

Country Survey:

MALAWI



Key Facts : Microfinance in MALAWI				
By CGAP ¹	No. of MFIs	No. of Borrowers	Borrowers Population ^a	Borrowers/Poor ^b
	9	286,000	2%	3%
By MIX ²	No. of MFIs reporting (2009)	No. of Active Borrowers	Gross Loan Portfolio (USD)	Average Balance per Borrower (USD)
	5	119,385	36.2 million	137.8
By MFT ^c	No. of MFIs (2010)	No. of Active Borrowers	Gross Loan Portfolio (USD)	% Products with a Flat Interest Rate
	10	276,196	1.1 billion	82.5

Country Overview

Located in southeast Africa, the Republic of Malawi is a landlocked country of over 118,000 km², with an estimated population of nearly 14 million inhabitants. It is bordered by Tanzania in the northeast, Zambia in the northwest and Mozambique in the south, west and east.

Political Overview

Formerly known as Nyasaland, the country was under British colonial rule from 1891 to 1953. It then joined Northern and Southern Rhodesia (now Zambia and Zimbabwe) in a Federation from 1953 to 1963 and won its independence after 63 years of British rule, becoming Malawi on 6th July, 1964³. Hastings Kamuzu Banda, then Prime Minister of Malawi, was elected President for life in 1971 and established an authoritarian, one party-rule.

In 1992, Malawi suffered the worst drought of the century. That same year there were violent protests against Banda's rule, which led Western nations to suspending aid to the country. In a 1993 referendum, Malawians voted for an end to one-party rule, and parliament passed legislation establishing a multi-party democracy and abolishing the life presidency⁴. The first democratic elections were held in Malawi in 1994 with opposition leader Bakili Muluzi (from the United Democratic Front party) elected president⁵. Malawi has been a full multi-party democracy since then. Bingu wa Mutharika was elected President in 2004 and re-elected⁶ by a landslide in May 2009.⁷ Former President Banda established a pro-Western foreign policy that continued into 2008 which included good diplomatic relationships with many Western countries. Malawi is a member of several international organizations including the United Nations, the International Monetary Fund, the World Bank and the African Union.

^a MFI borrowers as a percentage of the country's overall population

^b MFI borrowers as a percentage of the poor population based on national poverty rates

^c This row of the table is populated with data from MFT^{ransparency's} *Transparent Pricing Initiative in Malawi*

The Malawian government is composed of three branches: executive, legislative and judicial. Malawi is divided into 28 districts within three regions (central, southern and northern)⁸. Lilongwe is the country’s capital and Blantyre, its commercial capital, is the largest city in the country.

Macroeconomic Overview

Malawi is designated as one of the world’s least developed countries. Agriculture accounts for more than a third of Malawi’s Gross Domestic Product (GDP) and for more than 90% of total exports. Malawi’s main crop is tobacco, constituting 53% of all exports. Other produce includes tea, sugar, cotton and coffee. The agricultural sector employs 87% of the country’s labor force and rural areas are home to 85% of the population⁹. Malawi’s dependence on agriculture makes the country particularly vulnerable to external shocks such as floods and droughts. Inadequate infrastructure makes it expensive to transport produce and thus increases the price of goods, impeding the country’s economic development¹⁰.

In a World Bank report of the GDP per capita (PPP) ranking for 213 countries in 2009, Malawi placed 205th.¹² Inflation has also been a problem. In the last two decades, the country’s inflation rate reached levels as high as 83% in 1995. In recent times, it is declining and has steadily remained under 10%.¹³

The country’s economy has experienced high and increasing growth rates in recent years. In 2008, Malawi experienced a growth rate of 9.7%, higher than several other Sub-Saharan Africa countries, including South Africa, Namibia and Botswana.¹⁴ These growth rates have occurred as a result of successful economic policy under the presidency of Bingu Wa Mutharika, leader of the United Democratic Front (UDF), who was elected in 2004. During his term in office, Malawi has also experienced a decline in its discount and commercial lending rates from 40-45% in 2003 to 22.5%.¹⁵

Malawi maintains bilateral trade agreements with South Africa and Zimbabwe, which allow duty-free entry of Malawian products into their countries.¹⁶ According to the World Trade Organization, trade represented 57.7% of Malawi's GDP from 2004-2006. In 2008, merchandise exports totaled \$770 million while merchandise imports totaled over \$1.6 billion. Also in 2008, commercial services exports totaled \$80 million while commercial services imports totaled \$222 million.¹⁷

GDP and Inflation				
Year	GDP (PPP)*	GDP Real Growth	Inflation	GDP Per Capita (USD)
2006	9.14	7.7%	14.9%	236
2007	10.01	5.8%	8.0%	254
2008	11.11	8.6%	8.7%	290
2009	12.06	7.6%	8.42%	327
2010	13.04	7.1%	7.41%	342

*Billion USD / Source: World Bank

Malawi ranks 158th in the world in terms of total import volumes, though imports play a significant role in the Malawian economy. Malawi’s imports for the year 2010 were valued at US\$1.842 billion. The major items of import are petroleum products, transport equipment and semi-manufactured goods. In addition all major industrial products are imported, from consumer goods to heavy machinery. Due to a lack of agricultural productivity in the years after 2000, Malawi has had to import food products as well.¹⁸

GDP – composition by sector:	
Agriculture	34.3%
Industry	20.6%
Services	41.5% (2008 est)
Annual Trade:	
Imports	\$1.842 billion
Exports	\$1.344 billion
Source: 2010 figures World Bank ¹¹	

Poverty in Malawi

With a GDP per capita (as measured in terms of PPP) in the lowest ten, Malawi sits among the poorest countries in the world in the world.¹⁹ According to the ranking of the 2010 Human Development Index (HDI), which considers longevity and health, adult literacy rates, and GDP per capita, Malawi ranks 162nd out of 182 countries measured.²⁰ The vast majority (90.4%) of the population lives on less than \$2 a day and three quarters of Malawians live below the World Bank poverty line of \$1.25 per day. There is high income inequality in Malawi, with a measured GINI coefficient of 39.0. The richest 10% has a median income that is 3 times higher than the overall median income of the country.²¹

Key Poverty Figures	
HDI	0.400
GINI	39
GNI per capita (PPP \$)	753
Pop. below \$ 1 a day	42%
Pop. below \$ 2 a day	76%
Sources: Human Development Report 2011 ²² and Earth Trends ²³	

The majority of the population, nearly 90%, engages in subsistence farming.²⁴ However, only 7.9% of farm families can be considered crop entrepreneurs, selling their produce on the market.²⁵ Even though Malawi has a very small urban population of approximately 20%, urban poverty is reported to be increasing in the city areas with the expansion of slums. These areas are characterized by poor road access, no electricity, health and sanitation problems, child malnutrition, lack of educational facilities and low literacy rates. The annual slum growth rate is 3.9% in Malawi.²⁶

Malawi, similar to other Sub-Saharan African countries, has participated in several initiatives sponsored by international organizations to help eradicate poverty. In December 2000 the International Monetary Fund (IMF) approved the first Poverty Reduction and Growth Facility (PRGF) for Malawi. Since then, the IMF has renewed its support to Malawi through approving subsequent PRGFs²⁷. Although the program initially faced difficulties, by 2005 Malawi’s macro-economic performance improved. The initial positive results led other international organizations to assist the country with foreign aid, thereby further promoting economic growth. After several years of economic stagnation, Malawi has now made steady progress in restoring its macro-economic stability and reducing the government’s domestic debt.²⁸

There are roughly 1 million people in Malawi living with HIV/AIDS. This is the leading cause of deaths among adults. In 2002 Malawi suffered from its worst food crisis in over 50 years and HIV is recognized as a major contributing factor. The Joint United Nations Program on HIV/AIDS (UNAIDS) reported that the famine escalated because most families lost their breadwinners. The labor force in Malawi has also been drastically reduced due to illnesses and death from HIV/AIDS. An over-reliance on maize, high inflation and poor management of farming resources were also reported as contributing factors to the famine.²⁹ In 2000, a five-year National Strategic Framework to combat AIDS was implemented. The new government in 2004 further intensified its response to AIDS and launched Malawi’s first National AIDS Policy, which provided a multifaceted response to tackling the epidemic.³⁰ The national prevalence rate has however stabilized to about 12% in the last few years.³¹

Traditional Financial Sector

The financial system in Malawi was liberalized in the 1980s. Prior to this the government had intervened heavily in the banking sector via credit and interest rate controls. Financial sector reforms in Malawi took full force in the late 1980s as a continuation of structural adjustment programs sponsored by the International Monetary Fund and the World Bank³². Financial institutions, except commercial banks and credit unions, only existed in urban areas. The commercial banks concentrated on offering working capital, mainly to large-scale business enterprises. The development banks relied more on foreign resources than on domestic resource mobilization to finance their operations.

By 1994, the financial sector was completely liberalized and several foreign exchange bureaus began operations in the country³³. In December 1998, the Commercial Bank of Malawi became the first bank to be listed on the Stock Exchange. A discount house started its operations in August 1998 with the expectation of promoting the money market in the country. By the end of 1998, there were twenty foreign exchange bureaus in Malawi, significantly increasing the provision of forex services for the general public. The financial sector's access to credit has historically been restricted by both the limited availability of loanable funds and lack of resources to administer an extensive credit network. Credit providers have also suffered from controls, inflexibility, and high administrative costs.

Financial Inclusion

Malawi's Financial Demand-Side Report stated that 55% of Malawians are financially excluded, using neither formal financial institutions nor informal mechanisms. Efforts to improve this level of financial inclusion in Malawi are supported by the government and various other market players, recognizing the importance of an inclusive financial system to the development of the economy. Despite this, a significant proportion of the population has severely limited access to financial services.³⁴

The year 2007 saw the launch of the Financial Inclusion in Malawi (FIMA) Project. This was a partnership between the Government of Malawi, the United Nations Development Program (UNDP) and the United Nations Capital Development Fund (UNCDF). This project aims to increase sustainable access to financial services to Malawi's low income population, thereby contributing to the achievement of both the Malawi Growth and Development Strategy and the Millennium Development Goals. A sectorial approach has been adopted by the project, positioning the development of microfinance in the overall financial sector including banking and capital markets.³⁵

In October 2010, a four-year National Strategy for Financial Inclusion was launched to improve delivery of quality and diverse financial services to the excluded population from 2010 to 2014. The Malawi Finance Minister, Ken Kandodo, has stated that the government believes that inclusive finance is an essential instrument for increasing agricultural productivity and production, expanding micro and small enterprises, creating employment, increasing household income and smooth consumption³⁶.

Microfinance Industry of Malawi

Introduction

The microfinance industry in Malawi is made up of non-governmental organizations (NGOs), Savings and Credit Cooperatives (SACCOs) and money lending companies. Currently there are 21 microfinance institutions (MFIs) in Malawi. By 2010 nine MFIs had reported to the MIX Market in³⁷. Out of the 21 recognized MFIs, 16 belong to the Malawi Microfinance Network (MAMN). In addition to these 16 institutions, 58 member SACCOs operate under MUSCCO, the apex body of SACCOs.³⁸

Demand for loans in Malawi is highly seasonal, about 80% in rural areas and mostly depend on agriculture. October to January is the peak lending season and with loans becoming due between April and September. According to Burritt (2006), there are few institutions that can underwrite portfolios, manage price and production risks for agricultural markets, or provide micro insurance for clients. This severely limits the capacity of the sector to meet demand.

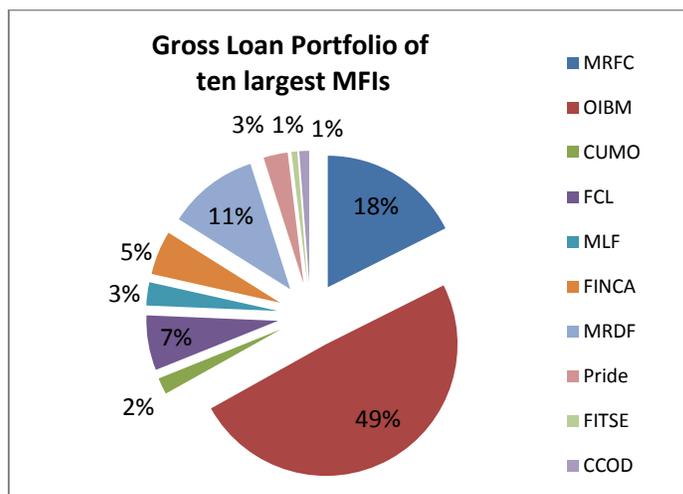
Eight microfinance institutions reported their financial data to the MIX Market in 2010³⁹. Among these institutions, Opportunity International Bank of Malawi (OIBM) and the Foundation for International Community Assistance (FINCA MWI) are the largest in terms of gross loan portfolio. In terms of numbers of active borrowers, Concern Universal Microfinance Limited (CUMO) and OIBM lead with a market share of 68%.

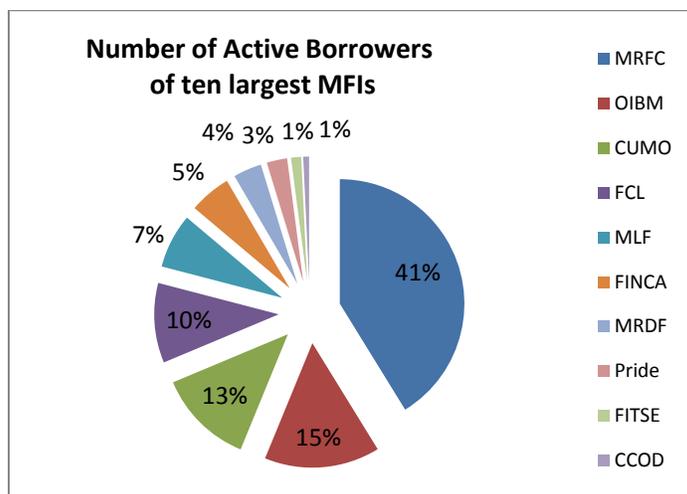
Microfinance Institutions

While there are 21 registered MFIs in Malawi, one institution, Opportunity International Bank of Malawi (OIBM), dominates the market terms of gross loan portfolio. The Malawi Rural Finance Company has the largest number of active borrowers. The following figures provide an overview of the MFIs in Malawi reporting their data publically to the MIX and to MFTransparency.

Institution	Gross Loan Portfolio (USD)	Number of Active Borrowers	Reports to MIX (2009)	Participated in MFTransparency Pricing Initiative (2011)
Malawi Rural Finance Company Limited	1,606,853,200	132,000	Y	Y
Opportunity International Bank of Malawi	4,500,000,000	48,000	Y	Y
CUMO Microfinance Ltd	185,000,000	40,000	Y	Y
Finance Cooperative Limited	615,884,079	33,228		Y
Microloan Foundation	260,000,000	22,690	Y	Y
FINCA Malawi Ltd	494,319,449	17,413	Y	Y
Malawi Rural Development Fund	1,020,000,000	11,815		Y
Pride Malawi	272,000,000	8,528	Y	
Finance Trust For The Self Employed	65,000,000	4,200	Y	Y
Centre for Community Organization & Development	110,429,000	2,422		Y

Source: MFIs according to MIX data 2010 and MFT data 2011





Source: MFIs according to MIX data 2010 and MFT data 2011

Microfinance Networks in Malawi

Malawi Microfinance Network (MAMN)

The Malawi Microfinance Network (MAMN) is the umbrella organization for most MFIs in Malawi. MAMN began operating in 2000 with 7 members, and has experienced significant growth in recent years. Currently the network has 21 members⁴⁰. The main objective of MAMN is to develop, promote and regulate microfinance activities so as to ensure good governance. It aims to facilitate the exchange of experiences, ideas and innovations, in order to strengthen microfinance operations and build capacity within the sector. MAMN has developed partnerships and strategic alliances with key organizations in the microfinance industry including Hivos, USAID, UNDP, UNCDF, SAMCAF and AFMIN.⁴¹ Together with these partners, MAMN is able to implement activities including information dissemination, capacity building, performance monitoring, advocacy and lobbying and resource mobilization⁴².

Malawi Union of Savings and Credit Cooperatives in Malawi (MUSCCO)

The Malawi Union of Savings and Credit Cooperatives (MUSCCO) is a national, democratically-controlled apex organization of Savings and Credit Cooperatives (SACCOs). MUSCCO was established in 1980 by the Catholic Church and the government with a mandate to channel support to the Savings and Credit Cooperatives (SACCOs) of Malawi that offered savings services to people who were not serviced by commercial banks. Many SACCOs are formed at a work place among employees who work for a common employer. Deductions both for savings and loan repayments are often integrated into the salary preparations and members decide weekly or monthly savings and repayment of loans as according to the agreement⁴³.

The core objective of MUSCCO is to provide savings and credit services to members. One important MUSCCO activity is to audit the SACCOs on behalf of the government's Cooperative Department which is governed by Malawi's Cooperative Act. The union also provides life savings insurance for the SACCO members, a service that is not common among SACCOs in Africa. There are currently 58 SACCOs affiliated with MUSCCO across the country. Total membership in these SACCOS is above 100,000 collectively. Organizations such as DFID, NORAD, the Canadian Cooperative Association and the Swedish Cooperative Centre currently support different activities within MUSCCO. MUSCCO also

has a close collaboration with the National Farmers' Association of Malawi (NASFAM) for the provision of agricultural credit⁴⁴.

Funders and Donors

Most of the NGO MFIs in Malawi are supported by donor grants. The United States Agency for International Development (USAID), World Vision International and the United Nations Capital Development Fund (UNCDF) are some of the international development agencies that have promoted microfinance in Malawi. After the national forum on microfinance in Malawi, which identified lack of capacity, skills, an appropriate legal framework and information on microfinance as major constraints to the growth and development of microfinance institutions in Malawi, a number of donors joined the industry to provide support⁴⁵. Several funders were encouraged by the potential for growth in the industry and the existence of a structured microfinance network that seeks to stimulate the establishment and growth of microfinance in Malawi. In 2009, the funders and donors reporting their involvement in Malawi to the MIX included Cordaid, ECLOF, FINCA International, HIVOS-Triodos Fund, MFSI, Oikocredit, Opportunity International, and the Triodos-Doen Foundation.

Microfinance and Agriculture

Given the size of the agriculture sector in Malawi (90% of all exports) and the fact that 80% of production is made up of small holder farmers, it is vital to the economic development of Malawi that the financial sector focuses more on rural and agricultural markets. There are specific challenges in providing financial services in rural and agricultural markets, which are highly relevant for Malawi. These include the greater exposure to systemic risk (floods and droughts etc.), the lower density of population, and the greater seasonality of activities. This is exacerbated by the higher transaction costs and the weak physical infrastructure in Malawi⁴⁶.

The Government of Malawi has focused on developing the agricultural sector with projects such as the National Rural Development Program that initiated major agricultural programs since 1987⁴⁷. The high rate of poverty in rural areas in Malawi limits client capacity to bear risk. Demand for micro insurance, money transfer services, savings services, and loans for consumption smoothing may be more important than loans for production. Several donor initiatives have supported this industry, focusing on assisting smallholders in projects that allow them to manage their farms as businesses and maximize profits instead of settling for subsistence level returns.

The microfinance industry has also played a significant role in promoting the agricultural sector in Malawi. Several institutions have loan products that focus on farming, tea growing, and purchasing equipments. However, high transaction costs remain a significant obstacle to their work. OIBM, for example, has made significant progress in providing financial services to rural areas in Malawi. The institution has introduced a mobile bank that travels to villages, making transactions easier. This has resulted in a notable increase in saving rates in the last 5 years.⁴⁸

Microfinance and HIV/AIDS

The population of Malawi suffers from some of the highest HIV/AIDS infection rates in the world. Nearly one million of the 14 million people in Malawi are living with HIV. Having become the principle cause of adult death in Malawi, it is a major factor in the country's low life expectancy of 43 years⁴⁹.

The National AIDS Commission of Malawi (NAC) was set up in 2001 and has since overseen a number of AIDS prevention and care initiatives, including programs to provide treatment, increase testing and preventing mother-to-child transmission of HIV. In 2004, Malawi's first National AIDS Policy was launched. This policy set the goal of improving the provision of prevention, treatment, care and support services, and called for a multi-sectoral response to the epidemic. The national HIV prevalence has stabilized between 11% and 17% since the mid-1990s, and prevalence amongst women attending antenatal clinics has fallen slightly.

Some microfinance institutions in Malawi have incorporated a focus on addressing HIV/AIDS issues. In 2006, research by The Hunger Project (THP) in Malawi asserted that most microfinance initiatives (MFIs) bypass HIV-positive people because they are considered a "risky" lending group. THP-Malawi took the initiative through its microfinance arm to pilot credit scheme exclusively for HIV-positive people. This resulted in improved access to microfinance services for people infected by HIV/AIDS. An internal assessment of the pilot indicated a repayment rate of 89.23%. The default rate was due to the deaths of three of the group's members⁵⁰. FINCA Malawi has also partnered with other organizations to pilot test its Village Banks as a means to disseminate HIV/AIDS prevention and behavior change messages. The pilot has resulted in measurable changes in behavior, and a better understanding of the disease and its transmission⁵¹.

Mobile Banking

The Malawian financial industry has joined other countries in implementing mobile banking, an innovative system that brings banking to the door step of clients. In Malawi, where the majority of the population lives in rural areas, mobile banking has potential to promote economic development by encouraging investments and savings. The traditional banks are currently the largest actors in the mobile banking space in Malawi. Zain Telecommunications has partnered with two commercial banks, National Bank of Malawi (NBM) and NBS Bank, in rolling out the pilot phase of ZAP - the mobile-phone enabled financial service project.

The microfinance industry has also looked at incorporating mobile banking services. OIBM has led the way, launching mobile banking services in 2008 in partnership with Telecom Networks Malawi (TMN). The initiative, named 'banki m'manja', since established has promoted competition in the sector and caused other banks to extend their hours of operation. With this product, OIBM expects to expand from the current 305,000 savings accounts to 1 million within three years, thereby banking with about 7% of the country's population⁵². OIBM will be able to broaden the outreach of this product faster than a traditional banking service and also reduce the burden of clients having to pay for transportation to visit their offices.

Microfinance Regulation

Microfinance institutions in Malawi remained unregulated until the enforcement of the Microfinance Act of 2010. The Reserve Bank of Malawi (RBM) now has the mandate to regulate these institutions. Prior to 2010, several policies were established for the microfinance industry in Malawi. From 1981 to 1994, the Government of Malawi implemented a series of policy interventions through World Bank and IMF-backed Structural Adjustment Programs aimed at sustainable growth. While broad policies favor access to finance, the level of development of the financial and banking sector depends on a sound macroeconomic environment⁵³. In 2002, the Government of Malawi drafted and approved a Microfinance Policy Statement that described its vision for the development of microfinance in Malawi⁵⁴. The policy recommended the development of a new legal, regulatory and supervisory framework for MFIs in Malawi⁵⁵. As part of

the Cabinet-approved Microfinance Policy Action Plan, the Malawi Microfinance Network was born. In 2005 a Microfinance Legal and Regulatory Framework Task Force, chaired by the RBM, was also established to provide leadership for the process⁵⁶. The task force was designed to supervise the review and analysis of the country’s microfinance legal and regulatory framework⁵⁷.

In September 2010, the Malawian parliament voted the Microfinance Bill into law. This act is now the major legislative instrument regulating the microfinance industry. The national microfinance policy stipulates that a healthy microfinance industry consists of private and autonomous institutions operating according to widely accepted best practices, within a conducive environment facilitated by a set of policies enacted by government. Beyond promoting growth of the formal financial system by mobilizing savings, promoting competition and efficiency, and facilitating the allocation of resources among different uses, the microfinance policy framework in Malawi is also aimed at establishing a well-functioning and efficient payment system that enables clearing and transfer of funds among financial institutions.

The different types of MFIs defined by Malawi’s legislation for the sector include NGOs, Savings and Credit Cooperatives (SACCOs), partially or fully state-owned corporations, private companies and projects of international development agencies and donors⁵⁸. The table below illustrates this breakdown:

Malawi Microfinance Legal Status Indicators		
Legal Status of MFIs in Malawi	No. of MFIs	Percent
Private company limited by share	3	17.6
Private company limited by guarantee (state owned)	2	11.8
State-owned enterprise	3	17.6
Registered trust	2	11.8
NGO	6	35.3
Other	1	5.9
Total	17	100

Source: Microfinance Sector Assessment, 2010

Different government agencies oversee the various categories of microfinance institutions. NGOs, including NABW, SEDOM, DEMAT, World Vision, Concern Universal Microfinance Organization (CUMO) and ECLOF, operate under the Trustees Incorporation Act and usually fall under the supervision of the Ministry of Women, Gender and Youth. Companies, including banks, are limited either by “guarantee” or by “shares” and operate under the Companies Act. Banks are licensed to provide demand savings and time deposits, and are subject to a range of qualifying requirements and prudential regulations. To be considered a bank, the minimum start-up capital requirement is 1.5 million USD. The Companies Act also stipulates registration for non-bank financial institutions, but currently there are no non-bank financial institutions in the microfinance industry in Malawi. The Co-operatives Societies Act permits Savings and Credit Co-ops (SACCOs) to mobilize savings and on-lend savings to its members. The Registrar of Cooperatives in the Ministry of Trade and Private Sector Development oversees SACCOs and MUSCCO.

While the largest players in the microfinance industry are licensed, there are a significant number of institutions offering credit services that are not licensed and therefore not prudentially regulated. The need for prudential and non-prudential regulation is one of the key issues currently discussed in the Malawian microfinance industry⁵⁹. The RBM oversees the implementation and supervision of banking regulations in the country.

Cost of Borrowing - Interest Rates, Fees and Charges

Under the leadership of the first president Hastings Kamuzu Banda during the late 1970's Malawi's financial sector was highly repressed, experiencing credit ceilings, segmented capital markets and disproportionate intermediation costs.⁶⁰ According to the Institute of Bankers for Malawi, between 1970 and 1987, the basic structure of interest rates was directly administered by the central government Reserve Bank of Malawi (RBM). This was intended to keep interest rates low in order to reduce government expenditure and to encourage private investment. Interest rates were infrequently adjusted and underlying macroeconomic conditions, such as inflation, were disregarded. In 1980, interest rates in favor of the agricultural sector were introduced. The sector was given a preferential rate of 1 to 2 percentage points below the prime rate. The deregulation of interest rates began in July 1987 when lending rates were liberalized. Commercial banks were the first to be allowed to set their own lending rates. The following year, deposit rates were deregulated and preferential interest rates to the agriculture sector were abolished. By May 1990 all rates became fully liberalized.⁶¹ According to the RBM, the commercial banks' interest rates are determined by an average of Standard Bank and National Bank of Malawi rates. As of 2008, the lending rates ranged from a minimum of 19.63% to a maximum of 27%.⁶²

In terms of microfinance, the RBM is leading an effort to require pricing disclosure for all MFIs in Malawi. This directive of the new Malawi Microfinance Bill will help ensure that microfinance institutions clearly communicate their pricing to clients prior to disbursing loans. The directives state that "Micro Credit Agencies shall, at all times, carry out fair lending practices. The contract between the lender and the borrower must state the nominal rate of interest as well as commissions and fees either on an annual or monthly basis."⁶³ The new pricing disclosure policy in the Malawi Microfinance Bill is a very ambitious step for a nascent market; however it is thought that this will help institutionalize standards for best practices in terms of transparency, client protection and sustainability. Though the Malawian microfinance industry is relatively younger than others in Africa, passing this legislation will put them ahead of many others in terms of facilitating consumer protection⁶⁴.

Consumer Protection

Since a program of economic liberalization began in the early 1980's the Government of Malawi has worked to enhance both the efficiency and competitiveness of domestic markets. In order to protect consumers and limit client abuse, the RBM has been able to influence the private sector by directing the banking sector to prioritize certain sectors of the economy and by using the foreign exchange allocation system⁶⁵. The government passed the Competition and Fair Trading Act (Cap 48:09) in 2000, enforcing it from 2005. The delay in enforcement was due to financial constraints, partly resulting from the budgetary pressure from persistent food crises.⁶⁶

The Act has two principal aims: first to encourage competition and efficiency in business by prohibiting anticompetitive conduct, and second, to protect the interests and welfare of consumers in their dealings with producers and sellers in relation to price, quality and service. The Malawi Competition and Fair Trading Commission (MCFTC) has prioritized the issues of anti-competitive conduct, consumer protection, mergers and acquisitions, small business issues and adjudication in the implementation of fair competition law.

Specific to the microfinance industry, structured consumer protection initiatives are in the nascent stages. The Malawi Microfinance Network (MAMN), UNDP's Financial Inclusion in Malawi initiative, the RBM and other stakeholders have partnered to work on a client protection program known as the Malawi National Strategy for Financial Inclusion (2010 – 2014). To establish this program, several stakeholders in the financial industry, including microfinance key stakeholders

are working on establishing key initiatives that will ensure that the rights of clients are protected. In MAMN’s 2007-2009 strategic plan the network identified developing and implementing a client protection code as a critical success factor to the industry⁶⁷. However, such a code is yet to be implemented.

As part of financial reforms in Malawi, the parliament recently passed the Credit Bureau Reference Bill in February 2010. The Bill is aimed at increasing information sharing among commercial banks and money lending institutions. The credit bureau law seeks to ensure that individuals and companies in the country easily access loans and at the same time check defaulters by allowing lenders to share information about any individual or a company seeking loans. This Bill allows the RBM to revoke the licenses of any financial institution that does not adhere to the various requirements detailed in the bill. The Bankers Association of Malawi has collaborated with a Kenya-based credit bureau CRB-Africa to form the first Credit Reference Bureau in Malawi (CRB-Malawi). Operations will begin in November 2011.⁶⁸

MFI Ratings & Reporting

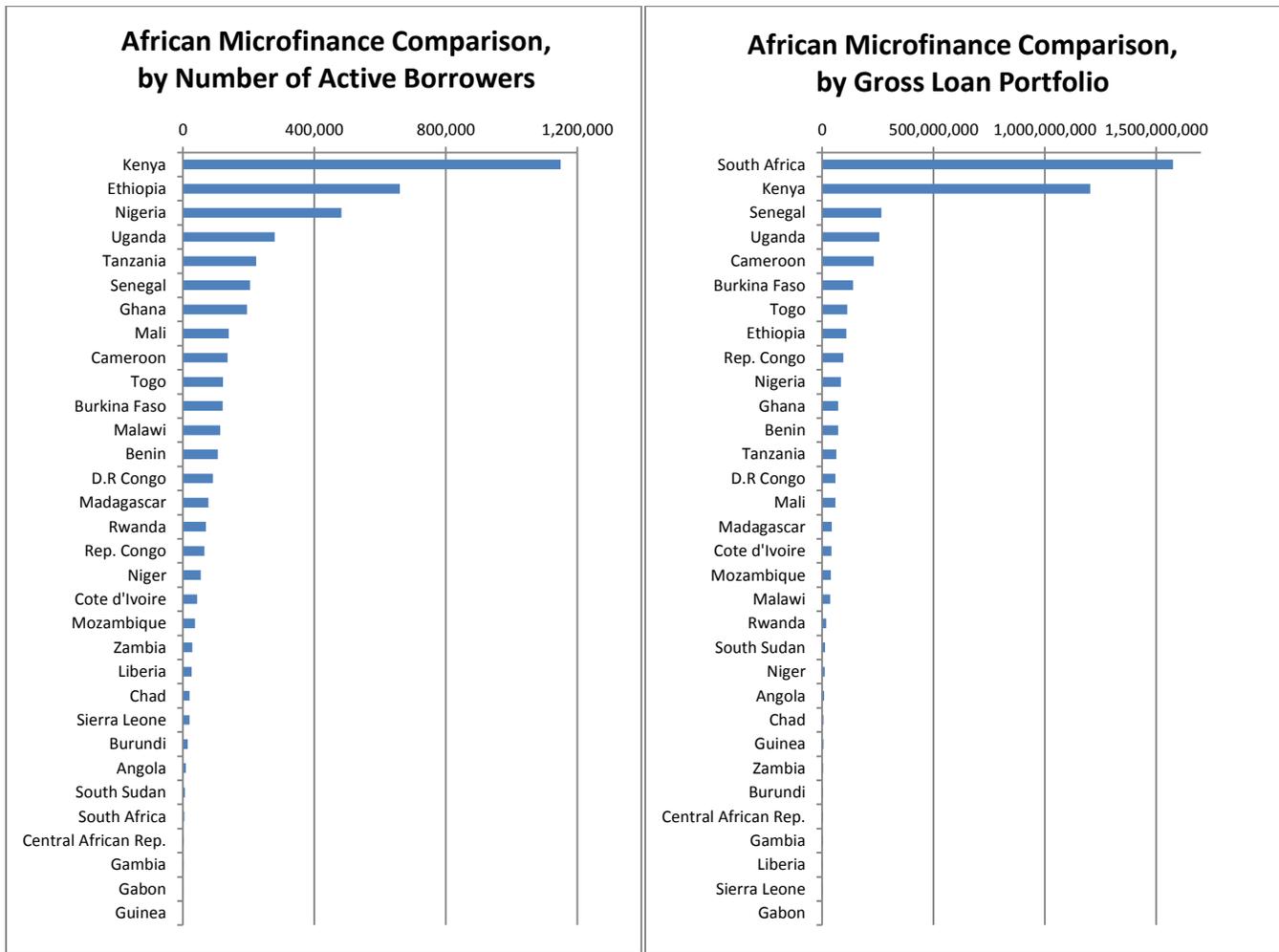
All the largest MFIs in Malawi belong to the Malawi Microfinance Network (MAMN). By 2010, nine MFIs had reported financial data to the MIX. The majority of these institutions also provided data to *MFTransparency’s Pricing Initiative* in 2010, which reviewed the pricing data from ten of Malawi’s institutions.

Most MFIs in Malawi have not yet been rated by internationally recognized ratings agencies. All three of the major rating agencies in the microfinance industry have worked in the Malawian microfinance market; however they have rated just one institution each. No Malawian MFIs have yet participated in social performance ratings.

MFI	Rating Agency	Rating	Report Date (most recent)
Financial & Operational Ratings			
Pride Malawi	MicroRate	Y+	2007
CUMO	Planet Rating	D	2009
OIBM	MicroFinanza Rating	BB+	2008

Malawi and Microfinance in Africa

Data from The Mix Market in 2010 showed the African microfinance sector as having 4.5 million borrowers and a gross loan portfolio of \$4.6 billion⁶⁹. In terms of scale, the Malawian microfinance market smaller than many of the other industries around the continent in both gross loan portfolio size and number of clients. It is the 12th largest sector in Africa in terms of number of active clients, and 17th largest in terms of gross loan portfolio. The following charts provide an illustration of the Malawian microfinance market in comparison with others in Africa.



Source: Mix Market 2010

Challenges for the Malawian Microfinance Industry

The Malawian microfinance industry has made progress in several key areas in the last few years. However, microfinance in Malawi still remains largely under-developed. The key challenges facing institutions include capacity building, funding, the introduction of new regulations and how these will be implemented and enforced.

The Government of Malawi has recently instituted several regulations for the microfinance industry including the Microfinance Bill of 2010 and the Credit Reference Bureau Bill. While these regulations will assist in expanding development of the industry, proper implementation will take time, effort, and extensive education for the microfinance institutions. For instance, the Bill on disclosure of interest rates will require MFIs to make quick changes to their systems, which could be challenging due to lack of capacity and funding. Further, it has been reported that enforcement of the microfinance regulations currently in place needs to be improved⁷⁰.

Concerning sustainability, many Malawian MFIs work in rural areas, where low population density and weak infrastructure result in high operating costs. Institutions continue to seek ways to increase efficiency through better communication, improved lending products, new technology, or some combination of these improvements. While unregulated MFIs are reaching poorer clients, they have higher costs and smaller operational volumes. Also, most of

the MFIs are still young and about 33.3% of them are operationally unsustainable. Eighty percent of the MFIs are not yet financially sustainable and their portfolio quality is poor, with about half of the institutions' portfolio at risk.

Capacity building and education is another challenge facing the industry. While several MFIs implement trainings for their staff, many do not have appropriate and efficient loan tracking systems. Furthermore, the system of repayment has not been fully developed among most borrowers in Malawi. The country as a whole requires better financial education on financial discipline to address issues such as repayment.

During the implementation of the *Transparent Pricing Initiative in Malawi*, MFTransparency identified several major challenges in terms of microloan pricing that require training and capacity building at the MFI level. Most Malawian MFIs provide group loans to their clients, but have no individual repayment documentation to accompany these group loans. This means that clients do not have full information about their cost of borrowing. MFTransparency is working in conjunction with MAMN to train MFIs in Malawi on improving loan documentation.

MFTransparency also observed that several MFIs have the same prices for different products. This lack of differentiation between products suggests that these MFIs have not implemented rigorous analysis in their approach to price-setting. Training in the area of price-setting will also be essential to ensure that the loan products are offered sustainably.

Through a combination of progressive new legislation, ongoing industry efforts towards capacity building and consumer protection efforts such as the *Transparent Pricing Initiative in Malawi*, the Malawian microfinance sector is poised to make substantial advances in the near future.

About the Country Survey

The Country Survey resources are comprehensive literature reviews that outline the country-specific context for the data collected during the Transparent Pricing Initiatives. Each country has a unique set of circumstances defining the state of its microfinance market. The macroeconomic conditions, the political history, and the level of financial inclusion in a country are important factors characterizing the origins and future development of its microfinance market. An awareness of the country-specific regulatory environment for microfinance, as well as the involvement of other industry actors and industry challenges, is a valuable backdrop when considering a market's pricing data. Country Surveys are prepared by a team of talented interns working for MFTransparency, and should be viewed as a resource offering general contextual information for the Transparent Pricing Initiative in each country.

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