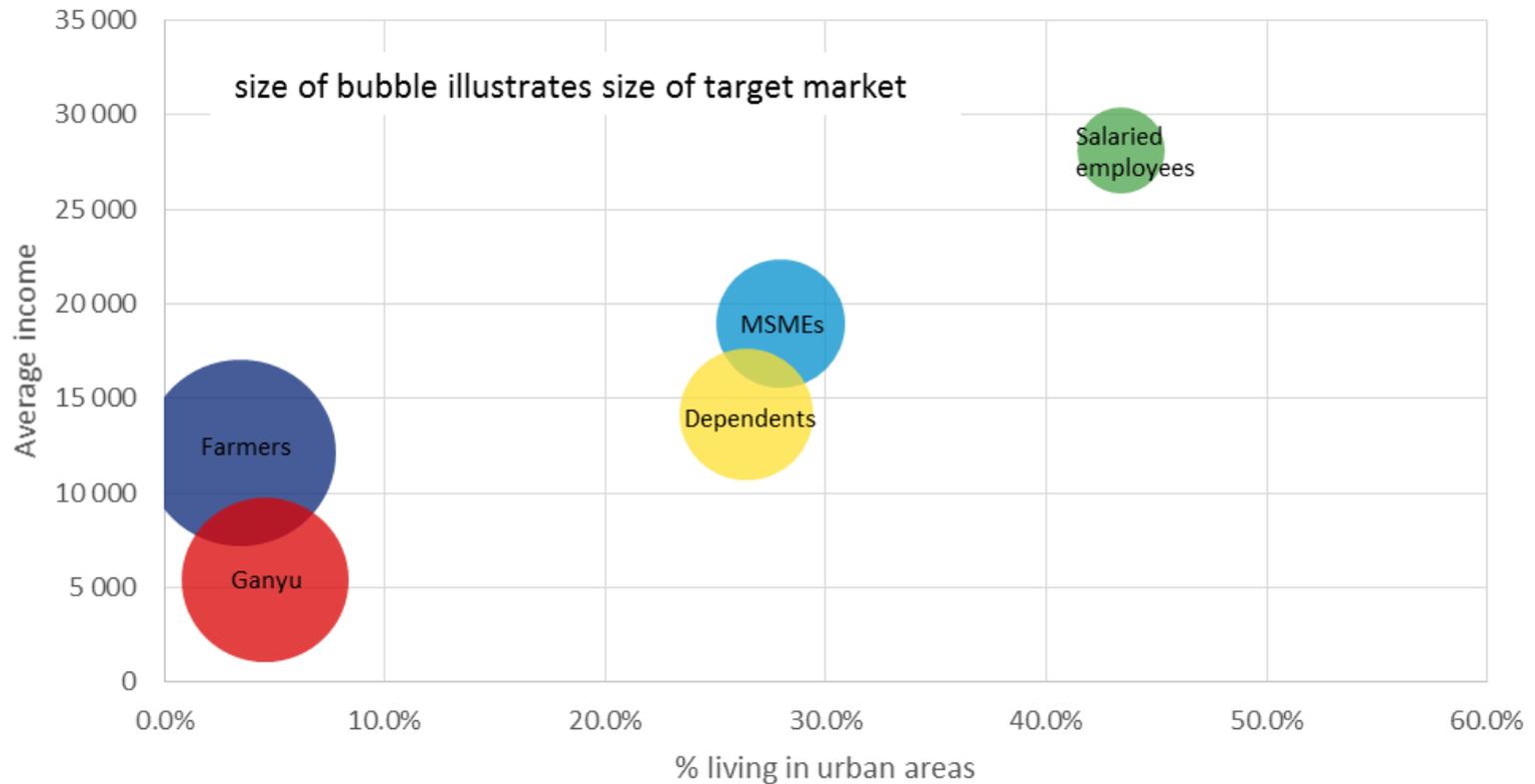


ANNEXURES

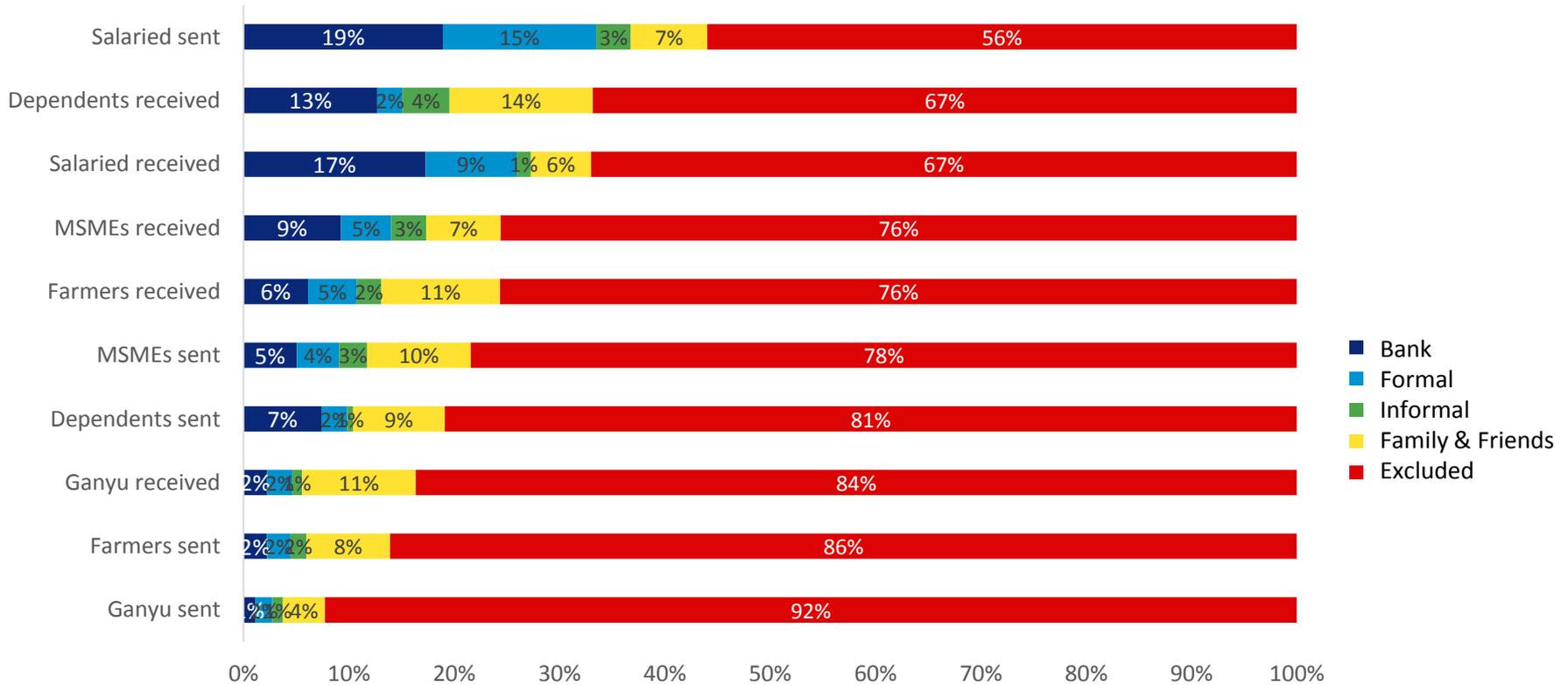
Target market distribution per income bracket



Income and geographical distribution per target market



Remittances uptake per target market



Key agriculture value chains

| | Tobacco | Tea | Sugarcane | Pulses | Cotton | Ground nuts | Maize |
|--------------------------------|--|--|--|--|--|---|---|
| No. of farmers | 1,109,715 | 15,956 | 46,290 | 729,778 | 355,878 | 1,400,971 | 2,115,341 |
| Input provider |  Input suppliers (retail & other), tobacco companies (outgrower scheme) |  Input suppliers (retail & other), tea estates. |  Input suppliers (retail & other), producer & sugar estates - SHF outgrower scheme. |  Input suppliers (retail & other). |  Input suppliers (retail & other), ginners - SHF outgrower scheme, government |  Input suppliers (retail & other). |  Input suppliers (retail & other), government. |
| Producers | Farmer | SHF*, commercial | SHF, commercial, | SHF | SHF, commercial | SHF, commercial | SHF and commercial |
| | Producer association | Commercial & SHF association | SHF association | SHF association | Commercial & SHF association | SHF association | SHF association |
| Processing, storage and sale | Processors, auction house | Tea estates (SHF outgrower), auction house | Processor & sugar estates (mill on-site) | Producers, village aggregation centres, warehouse providers | Traders, SHF associations, ginners (SHF outgrower) | Producers, mill, agro-processor, village aggregation centres, warehouse providers | Producers, village aggregation centres, warehouse providers |
| Buyer | Domestic wholesalers & retailers, exporters | Tea estates (SHF outgrower), domestic wholesalers & retailers, exporters | Processor & sugar estates (SHF outgrower scheme) | Small & large-scale local traders, domestic processors, wholesalers & retailers, exporters | Ginners (SHF outgrower), exporters | Small & large-scale local traders, domestic processors, wholesalers & retailers, exporters | Small & large-scale local traders, domestic processors, wholesalers & retailers |
| Post purchase agro-processor** | Agro-processors (domestic & international) | Tea estates, assumed: agro-processor (international) | Processor & sugar estates, agro-processors (domestic & international) | Agro-processors (domestic & international) | Agro-processors (domestic & international) | Mill, agro-processors (domestic & international) | Mill, agro-processors (domestic & international) |

Introducing the target markets

| | Farmers | MSMEs | Salaried Workers | Dependents | Ganyu | Total Adults |
|---|------------------|-------------------|------------------|-------------------|-------------------|------------------|
| Number and % of Adults | 2 647 633 (33%) | 1 237 819 (15.4%) | 562 924 (7%) | 1 327 005 (16.5%) | 2 053 818 (25.6%) | 8 023 571 (100%) |
| % Female | 55% | 56% | 41% | 70% | 56% | 58% |
| % Rural | 95% | 68% | 49% | 65% | 93% | 81% |
| Avg. monthly income (MK) | 12 144 (US \$29) | 18 963 (US \$46) | 28 153 (US \$68) | 14 153 (US \$34) | 5 427 (US \$13) | 13 484 (US \$33) |
| % with < \$1.25 a day income | 84.3% | 73.8% | 50% | 82.3% | 92.2% | 81% |
| % with >1 income source | 58% | 45% | 32% | 46% | 38% | 47% |
| Average age | 37 | 34 | 36 | 33 | 35 | 35 |
| Most common level of education | Primary; Std 1-5 | Primary; Std 6-8 | Secondary; 3-4 | Primary; Std 6-8 | Primary; Std 1-5 | Primary; Std 1-5 |
| % of population with primary education or less | 84.2% | 69.5% | 42.2% | 66% | 86.2% | 76% |
| % of adults with access to a cell phone | 67% | 79% | 88% | 75% | 57% | 69% |
| % that owns a car | 1% | 4% | 13% | 5% | 0% | 3% |
| % that live in their home district | 89% | 72% | 47% | 67% | 88% | 80% |

Other presentation sources

Context

- Centre for Affordable Housing Finance (2014): Yearbook
- FinScope (2014): Malawi consumer survey
- Government of Malawi (2014): Annual economic report
- Reserve Bank of Malawi (2015): Exchange rate and Inflation data
- World Bank (2014): Ease of doing business report
- World Bank (2015): Indicators
- World Health Organisation (2014): Malawi health indicators