

Building Resilience Through Digital Financial Services

Africa COVID-19
Digital Finance Market Impact Series

Malawi

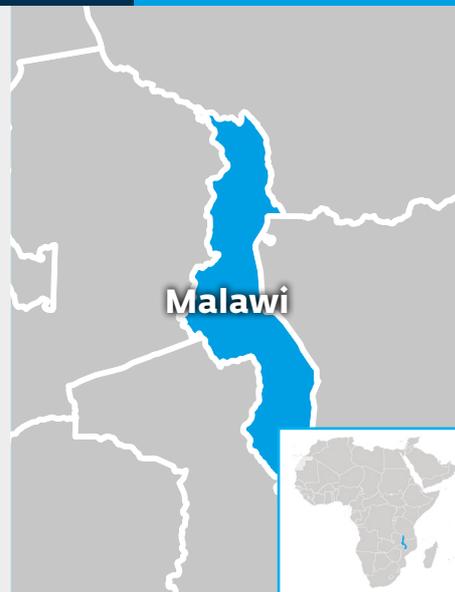
The **COVID-19 pandemic** highlighted the important role **digital financial services (DFS)** can play in reducing disruptions to supply chains, maintaining economic activity, supporting social transfers and ensuring safe transactions while maintaining social distancing.

In these challenging times, IFC's DFS advisory has worked with clients to build resilience and capacity through the Covid-19 crisis while designing, building and developing innovative business models for financial inclusion. This DFS market research series endeavors to share the insights gathered through this work.

Malawi is a largely agriculture-based economy, in which tobacco, tea and sugar are the main export crops.

Mobile penetration stands at 45% but has grown at a rate of 8% in the last year whereas internet penetration is at 15% in 2020, with a service offering focused on urban centers, which also translates into a banking rate of less than 20%.

While these base indicators rest below regional averages, increasing digitization makes Malawi a DFS market with growth opportunity.



MALAWI: KEY COUNTRY STATISTICS



19.3 million

Population¹



23%

Banked Population

271 000 driven by cash transactions and savings



2.5 million

Active MM Subscriber accounts

(06/2020)



22.3%

Digital payments in the past year



78.1%

MM agents geographically located in urban and semi-urban areas



1.3%

have a credit card



69,055

The number of registered MM Agents.



15%

Internet Penetration in 2020



19%

Adults having / using bank services



45%

Mobile Penetration

(8.58 million mobile connections) (01/2020)

Sources:

¹ As of October 2020, growing on average 2.5% per annum for the past 5 years.
World Bank. Malawi Economic Monitor, July 2020: From Crisis Response to a Strong Recovery.
World Bank data.

IMPACT OF THE COVID-19 PANDEMIC ON DFS

Although at the macroeconomic level, Malawi's economy has not contracted as deeply as some in the region in 2020, the growth rates are expected to recover slowly following the pandemic. **The government instituted fiscal and monetary measures, to support DFS such as:**

- **waiving of fees and charges on electronic payments and money transfers,**
- **allowing** taxpayers with arrears to **settle their tax obligations in instalments** without penalty,
- **lowering the Liquidity Reserve Requirement (LRR)** on domestic deposits,
- **agreeing** with banks and MFIs to extend a **moratorium on payment of interests and principal on loans**, through the Reserve Bank of Malawi (RBW).

At the same time, **financial service providers (FSPs) encouraged consumers to use digital channels through reduction of customer charges** including cash out fees for mobile money subscribers and lobbied the **government to waive duty on imported devices** (ATMs, POS, mobile phones).

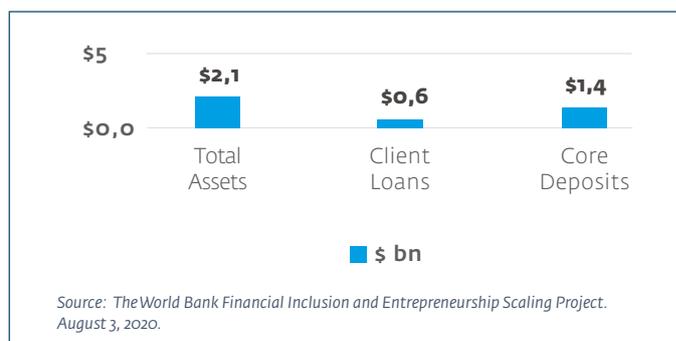
As a result, **the value and volume of mobile money transactions increased notably with the following characteristics:**

- P2P transactions have shown an upward trend since January 2020, increasing by 49% to K20.2 billion in June 2020.
- Transactions on mobile money platforms are dominated by cash in and cash out, B2B and airtime top-ups.

Although the **volume of retail DFS transactions** increased by **11.4%** and the **value by 3.9%** in the second quarter of 2020, POS transactions clearly did not follow the same trend as mobile money.

DFS MARKET OVERVIEW

- Overall, Malawi's financial sector is small and dominated by its highly concentrated banking sector. All of Malawi's commercial banks are privately owned. The overall value of commercial bank assets stood at a modest 29.9 percent of GDP as of June 2019.
- There are 9 Banks, one leasing company, one discount house, eight insurance companies, two development finance institutions (DFIs), an immature but rapidly expanding microfinance industry, and a nascent capital market.
- Of the total value of financial sector system assets, which stands at US\$1.5 billion, two thirds are held by the commercial banking system, with the remainder held by insurance companies and securities firms.



Competition among banks is moderate

- **The two big banks, NBS Bank and FDH Bank, continue to dominate the sector, with these two banks combined controlling 46% of the sector's total assets and offering DFS as of December 2018.**
- **NBS Bank** has strong agent banking service called **"Bank Pafupi"**, that:
 - partners with Telekom Networks Malawi Mpamba Ltd. (a mobile money service provider), where shared customers move money from their Mpamba wallets ("W") to bank ("B") and B2W, and cash-out.
 - leverages Airtel agents and has a mobile banking product "Tidarirane" linked to village banks.
- **FDH Bank**, with a fully functional mobile and agent banking platform, is the most active bank in with ~1.2 million DFS customers being:
 - **fully integrated with Airtel** to process mobile money as well as micro-loan/savings and international remittances transactions.
 - integrated with TNM for micro-loan/savings, but not international remittances.
- **MyBucks** is a leading FinTech and banking company working in 12 countries across Africa, Europe and Australia.

MFIs are the second largest providers of finance to MSMEs

- The top 3 MFIs in Malawi, in terms of loan book and customer base, are: **FINCA, Select Financial Services** and **Vision Fund**.
- **FINCA**, a deposit taking entity, is the leading MFI with 30% market share. It expanded its digital footprint with the launch of FINCA Mobile and FINCA eXpress Agency banking and recently partnered with Airtel for B2W and W2B.

Two Mobile Network Operators (MNOs) offer mobile money

- The two leading MNOs are Airtel with **Airtel Money** and, **Telekom Networks Malawi (TNM)** with **Mpamba wallets**. They are integrated to the national switch.
- A third mobile license is planned to be awarded by the Central Bank.

EVENTS SHAPING DFS GROWTH

Political

- When joining the Better Than Cash Alliance in 2013, the Government of Malawi (“GoM”) pledged to digitize government payments
- **The National Payment Systems (“NPS”) Bill** and **E-Money Regulations** support improving the transparency of the country’s payments system and streamlining digital payments. Incentives for the payment industry (for instance, through tax rebates and reductions of import duties on smart phones) would further encourage this shift.

Economic

- The **agriculture** sector is the highest contributor to GDP at about 30%. **Malawi’s** Gross Domestic Product (GDP) per capita is estimated at US\$1,271 (2019) and GDP is US\$7.4 Bn.
- **The economy grew by 4.4% in 2019**, a marked increase from 3.5% in 2018 supported by a rebound in agriculture production, as maize and key crops increased. The economy is expected to grow at 1.0 % in 2020, although there are considerable downside risks. The growth is projected to rebound in 2021 to 2.8%, although the nature of the recovery will depend on the evolution of the COVID-19 pandemic and government’s policy actions.¹
- **Inflation fell to 8.5% in June 2020**
- Malawi has a high interest rate environment, with an average lending interest rate at around 27%, masking critical inefficiencies as banks mostly channel resources into government securities.
- **Unemployment is generally high in Malawi**, estimated at 20% nationally - although this number is difficult to interpret in the context in which most households are engaged in agriculture

Social

- **18.5 %** of the population is urban. The **median age** in Malawi is **18.1 years**
- **Adult literacy:** 62.1%,
- **Labor force:** 7 million (37.5%)
- Key barriers to mobile phone ownership, particularly among women, have been identified by experts in the mobile industry as lack of disposable income and lack of digital literacy.

Technological

- **National Switch Limited (NSL)**, 100% owned by the private sector – banks and the two MNOs (Airtel and TNM) – allows a fully interoperable ecosystem encompassing banks, MFIs, mobile money and other FSPs, driving down transaction fees and expanding the reach of service points across the country. The Switch currently processes mainly ATM cash withdrawals, balance inquiry, POS (pre-authorizations), wallet to wallet & bank to wallet transactions. All banks in Malawi are mandatorily integrated to the Switch.
- Going forward, there is need to improve transaction processing times.

Legal/Regulatory

- The regulation permits both banks and nonbank financial institutions to offer DFS.
- Mobile banking and mobile money services are regulated by RBM (Mobile Payment Systems regulations (2011), Payment Systems Act (2016), Payment Systems Interoperability Directive 2017 and Payment Systems (E-Money) regulations). In 2019, the Guidelines for Applicants for E-Money schemes were issued detailing the requirements of e-money schemes.
- **There is no regulation for bank-based mobile banking.** However, this does not prevent banks from providing mobile banking services.
- There are no clear simplified KYC requirements for agent clients and the roll out of National Identification System is in progress.

Information collected from following sources:

Malawi-National Strategy for Financial Inclusion (2010-2014). Ministry of Finance Financial Sector Development Unit.

Reserve Bank of Malawi: National Payment Systems (NPS) Report.

World Bank report. Malawi Economic Monitor: In times of Covid-19, Protecting the Lives, Livelihoods and Future of Malawians.

Sources:

¹ World Bank. Malawi Country Partnership Framework – A Focused and Flexible Engagement Strategy. May 4, 2021.

GAPS AND CHALLENGES

The DFS sector in Malawi faces a number of challenges and gaps that slow down its growth.

- **Low digital literacy**
- **Limited electricity supply and network coverage issues, especially in rural areas**
- **High mobile money user fees**
- Resistance from merchants to accept DFS, for fear of business taxes
- **Lack of fintech companies and innovation**
- **Slow turn-around-times (TAT)** for transaction corrections
- Cybercrime (Sim Swap), discouraging consumers from adopting mobile money
- Access to finance has been an important business growth constraint for MSMEs
- Key barriers to mobile phone ownership are linked to **lack of disposable income** and the **high cost of the mobile handset** as well as **lack of digital literacy**
- Loan interest rates, even when subsidized, remain high for most customer
- Many MFIs have weak capital bases, high operating costs and non-performing loans, limited risk, governance and product development capabilities
- **There is a lack of innovative credit assessment methods**
- There is limited use of market infrastructure such as credit reference bureau and collateral registry

OPPORTUNITIES FOR MARKET GROWTH

Many strengths and opportunities can be leveraged in Malawi.

- Malawi has **experienced strong growth in uptake and usage of DFS** through for instance, **the digitization civil service salaries²**, which could be further expanded and also be linked to P2G more significantly.
- The RBM has played an important role in **creating a conducive regulatory environment that has fostered private sector led growth** which can be stirred to further the financial inclusion of the underserved population through micro-savings, micro-loans, and micro-insurance products.
- The country introduced a biometric National Registration and Identification System (NRIS) that can support customer due diligence and e-KYC

Digitization of payments (G2P, P2G, P2B, B2P, P2P payment streams)	<ul style="list-style-type: none"> • Increase volume & value of digitized government payments (i.e: traditional leaders (chiefs) across the country, social payments to poor households, public works payments) • Increase individual to government and business to government payment digitization volume and value (i.e: tax payments to Malawi Revenue Authority (MRA). • Digitization of bills • Reduce cost of transaction for government payments • Address challenges being faced by agents and incentivize them to remain active as they are a critical stakeholder in the delivery of MM services
User Literacy – Customs Education Programs	<ul style="list-style-type: none"> • Given the low literacy and digital literacy levels in Malawi, there is an opportunity to work with policy makers like RBM and Government of Malawi, to come up with digital literacy programs. • Introduce BTL firms to run educational campaigns across the country on Digital Financial Services • Increase share of women in financial inclusion through education programs
Merchant Payments	<ul style="list-style-type: none"> • Promote and roll out regular usage of digital channels for merchant payments • Review of taxation on transactional devices by GoM
Data automation	<ul style="list-style-type: none"> • Improve the ability of RBM to collect, manage and analyze data from DFS providers through data automation • Improved reporting templates and processes including automated data collection, analysis process and strategic dashboard.
Product Development	<ul style="list-style-type: none"> • Opportunity to partner with banks, MFIs / MNOs in developing specific DFS products such as the following: • Overdraft facilities for agents – to promote agent banking and manage liquidity challenges • Micro-load products for Mobile Money Agents to ease liquidity challenges • DFS for Agriculture • Given the progress on Digital Identity in Malawi, IFC can partner banks to develop low KYC products to enhance financial access
Loans to MSMEs & SMEs	<ul style="list-style-type: none"> • Opportunity to partner with MFI sector with banks as guaranteeing institutions to come up with a special type of loan product for MSMEs and SMEs
Interoperability for agent banking	<ul style="list-style-type: none"> • A few banks have made great progress in agent banking in Malawi, with savings products that appeal to the unbanked segment including village banks. Given the centrality of the National Switch platform in growing DFS, there is a need to support Natswitch and banks to enforce interoperability on agent banking.

Sources:

² USAID. A Five-Year Plan to digitize Government Payments in Malawi (2017).

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