



Expert Meeting on
**THE IMPACT OF ACCESS TO FINANCIAL SERVICES,
INCLUDING BY HIGHLIGHTING THE IMPACT ON REMITTANCES ON
DEVELOPMENT: ECONOMIC EMPOWERMENT OF WOMEN AND YOUTH**
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**ACCESS TO FINANCIAL SERVICES IN MALAWI:
POLICIES AND CHALLENGES**



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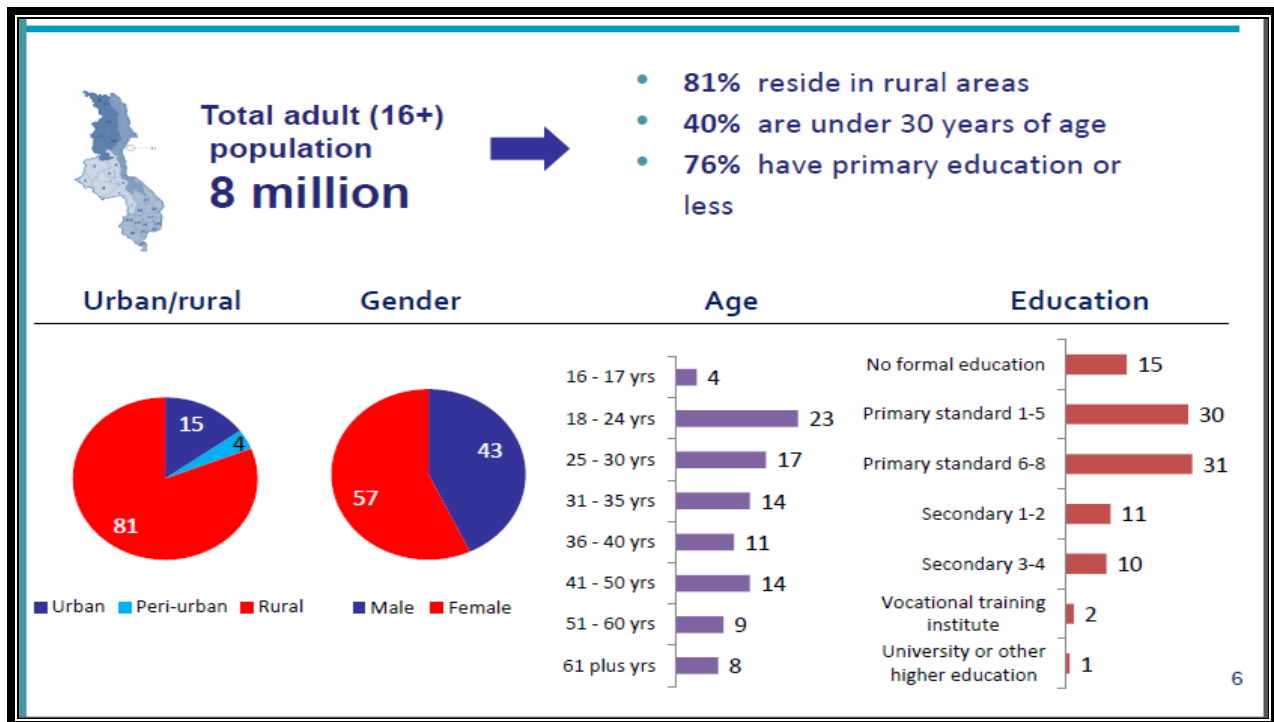
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1.0 INTRODUCTION

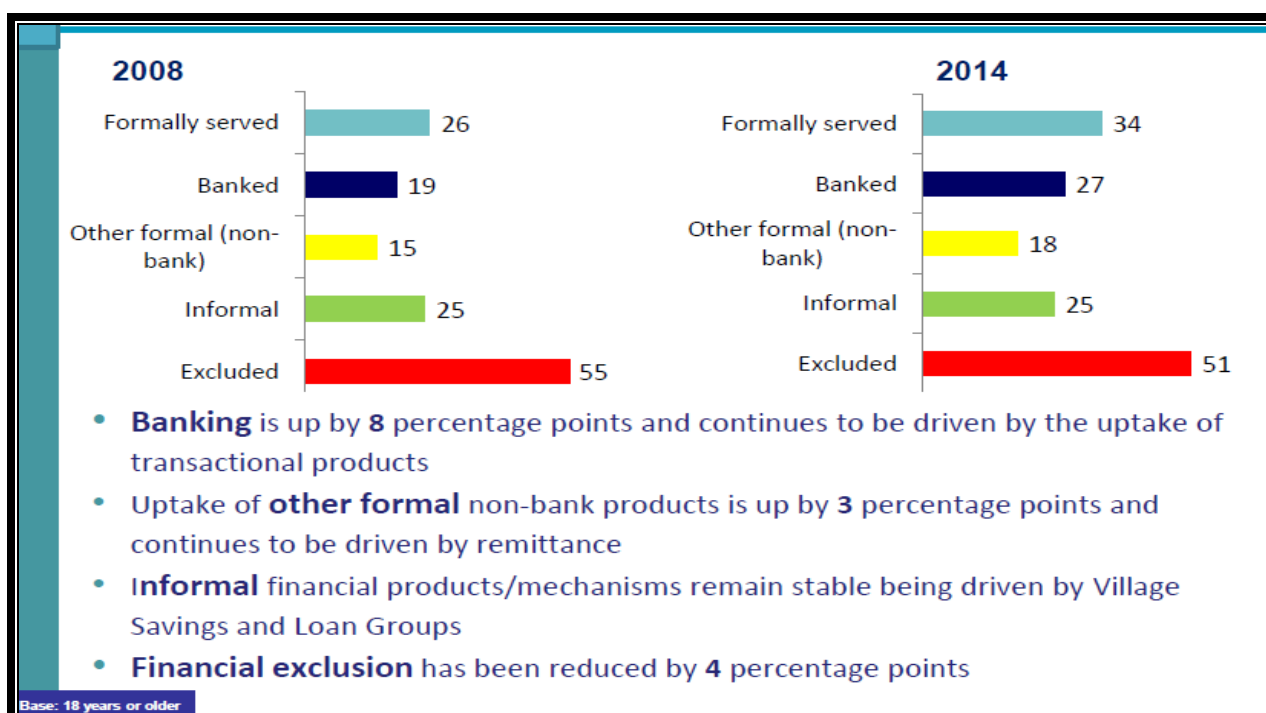
Financial sector development which integrates financial inclusion in its strategy has been considered as a tool for economic development and poverty reduction. In developing countries, access of financial services to low income households such as savings, insurance services, small loans and remittances enables them to benefit from economic opportunities to build up income and assets to lift them out of poverty. Financial services can also provide protection from sliding further into poverty. Most people in the developing world Malawi inclusive do not have access to formal financial services. Financial services for the poor cannot solve all the problems caused by poverty. But they can help put resources and power into the hands of poor and low income people themselves, allowing them to chart their own paths out of poverty. The potential is massive and this vision is about inclusive financial systems, which are the only way to reach to the large number of poor and low-income people.

Financial inclusion is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Despite making significant improvements in areas related to profitability and competitiveness, commercial banks in Malawi have not been able to reach and bring vast segment of the population, especially the underprivileged sections of the society into the basic banking services. Financial inclusion is thus recognised as one of the means to uplift the standards of living of the poor and disadvantaged. Malawi is designated as one of the world's poorest countries with a Gross Domestic Product (GDP) per Capita of \$258.96 according to the Trading Economics Update (2013). It is a small country with a population of 13 million according to the 2010 census. A vast majority of this population (90.4 per cent) live on less than \$2 a day and three quarters of this live below the World Bank poverty line of \$1.25 per day according to the Human Development Report 2011. In recent decades, there has been an increasing attention paid to financial inclusion as a tool to alleviate poverty in developing countries.



The poor are usually placed at a disadvantage in accessing financial services due to the remote areas they reside in and lack of formal education reduces the interest of formal financial institutions to provide services for them. Considering that a large part of the population in Malawi live below the poverty line, development of a favourable and inclusive financial system becomes significant. The high levels of poverty of these households is further exacerbated by insufficient government policy intervention especially regarding credit programmes to increase poor households income and enhance quality of life.

Reforms have been undertaken in Malawi's financial sector in the past decade; and more recently, innovations have been implemented by various market players in an effort to expand the reach of financial services. Despite these developments, however, a significant proportion of the country's population still continue to face severe constraints in accessing financial services including savings, credit, insurance and payment services.



Finscope survey 2008, 2014

DEVELOPMENTS IN THE FINANCIAL SECTOR: POLICY, REGULATORY AND INSTITUTIONAL FRAMEWORK

Malawi went through the Financial Sector Assessment program (FSAP), with technical assistance from the IMF and World Bank in 2007 which for the first time carried out a comprehensive assessment of Malawi's financial sector. The assessment recognized the developments that had been made in the banking sector and also pointed out that a lot needed to be done to develop the other components of Malawi's Financial Sector.

In the area of microfinance, Malawi Government in partnership with UNDP and United Nations Capital Development Fund (UNCDF) launched the Financial Inclusion in Malawi (FIMA) project in 2007 in order to create an inclusive financial sector in the country. The project has interventions at policy, meso (intermediate) and retail levels of the financial sector. Through this

project Government has developed a National Strategy for Financial Inclusion (NSFI) to be implemented in the period 2010-2015.

Malawi also benefited from a 2008 FinScope demand side study that confirmed the magnitude of the challenges facing Malawi: about 55 percent of the population is financially excluded and among those with some financial access only 26 percent are formally banked. A complimentary supply side study (2009) identified the key barriers to financial access as: (i) limited accessibility of financial service points (branches and outlets); (ii) high transaction costs; (iii) capacity constraints; (iv) crowding-out effect of the private sector, and; (v) the lack of market coordination and harmonization between public and private initiatives seeking to promote better access to financial services.

Following the results of the assessments, Government of Malawi decided to systematically address all the issues raised by developing a Financial Sector Development Strategy which spelt out the road map for its implementation. As one way of operationalizing the strategy, Government with financial assistance from the World Bank has started implementing the Financial Sector Technical Assistance Project (FSTAP). This will assist in addressing the challenges that have been identified as affecting the financial sector and also to increase access to finance by the rural masses.

In addition to the FSTAP, Government teamed up with the World Bank, USAID, and DFID to mobilize resources to support Malawi's FSIDS implementation through the development of the Financial Sector Deepening Trust (FSDT). Under this initiative funds will be pooled for supporting agreed development objectives in the financial sector, especially in the area of financial inclusion.

The credit reference bureau legislation was enacted in September 2014 and it will complement the existing anti-money laundering legislation in minimizing or curbing financial crime and fraud. Further, the World Bank conducted a Mutual Evaluation exercise in March 2008. The exercise identified some loopholes in the money laundering legislation and therefore, Government has recently reviewed the current legislation to fill the existing legislative gaps.

NEW INNOVATIVE TECHNOLOGIES

Traditionally, commercial banks have always provided their services through branches (service centers). However, only those in towns have benefited much from this channel as the banks shun opening up branches in the remote areas, citing high cost of running branches in these areas as a reason.

Nevertheless, commercial banks have made strides in trying to reach out to the rural masses that are cut off from financial services, as well as providing convenient ways of making transactions. These channels include mobile banking; bank on wheels and agency banking among others. As is the case with most Sub-Saharan Africa, the mobile payment revolution in Malawi has been adopted by a number of banks, and 'mobile money' is fast becoming an alternative to paying with cash. Additionally, most banks consider mobile banking as comparatively a cost effective service delivery channel.

Agency banking is another innovative way already being utilized by some banks to deliver financial services in remote areas. This channel has potential to fast track the financial inclusion agenda through an increased number of access points in rural areas. In Malawi, some banks have partnered with other non-banking players such as retail outlets and post offices etc, to act as banking agents. In addition to the value they add to banks by improving their distribution and lowering their transaction costs, banking agents form an important element of banks' multi channel strategy such as mobile banking, and hence need to be integrated with all other access points.

Commercial Banks and Financial Inclusion

Historically, improving access to financial services by low income people and rural communities is associated with the microfinance industry. However, since Government of Malawi elaborated the National Strategy for Financial Inclusion in 2010, Malawian commercial banks have taken steps to contribute towards creation of an inclusive financial sector in the country.

In 2010 commercial banks in collaboration with Bankers Association of Malawi (BAM) established a Financial Inclusion Task Force with a mandate to draft a Financial Sector Charter which will facilitate development and provision of appropriate and affordable banking solutions for the unbanked segment of the population. The charter aims to increase proportion of adults with access to financial services from 19%¹ to 40%; to have an access point within every 20km radius in economically active areas; and to ensure development of inclusive and affordable financial services. The charter will among other things develop universal low cost/ no thrills savings account and financial literacy initiatives targeted at the unbanked population.

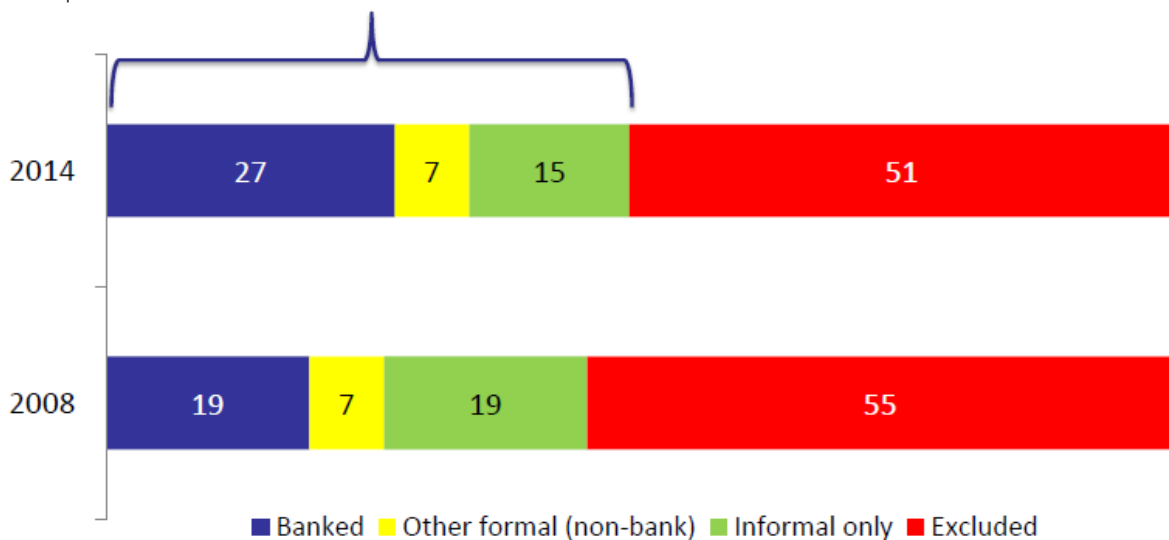
Other than individual financial inclusion initiatives, banks are collaborating in implementing the Financial Inclusion Charter to provide financial services to low income people and rural communities. Opportunity Bank Malawi is the only bank that specializes in serving the lower end of the market. Other Banks like NBS Bank and FMB have developed strategies to complement their existing clientele with low income and rural segments of the population. To contribute in the financial inclusion agenda, banks are exploring use of various branchless banking models as outlined under delivery channels above.

ROLE OF FINANCIAL LITERACY IN FINANCIAL INCLUSION

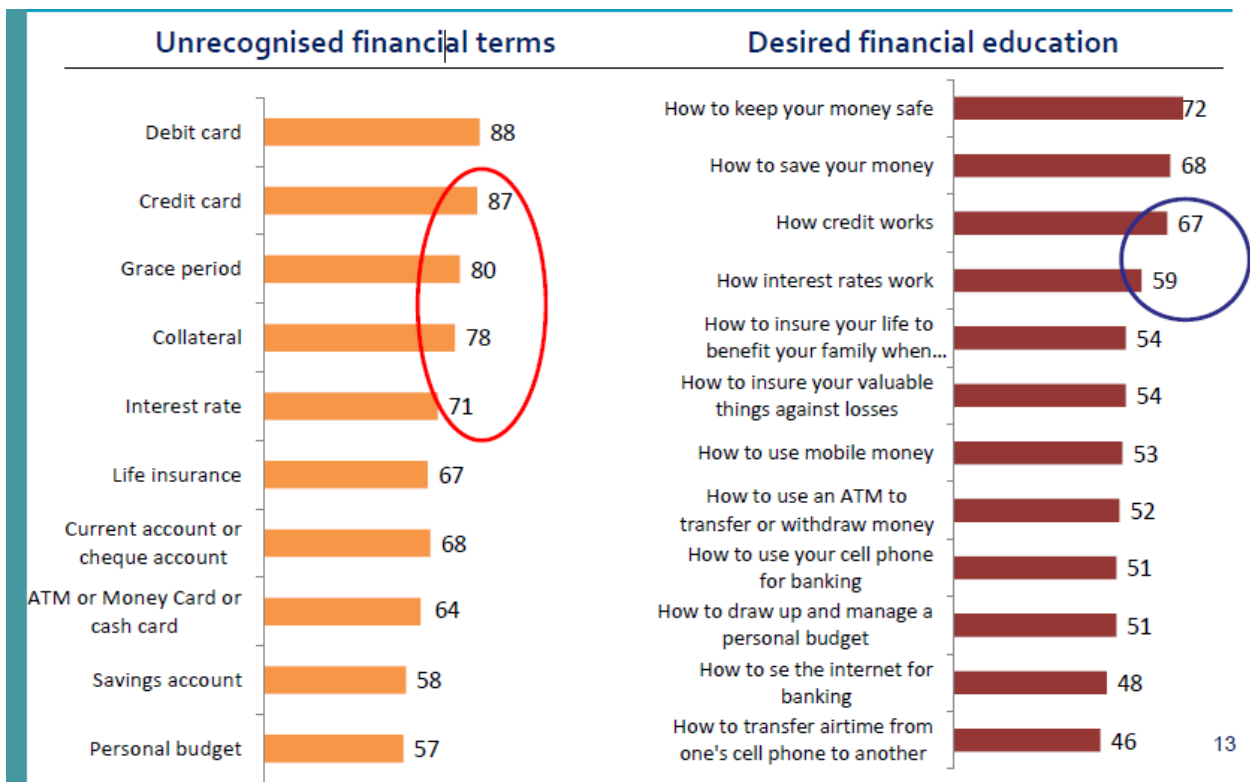
The FinScope Survey 2014 showed that 51 per cent of the adult population managed their lives without using any formal, or even informal, financial product. 27 per cent were formally banked and a further 15 per cent had another formal financial product (these were mostly microfinance products). 25 per cent of the adult population (a quarter of whom also have a formal product) had an informal product, such as borrowing from employers, getting credit from shops or receiving input as credit.

¹ FinScope Demand Survey, 2009

Financial inclusion has increased from 45% (2008) to 49% (2014)



The use of formal financial products is particularly low in rural areas. The main barriers to banking access mentioned by respondents to the survey related to a lack of sufficient income – people felt that they did not have sufficient funds relative to the expenses of opening and maintaining a bank account or that they could not afford the minimum balance. Most respondents also mentioned lack of understanding of financial products especially how interest rates work, what is collateral among others.



Lack of financial literacy and knowledge is a huge bottleneck to the quest for financial inclusion in Malawi. Improving people's financial literacy can be expected to lead to enhanced personal financial management practices, eventually leading to increased savings, greater financial inclusion, reduced levels of over-indebtedness, reduced poverty levels and enhanced productivity, economic development and financial stability. Strengthening the population's financial literacy will therefore, over time, provide one of the drivers towards Malawi becoming a middle-income economy.

Some initiatives have been undertaken in Malawi to provide financial guidance and information to consumers. For example:

- some elements of financial education have been incorporated into secondary school curricula, specifically into mathematics, business studies, life skills, social studies and languages;
- steps are being taken to incorporate financial education into primary school curricula;
- some financial inclusion programmes – such as YouthStart and MicroLead² – include some financial education;
- MUSCCO requires member savings and credit co-operatives (SACCOs) to educate customers on money management and budgeting;
- many microfinance institutions provide some financial training before granting group loans; and
- some financial institutions have developed financial education programmes, for example: Old Mutual's *On the Money* financial education programme and Alliance Capital Limited's *Money Market* financial education programme.
- The government together with the central bank has developed a National Strategy on Financial Literacy which aims at improving people's financial literacy which is expected to lead to enhanced personal financial management practices, eventually leading to increased savings, greater financial inclusion, reduced levels of over-indebtedness, reduced poverty levels and enhanced productivity, economic development and financial stability.

However, most of the initiatives which have been conducted so far focus on the products and services of the financial institution which is undertaking the initiative, rather than providing broadly-based and objective financial education. Thus, the scope for building on existing financial education programmes in Malawi is limited.

CHALLENGES BEING FACED

4.0 Identification system and KYC principle

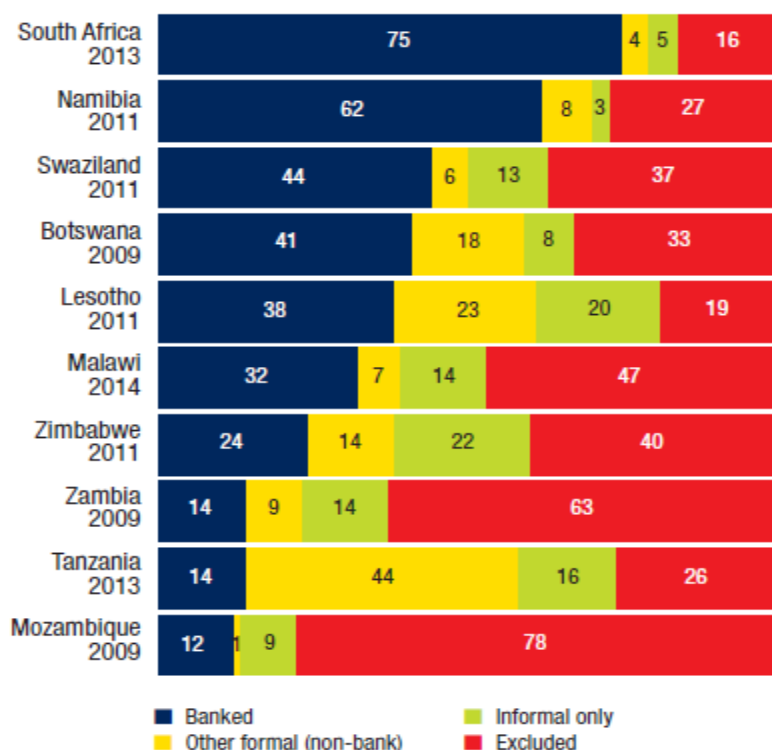
Malawi, for a very long time does not have a National Identification System. This poses a challenge as most financial institutions fail to identify their customers. Know your Customer (KYC) principles insist that when doing any transaction with a customer, to a minimum, the institutions should access the full identity of the customer like a passport and, driving licence but the best among the identifications is the National ID which Malawi does not have as yet.

4.1 Infrastructure restraining the banks expansion and outreach

Infrastructure is one among the major challenges facing the Financial services industry. The persistent power outages, poor road and communication networks have increased the operational costs of institutions. In a bid to maximise profits, most financial institutions have resorted to operating within the urban areas thereby denying the rural masses access to financial services. This has restrained expansion and outreach strategies.

4.2 Lack of access to Financial Services

Access Strand across the SADC region where FinScope is implemented



Source: FINSCOPE, 2014

Malawi still faces a challenge that most of the adult population is financially excluded. When compared to other countries in COMESA region, Malawi has a highest percentage of financially excluded population at 47 percent.

The limited access to finance remains a key constraint on growth of the sector in Malawi, limiting the scope for smaller, less well-established firms to finance investment through the formal financial system. How to improve access remains a key policy challenge.

4.3 Lack of competition - challenge to the public

Lack of competition within the financial system may also be one possible explanation for the high level of financial exclusion in the country. Economic literature typically associates higher levels of competition with increased access to a wider range of financial services, at lower cost,

with greater efficiency in production and delivery of these services. The number of new entrants into the market in recent years show there are no regulatory barriers per se to competition in the financial system.

Salient Issues

Despite the fact that Malawi has 14 commercial banks with a population of around 16 million, according to the FINSCOPE survey (2008), only 26% of the population has access to formal financial services. Under normal circumstances we would expect a higher number of bankable population with the current number of commercial banks registered in the country. However, with Government's directive on compulsory salary payment through banks, the number of people with access to formal financial services increased marginally.

However, the increase did not push up the figures very high as, with the civil servants population of 184,000 in 2010 did not bring a substantial change in the figures. For instance assuming that all the civil servants were not banked having them all on board would only increase the figure by 1.4%.
