AMAP
MICROFINANCE
CHEMONICS CONSORTIUM

MICROFINANCE SECTOR ASSESSMENT IN THE REPUBLIC OF MALAWI

January 2004

USAID Contracting Vehicle: AMAP Microfinance IQC
USAID Contract No. GEG-I-00-02-00013-00

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CONTENTS

ACRONYMS

ADMARC	Agricultural Development and Marketing
AIMS	Malawi Agricultural Inputs Markets Development Project
APIP	Agricultural Productivity Investment Program
CAMEL	Capital adequacy, Asset quality, Management, Earnings, and Liquidity Management
CPI	Consumer Price Index
CUMO	Concern Universal Microfinance Organization
DEMAT	Development of Malawian Enterprises Trust
DFID	Department for International Development, UK Government
ECLOF	Ecumenical Church Loan Fund
EU	Economic Union
FINCA	Finance for International Community Assistance
GDP	Gross Domestic Product
GoM	Government of Malawi
GTZ	Gesellschaft fur Technische Zusammenarbeit (German Technical Cooperation Agency)
HIPC	Highly Indebted Poor Countries
HIV	Human Immuno-Deficiency Virus
IFAD	International Fund for Agriculture Development
INGO	International Non-Government Organization
KfW	Kreditanstalt fur Wiederaufbau (German Bank for Reconstruction and Development)
ME	Microenterprise
MFI	Micro Finance Institution
MK	MKarcha (Currency of Malawi)
MoAI	Ministry of Agriculture, Irrigation, and Food Security
MoF	Ministry of Finance
MoIC	Ministry of Industry and Commerce
MPRS	Malawi Poverty Reduction Strategy
MRFC	Malawi Rural Finance Company Ltd.
MSB	Malawi Savings Bank
MSE	Micro and Small Enterprises

MUSCCO	Malawi Union of Savings and Credit Co-Operatives Ltd.
NABW	National Association of Business Women
NASFAM	National Smallholders Farmers' Association of Malawi
NB	National Bank of Malawi
NBFI	Non-Bank Financial Institution
NGO	Non-Government Organization
OIBM	Opportunity International Bank of Malawi
RBM	Reserve Bank of Malawi
SACA	Small Holder Agriculture Credit Administration
SACCO	Savings and Credit Cooperatives
SEDOM	Small Enterprise Development Organization of Malawi
SME	Small and Medium Enterprise
SOW	Scope of Work
TIP	Targeted Inputs Program
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
USAID	United States Agency for International Development

SECTION 1

EXECUTIVE SUMMARY

Introduction

In November 2002, the Government of Malawi (GoM) approved a Microfinance Policy and Action Plan to assist in the development of the MF sector. USAID/Malawi commissioned this Microfinance Market Assessment to profile the sector, identify constraints to its development, and provide a way forward to lead to the advancement of microfinance as an integral part of Malawi's financial system.

Over the period December 5-19, 2004 an Assessment Team met with stakeholders in Malawi and conducted research on the legal and regulatory environment, performance of key microfinance service providers, market demand, donors active in MF, and support structures to the sector. The Team's key findings are summarized below.

Main Findings

Socioeconomic Environment. Malawi is an agricultural-based economy with about 10.8 million people, 85% live in rural areas and 65% are under the national weighted average poverty line. Agriculture employs 85% of the labor force. Over the last three years, Malawi's economy has been characterized by high interest rates, declining inflation, flat to negative GDP growth, exchange rate volatility, and increasing government debt. To bring down interest rates (Reserve Bank of Malawi Base Rate was 46.5% in September 2003) the GoM must find ways to retire a large part of its domestic debt and cut spending since the government's debt financing is not sustainable. Unless action is taken, the cost of commercial credit will be driven up and important GoM initiatives such as the Poverty Reduction Strategy launched in April 2002 will not be funded as budgeted.

AIDS is the leading cause of death in Malawi adults and an estimated 15% of the population is HIV positive. A national survey of enterprises in 2000 found HIV/AIDS has a broad negative effect on the economy with 28%-37% of all enterprises likely affected by the disease. Despite donor and government efforts to combat this illness, businesses including microfinance institutions (MFIs) need to do more to mitigate the threat HIV/AIDS poses to their long-term viability.

Legal, Regulatory, and Supervisory Framework. The formal financial sector in Malawi is fairly small and limited in scope with few levels of intermediation in the financial system. Since the mid to late 1990s, the GoM embarked on a program of financial market liberalization. In the latest GoM Letter of Intent to the International Monetary Fund (IMF) reforms relevant to the MF sector planned for the short-term include:

- Lowering liquidity reserve requirement from 30% to 10% by the end of December 2004
- Implementing a review of the financial sector regulatory framework

∉ Expression by the GoM of the need to develop a specific regulatory framework for microfinance

Further evidence of the GoM's interest in the MF sector was the passage of the Microfinance Policy and Action Plan by the Cabinet that defines the broad framework for the development of microfinance in Malawi. While the existence of such a document is a positive indicator of the GoM's recognition of the sector's importance, the Assessment Team noted some omissions/contradictions in the document. Foremost of these was the confusing role proposed for the GoM. At one point, the Plan states that the MF industry will "consist of private and autonomous institutions" while in other places the government states its intention to "mainstream microfinance initiatives in all the ministries." The GoM's plan to develop a new MF regulatory framework before ensuring the capacity of MFIs is built, runs counter to generally accepted MF best practices to start with the latter when a country's MF sector is nascent.

Microfinance service providers in Malawi can either exist as commercial banks falling under the Banking Act and supervised by the Reserve Bank of Malawi (RBM), or as semi-formal MFIs under several legal forms and ownership structures ranging from non-governmental organizations to cooperatives, private and public companies, and parastatals. The Assessment Team found the formal financial sector regulatory framework does not pose insurmountable impediments to the entry of new players and GoM supervision is not onerous. For semi-formal MFIs, registration as legal entities is simple while supervision and enforcement mechanisms are unstructured and essentially non-existent. Nonetheless, the systemic risk is low as most semiformal MFIs in Malawi are microcredit institutions and few mobilize deposits from the public. While the GoM is investigating the creation of a specialized regulatory framework for microfinance, there is not a credible mass of MFIs operating at sustainable levels to warrant this and to do so at this time may hinder innovation and inadvertently restrain the sector's development.

Characteristics of Microenterprises and Microfinance Demand. The GEMINI MSE Baseline Survey of 2000 estimated that 747,000 micro and small enterprises (MSEs) exist in Malawi and employ 1.7 million persons. Consistent with population statistics, 83% of all MSEs are based in rural areas. The annual turnover at 71% of the 747,000 MSEs was less than MK 50,000 ($833 at the time of the survey) indicating they are potential clients for microfinance services.

Commerce, trade and tourism accounted for 44% of all MSEs, manufacturing was 30%, crop production was 17% and services 5%. On average, any one MSE operates only about nine months per year as labor shifts to other activities corresponding to the season. This mirrors the seasonal shifts in an agriculture-based economy and is an attempt to diversify income streams. The GEMINI study listed three key constraints reported by MSEs:

1. Access to resource inputs (mentioned by 26% of interviewees)
2. Access to finance (28%)
3. Market problems (25%)

Regarding the level of satisfaction expressed by existing or former clients of Malawi MFIs, certain programs reported high levels of dropouts (> 50%), client dissatisfaction with rigid loan methodologies that restricted the obtainment of optimal loan sizes and terms, and a desire for suitable and secure savings services. It summary there is a large, unmet demand for appropriate microfinance services in Malawi.

Microfinance Supply – Assessment of Key Actors. Microfinance supply in Malawi is a mixture of agricultural credit and business finance carried out in rural and urban areas by a variety of public and private sector firms. Agriculture-related credit is dominant and frequently takes the form of in-kind inputs of fertilizer and seed. The sector is controlled by a few major players and the GoM's presence is pervasive in all aspects of the sector: financial service delivery, governance, legal, regulatory, supervisory, and donor. The two largest microsavings providers, MRFC and MSB, are parastatals that hold more than 80% of the market. On the microcredit side, close to 50% of the demand is satisfied by MRFC; a bilateral agriculture credit project (APIP) accounts for another 18% of outstanding loans. Private sector microfinance actors run the gamut from credit unions to non-governmental organizations (NGO), specialized microcredit companies, and project offices.

The two parastatals, MRFC and MSB, are in the process of evaluation for privatization with no decision yet taken as to whether it will happen. At present, both are highly subsidy dependent, have substantial weaknesses in capacity and need to rationalize operations.

Overall weak capacity of Malawi MFIs and their inability to cover costs poses a major constraint to scaling up the sector. Many microcredit providers have high covariant risks due to over-dependence on crop finance and lack the financial management capacity to manage risk in a macro-environment of declining currency value and inflation.

Donor Support. At the time of this report it was learned that the World Bank was lobbying the government to support the creation by July 2005 of a new "Community-driven Mortgage Bank" with a start-up capitalization of about $38 million. Ownership of the new bank is undecided but the GoM would likely have a major position. If the project goes forward, the new bank would have an immediate and dramatic impact on the sector and potentially triple the value of loans in circulation. It would undoubtedly create pressure on existing structures that could likely lead to a number of closures. Additionally, a new EU project is under consideration that would convert APIP, an in-kind agriculture credit program working through non-specialized and specialized microcredit institutions, into a federated apex structure sitting atop newly-created rural finance associations (i.e. credit unions).

Next Steps Forward

Malawi is burdened by a poor microfinance supply culture created by years of market distortions propagated by public sector involvement in microfinance and supported by donors. Since the GoM dominates and distorts the market, the first step forward is to facilitate the withdrawal of the GoM as an operator of MFIs.

Evidence from elsewhere indicates that the most important role for government in microfinance is to create an enabling environment for its development. The microfinance sector in Malawi is at a critical point in its development where the possible privatization of parastatals may or may not go forward; a new, heavily subsidized microfinance bank may be created; a special law for microfinance passed; and a host of semi-formal microfinance providers in critical need of capacity building.

The Assessment Team believes that the best way to move the sector forward is to consider it as a whole system of interdependent elements whose capacities need to be built across the board. In doing so, stakeholders should see that certain principles are applied:

1. Reliance on market forces rather than distorting subsidies
2. Transparency investment selection
3. Demand-driven capacity building
4. Foster local capacity to support the sector
5. Insistence on cost participation, increasing over time
6. New investment contingent on performance

Potential activities that would support the MF sector's development cover various elements including: policy, legal, donor agencies, financial service provider, and support structures.

Policy. Educate decision-makers on what constitutes best-practice microfinance and how it can best be supported. This can be done through seminars, workshops, exterior study tours and training, and development of performance standards. Malawi's Ministry of Finance should be encouraged to play a more prominent role in the development of the sector.

Regulatory. Given the lack of a critical number of microfinance providers and their nascent stage of maturity, the GoM should not expend energy to develop new external regulation of semi-formal MFIs. The development of best practice standards and means to enforce them should substitute for additional regulation. The Reserve Bank of Malawi should be sensitized to the special nature of microfinance.

Legal. Favorable changes in the following Acts would help improve the enabling environment for microfinance: Hire-Purchase, Bills of Sale, Land Registration, Sheriff's. The need for financial cooperatives to request tax exemption annually should be abolished and the law should distinguish them from non-financial cooperatives.

Donors. Better coordination of donor support to the MF sector is needed to prevent the introduction of market distortions affecting the market as a whole. There should be unified agreement on what constitutes best-practice microfinance development policies and practices.

Financial Service Providers. Capacity building assistance should be focused on institutions/programs specializing in microfinance that show promise and motivation to achieving sustainability within a reasonable period of time and have the potential for creating significant outreach. Depending on the institution, identified needs include technical assistance, training, and equipment.

Management information systems were particularly weak with reporting deficiencies noted in accounting, finance, and client data. The problems range from poor record keeping systems and procedures to a need for information technology solutions. Also noted were mismatches between the financial services and products clients demand and what is currently available in the market. In particular savings products were lacking and loan methodologies and terms were often supply-driven. Institutions should be encouraged to address these and other constraints to their development.

Resources should be mobilized to carry out the short-term recommendations made in the first privatization report for MSB and MRFC. The most urgent amongst those mentioned is the rationalization of offices followed by reconstruction of the depositor database at MSB and the internal review of MRFC's information system with tests on the adequacy of its internal control.

Support Structures. Lastly, there is a valuable role to play for two support structures: the Malawi Microfinance Network (MAMN) and the Registrar's General Office in Blantyre. The key constraint to MAMN playing an intermediary role between the GoM and the MFIs is the fact that parastatals are the dominant supplier of microfinance services. Thus, whatever moves MAMN makes towards self-regulation or adoption of a Code of Conduct, there is the risk of it being preempted by political influence. Indeed, this seems to be the present situation. Therefore, it is likely that the capacity of MAMN to fulfill its representative role for the industry will coincide with the capture by the private sector of a greater share of the microfinance market. In the meantime, MAMN could lead the development and adoption of standards and ratings for MFIs and collect the data from its members. It can also be a focal point for leading workshops and seminars in Malawi to expose stakeholders to generic training on best-practice microfinance. As for the Registrar's General Office, this structure needs to improve the registration, filing and security back-up of documents related to collateral registration.

In conclusion, the current legal and regulatory environment in Malawi is not a binding constraint to the development of Malawi's microfinance sector. The greatest need for the sector is to increase stakeholder understanding of what constitutes best practices so the knowledge can be applied to improve all aspects of the sector. Once the GoM withdraws from the direct provision of microfinance and donor assistance is better coordinated to provide appropriate support to the sector as a whole, the microfinance market will become more efficient. Capacity improvements through demand-driven assistance to microfinance providers will lead to the sector's expansion and, hopefully, enable it to become an integral, effective part of Malawi's financial system.

SECTION 2

INTRODUCTION

A. Assessment Rationale and Objectives

In November 2002 the Government of Malawi (GoM) approved a Microfinance[1] (MF) Policy and Action Plan aimed at facilitating the development of the MF sector in Malawi. To support the process the United States Agency for International Development (USAID)/Malawi, the United Nations Development Program (UNDP) and the United Nations Capital Development Fund (UNCDF) decided to undertake a joint assessment of the Malawi MF sector with the intent of enhancing in-country donor coordination of investment in the sector. Due to programming difficulties, separate missions with similar Scopes of Work (SOW) were fielded by UNDP/UNCDF in October 2003 and by USAID/Malawi in December 2003. The second mission was to build on the findings of the first and provide USAID/Malawi with thoughts on the next steps for the sector that would lead to the development of microfinance as an integral part of Malawi's financial system. Since, the earlier UNDP/UNCDF report was not available in time, it was decided the USAID Assessment Team would produce its own report and that the two reports would later be combined for broader distribution.

B. Assessment Framework, Methodology, and Organization

B1. Framework

Applying the Financial Systems approach[2], the Assessment Team analyzed the policy environment from both the macro and sectoral points of view, including a discussion not only of the GoM's fiscal and monetary policies but also the relevant policies affecting the agricultural and financial sectors. In addition, issues in the legal environment and in current or draft banking regulation and supervision are included as part of the macro analysis. The Financial Systems approach looks also at microfinance demand and supply. For the latter we concentrated our efforts on key Malawian microfinance institutions (MFI) that account for the majority of activity in the sector. Donors were consulted during the mission to gain an understanding of their vision for the sector and their current and planned investments in microfinance. The report concludes with a possible path to follow that would help to create an efficient, responsive, and financially sustainable MF industry in Malawi that could, over time, be able to be integrated into the country's financial system.

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[1] Microfinance (MF) is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to the poor and low-income households and their Microenterprises (ME). By convention, a microloan is roughly equal to 250% of the country's GDP per capita which in Malawi is 15,260 MK or about $145 (GDP source: RBM Monthly Economic Review, September, 2003.)

[2] The Financial Systems approach generally considers microfinance as part of a country's overall financial services market, focuses on the development of sustainable financial institutions (able to cover all operational and financial costs with revenues), and recognizes that microfinance clients are willing to pay the full cost of these services if they are designed and delivered consistent with their specific needs (Otero and Rhyne 1994 and Von Pischke 1998).

B2. Methodology

Given the Assessment Team's mandate to examine the MF sector as a whole and the short duration of the fieldwork (about two and one-half weeks) it was not possible to conduct in-depth primary market research. However, the team was able to gather a rich dataset of information from a wide variety of sources that enabled it to analyze the market and draw conclusions. The type of information, its source, and methodology of data collection is discussed below.

Regulatory and legal analysis. This report is the product of consultations with a wide variety of microfinance stakeholders in the Malawi cities of Blantyre and Lilongwe over the period December 5-19, 2003. The stakeholders interviewed included commercial banks, limited liability companies, savings and credit cooperatives, GoM ministries, Reserve Bank of Malawi (RBM), domestic and international non-government organizations (NGOs and INGOs), government-funded development agencies, donors, parastatal structures, project implementing agencies, consultants, and micro entrepreneurs. A list of persons consulted is found in Annex B.

Institutional analysis. A questionnaire was developed and distributed to microfinance providers to complete and return to the Assessment Team. It requested specific performance indicator data on microfinance operations for the previous three years including institutional profile, financial structure, profitability, portfolio aging, loan fund sources, and governing structure (See Annex C). It is important to note that the portfolio and financial data is self-reported information that may or may not have been audited by an outside agency and was not verified by the Assessment Team due to time constraints. Though most of the MFIs we contacted were very cooperative in replying to requests for information, many of them do not have the systems or procedures in place to collect all of the information requested. While this prevented the team from conducting a more rigorous financial analysis, it allowed clear identification of areas in which the MFIs need to improve to gain control over their operations.

Client research. The Assessment Team also drew on previous studies, reports and project documents concerning the Malawi MF sector. This included a number of recent market studies relating to Malawi Savings Bank (MSB), Malawi Rural Finance Company (MRFC), European Union's Rural Microfinance Programme (APIP), PRIDE Malawi, and FINCA among others. (See Annex A, References) It was also able to draw on some of the preliminary findings of the earlier-mentioned UNDP/UNCDF mission. This market research coupled with recent Malawi-specific experience of the team's Legal and Regulatory Specialist permitted the team to arrive at conclusions on the nature of the demand and supply for microfinance services in Malawi.

Geo-referencing. A local consultant was engaged to geo-reference the office locations of Malawi's leading MFIs and commercial banks that provide financial intermediation services to the sector. Using a hand-held Global Positioning Satellite (GPS) unit he visited and took readings in the urban areas of Lilongwe, Blantyre, and Mzuzu. For offices outside these areas, approximate longitude and latitude positioning was made using detailed raster maps loaded into ArcView software.

B3. Organization

The organization of the rest of this report is as follows. In Section 3, we examine the environment for microfinance, including: (i) key socioeconomic data, (ii) macroeconomic and sectoral policies, and (iii) the legal framework as well as prudential regulation and supervision issues. Section 4 looks at the demand for microfinance savings and credit services and includes an analysis of the current and potential microenterprise market size and its characteristics. Section 5 reports on the estimated supply of microfinance, including: (i) extent of regional coverage, (ii) types of products and services offered, and (iii) MFI market share. Additionally, Section 6 includes a performance and needs assessment of key leading Malawian microfinance service providers. Section 7 concludes the study by recommending a number of appropriate support options to develop Malawi's MF sector through the expansion of access to demand-driven, professional and financially sustainable microfinance services.

SECTION 3

The Environment for Microfinance

Key enabling environmental factors for microfinance in Malawi are described below. They include the country's socioeconomic conditions, macroeconomic performance, sectoral government policies (especially agricultural and financial), and the legal and regulatory framework for microfinance. Understanding the country context reveals what impact government policy and the legal and regulatory framework have had on the development of MEs and the microfinance market and helps assess the potential impact of future changes.

A. Key Socioeconomic Data

A1. Macroeconomic Data and Labor Statistics

Malawi is an agricultural-based economy with a population of about 10.8 million people, 85% of whom live in rural areas. Sixty-five percent of Malawians subsist under the national weighted average poverty line.[3] Agriculture employs 85% of the labor force and accounts for about 36% of Gross Domestic Product (GDP) and 90% of Malawi's exports. Manufacturing, trade, and transport sectors are mostly dependent on agriculture processing and handling of farm inputs and outputs. Tobacco is the primary export crop, accounting for approximately 60-70% of export receipts, followed in importance by tea, sugar and cotton; maize is grown for domestic consumption.

The agriculture sector can be divided into two producers: smallholder farmers and estates. Smallholder farms account for 78% of land under cultivation, generate 75% of Malawi's total agriculture output and produce staple foods such as maize, beans, groundnuts, cassava and rice as well as cash crops such as tobacco, cotton and paprika. However, 72% of smallholder farms are less than 1 hectare, a size too small to achieve food self-sufficiency (World Bank 1995). This was most evident in 2001 when the country experienced severe food shortages when only 1.7 million metric tons of maize were produced, 2.0 million tons under the national requirement.

Over the last three years Malawi's economy has been characterized by high interest rates, declining inflation, flat to negative GDP growth, exchange rate volatility, and diminishing import cover.

GDP growth rates. A 1998 World Bank study estimated that GDP growth of not less than 6% is needed for meaningful poverty reduction, particularly if the growth must come from the sectors poor Malawians are engaged in, such as agriculture and manufacturing. An examination of Malawi's GDP growth over the past five years shows performance far under the 6% target, with an achievement over the full period of only 1.3%.

[3] Source: Profile of Poverty in Malawi, 1998: Poverty Analysis of the Malawi Integrated Household Survey (IHS), 1997-98. National Economic Council, 2000.

Real GDP growth in 2001 and 2002 were adversely affected by, but not limited to, poor macro-economic management and declining world prices for some key agricultural products. Compounding the problem, donors had suspended budgetary assistance, which led the government to massively increase domestic borrowing rather than reduce overall expenditures. This in turn caused interest rates on domestic credit to increase as government competed with the private sector for capital, driving up the demand. (See Graph 2.1)

Table 2.1: Malawi GDP Growth and Inflation Data

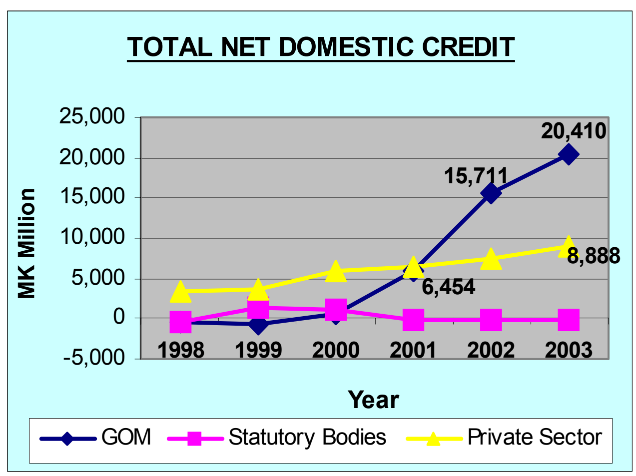
	1998	1999	2000	2001	2002	2003 (thru Sept)
Real GDP growth (%)	1.1	3.5	0.2	-4.1	1.8	5.2
Annual inflation (%)	29.8	44.9	29.3	27.5	14.8	9.2

Source: Reserve Bank of Malawi

Inflation rates. Inflation rates decreased from the highs noted in 1999 of 44.9% to 9.2% in September 2003. This was due to tighter monetary policy and distribution of subsidized maize and farm inputs by GoM and donors in 2001 and 2002. However, inflation began to rise again in late 2003 due to the decline in the value of the Malawi Kwacha (MK) and lower than expected maize harvests, despite the distribution of free inputs the previous growing season. A decline in the value of the Kwacha causes a cost-push on inflation rates since most non-food items in Malawi are imported.

High inflation rates, usually accompanied by currency devaluation, are of special concern to MFIs and require careful financial management of risk to avoid large losses on loan portfolios and cash balances held in local currency. For this reason, USAID policies on MF development caution against making investments to capitalize loan funds when the annual inflation rate is above 50%. In countries where inflation runs less than 50% but greater than 20%, USAID recommends limiting investments in loan capital to only those MFIs with proven capacity to adjust fees and interest rates so as to preserve the real value of assets.[4]

Graph 2.1: Malawi Credit through 9/2003



Source: Reserve Bank of Malawi

Domestic credit demand. In the first nine months of 2003 the weighted average yield on Malawi Treasury Bills moved 6.09 points from 37.99% to 44.08% whereas the RBM Base Rate increased only 3.25 points from 43.25% to 46.5%. With the spread between the two increasing, banks and MF institutions found it more profitable and less risky to purchase T-Bills than to lend to businesses. Many prospective borrowers were driven from the credit market when returns on

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[4] USAID Microenterprise Development Policy Paper, 1994.

business opportunities were inadequate to service the high interest charged on loans. The un-affordability of inputs on credit probably contributed to the 0.4% decline in small-scale agriculture production in 2002, despite overall growth in the agriculture sector that year of 2.2%.

To bring down interest rates the government must find ways to retire a large part of its domestic debt and cut spending, as its current deficit financing is not sustainable.

Exchange rates. Declines in the Kwacha exchange rate vis-à-vis the currency of a major trading partner such as South Africa are immediately felt by Malawi's micro and small enterprise (MSE) sector. For example, traders dependent on the import of goods from South Africa require larger sized loans to purchase the same quantity of goods. But, bigger loans may not be available if the amount needed exceeds an MFI's lending limits. This is especially true in Malawi where many microcredit providers follow a step-loan methodology that slowly increases loan sizes only after repayment of previous loans. For their part, microcredit programs with small loan funds will be unable to increase maximum loan sizes if they do not maintain their portfolio's real value by setting appropriate interest rates and controlling loan defaults. Therefore, unless MFIs can intermediate savings or raise loan capital by other means, they will be constrained from increasing loan sizes in times of a declining currency value. Table 2-2 shows the loss in value the Kwacha experienced over the previous year alone.

Table 2-2: Malawi Kwacha Exchange Rate

Malawi Kwarcha rate of exchange	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03	MK decline over the period
S.A. Rand	7.7	10.2	11.5	12.1	15.3	50%
Pound Sterling	126.5	140.4	144.2	149.4	181.3	30%
U.S. Dollar	80.7	87.6	92.1	90.4	108.6	36%

A2. HIV/AIDS and its Socioeconomic Impact

The high prevalence of HIV/AIDS in Malawi cannot be ignored in a discussion of the socioeconomic environment for microfinance in Malawi. AIDS is now the leading cause of death in adults. At the end of 2001 it was reported that 850,000 Malawians, 15% of the population, were HIV positive and more than 470,000 Malawian children under fifteen lost one or both parents to AIDS[5].

The economic effect on an extended family network that loses one or more family members to AIDS is dramatic. Besides a reduction in the productive capacity of the family unit, there is a dramatic increase in medical costs that can endure for a long time and cause families to sell off assets to survive. For many Malawian households living dangerously close to the extreme poverty line, HIV/AIDS can be a shock from which they cannot recover.

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[5] Source: USAID Malawi Country Profile, July 2003.

The Malawi GEMINI MSE Survey 2000 found HIV/AIDS has a broad negative effect on the economy with 28-37% of all enterprises likely affected by the disease. The economic loss is felt on all sides: worker, employer, family network, and related enterprises. Businesses (MFIs included) focused on efficiency can ill afford to lose key employees in whom capacity-building investments have been made. Microfinance clients who are in solidarity borrower groups must shoulder the burden of repayment for ill members having difficulty reimbursing their loans. If high numbers of borrowers default due to HIV/AIDS-related problems, a loan portfolio can quickly become de-capitalized through non-reimbursement and anticipated revenue streams from interest on loans are reduced to a trickle.

Recognizing the massive impact of HIV/AIDS on Malawian society, a wide assortment of stakeholders met in October 1999 to develop the 2000-2004 National Strategic Framework on HIV/AIDS. The goal of the framework is to reduce the incidence of HIV/AIDS and other sexually transmitted infections and to improve the quality of life of those living with HIV/AIDS. Various actors such as the National AIDS Commission, NGOs, the public and private sectors, and civil society in general, with support from the donor community, have developed and implemented actions in line with the national strategic framework. Despite these efforts it seems that few businesses have begun taking steps to mitigate the threat HIV/AIDS poses to their long-term viability. Businesses will need to find ways to cope with reduced employee productivity, the loss of key employees and rising costs of employee benefit payments.

B. GoM Agricultural Policies

As noted earlier, agriculture is the main source of income for Malawi's rural poor. Past GoM policies favored the production of high-valued cash crops by estates while the smallholder was encouraged to produce and sell maize through GoM-controlled channels. This central planning was highly inefficient and over the past 20 years the GoM began slowly instituting agricultural policy reforms with the goal of creating an enabling environment for a market-oriented economy. Former centrally planned agriculture policies executed through state-owned input suppliers, credit facilities, and crop marketing structures have begun to be dismantled, though many remnants still exist. Some key events included:

- Fertilizer subsidies removed in 1995
- The Agricultural Development and Marketing (ADMARC), a GoM parastatal, is no longer the sole supplier or buyer of farm inputs and crops
- The Small Holder Agriculture Credit Administration (SACA) run under the Ministry of Agriculture (MoA) was closed and replaced in October 1994 by the Malawi Rural Finance Company (100% GoM-owned)
- The restrictions preventing smallholder farmers from freely growing tobacco, a key cash crop, were removed in 1996/1997

Donors are reinforcing the GoM's reform efforts through a variety of projects that seek to alleviate constraints in economic sub-sector value-chains. Farmers are encouraged to treat their farm activities as businesses with a goal to maximize profits instead of settling for subsistence-level returns.

The GoM's Poverty Reduction Strategy (MPRS) launched in April 2002 aims to create the necessary conditions farmers need to increase their incomes. However, unless the government's huge deficit and resultant strangling interest payment on debt is reduced, these activities will not be funded as budgeted and Malawi's poor will find themselves further marginalized.

C. GoM Financial Policies

This section provides an overview of the policy, legal and regulatory issues that govern the Malawi MF sector and influence its expansion and it assesses whether these frameworks are supportive.

C1. Policy Environment for Microfinance

Financial Sector Overview

The formal financial sector in Malawi is fairly small and limited in scope. As is characteristic of other countries in a similar stage of development there are few levels of intermediation in the financial system.

The Reserve Bank of Malawi (RBM) anchors the formal financial sector. Established in 1965 under an Act of Parliament, the RBM is responsible for ensuring monetary stability, maintaining a sound financial system and managing foreign exchange. To achieve these objectives the RBM uses money supply targeting as its main policy tool. The RBM regulates and supervises the activities of most financial institutions through the1989 Banking Act and is responsible for licensing and registering banks and financial institutions.

The RBM categorizes formal financial institutions under two broad headings: **commercial banks** (providing all types of savings, lending and investment products) and **other financial institutions** (non-banks). The formal financial sector of Malawi currently consists of seven commercial banks. Other financial institutions include three leasing companies, a discount house, a building society, a finance company, four development finance institutions, two savings institutions and an insurance industry made up of several insurance companies and pension funds.

In addition to formal financial institutions, there are many **semi-formal actors** providing financial services in Malawi. These include NGOs, parastatals, Savings and Credit Cooperatives (SACCOs), private companies, and projects of international development agencies and donors. As legal regulations prevent most of these actors (with the exception of SACCOs) from mobilizing savings for on-lending (known as intermediation) their focus is on providing credit, both in-kind and cash. Consequently, none of these entities are subject to any kind of prudential regulation[6].

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[6] Christen, R., Lyman, T., Rosenberg, R. *Microfinance Consensus Guidelines – Guiding Principles on Regulation and Supervision of Microfinance* July 2003 CGAP publication defines regulation or supervision as prudential when it governs the financial soundness of licensed

Informal finance catering to lower-income clients is common in Malawi through the *Katapila* (moneylender), Rotating Savings and Credit Associations (ROSCAs), and networks of families or friends. These informal credit providers operate beyond any regulatory or supervisory framework.

For the purposes of this assessment report, financial service providers will be discussed under two categories:

1. *Regulated providers:* includes only those institutions subject to RBM prudential regulation

2. *Non-regulated providers:* includes the assortment of semi-formal providers

Current Dynamics in the Financial Sector

Since the mid to late 1990s, the GoM has embarked on a program of financial market liberalization. The International Monetary Fund (IMF) adjustment program started in 2000 gave further impetus to this process and the sector has been largely de-regulated. Key changes included the removal of interest rates caps, currency exchange control regulations and restrictions on capital movement. A market-oriented legal system now facilitates the entry of new institutions into the formal financial system and there are encouraging signs of commitment to foster competition and innovation in the financial sector.

The latest GoM Letter of Intent, Memorandum of Economic and Financial Policies (Sep.19, 2003) to the IMF, underscores its intent to further liberalize the sector and reduce the costs of financial intermediation. This policy statement outlines key areas targeted for change during the current IMF program. The portions that may directly affect the MF sector are listed below:

1. Lowering liquidity reserve requirement from 30% to 10% by the end of December 2004, and absorbing any resulting excess liquidity by open market operations as needed

2. Implementing a review of the financial sector regulatory framework according to its stated timetable

Also in the IMF Letter of Intent, the GoM made microfinance a key element of its poverty alleviation strategy by stating its intention to “develop the microfinance framework to facilitate, in particular, small-scale agricultural development, agro-processing, and small-scale mining.” In the same letter, the GoM also stressed the need to develop a regulatory framework for microfinance.

It is somewhat concerning to the Assessment Team that the government appears to view microfinance as a support activity for small-scale industry and commerce development rather than an integral element in the evolution of Malawi’s formal financial sector.

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intermediaries’ businesses, to prevent financial-system instability and losses to small, unsophisticated depositors.

Microfinance Policy

In November 2002 the GoM Cabinet approved the Microfinance Policy and Action Plan. This Policy Paper is a primary legislation guiding document that defines the broad framework for microfinance. Fairly generic in content, the Policy Paper lays out the roles of various microfinance stakeholders and defines activities that need to be undertaken to support and grow the sector according to an established timeline. It recognizes the key needs of the sector and commits to best practice with respect to cost-recovery interest rates and zero tolerance of loan delinquency. It encourages donor coordination and setup of a national ID system and strengthening existing support institutions like the network of microfinance practitioners.

The existence of this policy document is evidence of the interest key players have in "doing things right" in microfinance in Malawi. However, there are some observations and omissions to be discussed concerning Malawi's Microfinance Policy and Action Plan.

1. *Role of the government.* The policy paper states that the microfinance industry will "consist of private and autonomous institutions operating according to widely accepted best practices" yet it falls short of explicitly limiting the role of the government to creating an enabling environment. On the contrary, it describes a hands-on role whereby "government shall mainstream microfinance initiatives in all ministries to allow for proper coordination" and "government will create a forum to institutionalize coordination of microfinance matters at the national level."

   Both of these ideas raise concerns on what the government envisions is its role in the development of microfinance. Will MFIs be autonomous from government interference or will microfinance initiatives be mainstreamed in all ministries and coordinated through a national forum created by the government? There needs to be consistency and clarity in what the GoM sees as its role in the development of microfinance and the future of numerous government initiatives and institutions in this sector.

2. *Sequencing of activities.* The objective of the Microfinance Policy and Action Plan was to create a rational and realistic framework for systematic development of the sector, but in that respect the sequencing of some of the activities in the plan appears to be out of order.

   At present there is not a credible mass of non-deposit taking MFIs in Malawi that are financially or operationally sustainable. However, activities to develop a regulatory framework for MFIs are put before capacity-building in the sector that would help to produce an adequate number of qualified MFIs and warrant creating this new regulatory space.

   This sequencing choice may be indicative of the limited awareness and knowledge among the key players on what needs to happen to develop this sector. CGAP Consensus Guidelines advises that regulatory regimes "should avoid burdensome prudential regulation for non-prudential purposes – that is, purposes other than protecting depositors' safety and the soundness of the financial sector as a whole." Malawi is at risk of doing just this at the present time.

3. *Role of MoF.* An intriguing aspect of this Policy Paper is the absence of a lead role for the Ministry of Finance (MoF) in the Action Plan, though the objectives list them as one of three key GoM actors whose capacity will need to be built. The Action Plan table simply lists the MoF as one of the many "Parties Involved" along with the Ministry of Industry and Commerce (MoIC), RBM, Ministry of Lands, Ministry of Justice, Ministry of Agriculture and Irrigation (MoAI), Ministry of Local Government, Ministry of Home Affairs, Donors, Practitioners, MF Network, and GoM-owned MFIs.

   If the GoM hopes to eventually integrate the microfinance industry within the financial sector, the MoF would be expected to be a key contributor in the process. Thus, its exclusion appears to be a significant omission. Some participants active in the microfinance policy process told the Assessment Team that since the MoF is fairly disinterested and disengaged from microfinance it would have been ill advised to assign them a major role in the Policy and Action Plan. The Assessment Team feels however that Malawi's microfinance industry will not achieve its full potential without the support and buy-in of the MoF.

C3. Regulatory Environment for Semi-formal MFIs

The regulatory environment for semi-formal, non-regulated microfinance providers is analyzed below to identify obstacles to the growth of Malawi's microfinance sector. Malawi's semi-formal providers remain outside the jurisdiction of formal regulatory authorities like the RBM. However these institutions play an important role by providing specialized credit products in response to niche market needs. This section looks at what barriers to entry exist for semi-formal MFIs in Malawi and determine whether these barriers favor or constrain the development of the microfinance sector.

Legal Forms and Ownership

Semi-formal MFIs in Malawi can operate under several legal forms; ownership structures under the various forms also vary widely.

- *NGOs* – may be either national or international; they are generally engaged in multi-sector development activities with microcredit being one of many. Ownership structure is not always clear. Microcredit operations usually are started as donor projects or initiated by government.
- *Private company* – requires two or more persons to form a private company limited by guarantee.
- *Public company* – requires two or more persons to form a company whose liability is limited by shares owned by the members.
- *Cooperatives* - associations of at least ten persons who are at least 18 years of age; formed under a common bond for mutual assistance.
- *Parastatals* – a hybrid between a government agency and NGO where the institution is wholly government-owned but structured under the Trustees Incorporation Act primarily to facilitate access to donor funds.

Establishment and Registration

The semi-formal microfinance providers presented above can be established and registered via multiple channels within the existing regulatory framework in Malawi. The various types are presented below.

- *Trustees Incorporation Act (1962) – not-for-profit institutions.* NGO- microcredit institutions such as National Association of Business Women (NABW), parastatal structures such as Small Enterprise Development Organization of Malawi (SEDOM) and Development of Malawian Enterprises Trust (DEMAT) are registered under this Act. Several microcredit providers in Malawi that operate as donor-funded projects within international NGOs such as World Vision, Concern Universal Microfinance Organization (CUMO) and Ecumenical Church Loan Fund (ECLOF) are also registered under this Act.

- *Companies Act (1986) - for-profit companies limited by guarantee or by shares.* PRIDE Malawi and FINCA are registered under this Act and are companies limited by guarantee. MRFC, wholly owned by the GoM is also registered under this Act. MRFC has been given a special exemption by the RBM to accept deposits from the public but is prohibited from using the deposits to fund its lending activities.

- *Cooperative Societies Act (1946) - cooperative associations.* Both financial and non-financial cooperatives in Malawi are registered under this Act. The Registrar of Cooperatives is an administrative unit within the MoIC and serves as the regulatory authority. The Savings and Credit Cooperatives (SACCOs) can mobilize and on-lend savings of members. The only second-tier financial cooperative in Malawi, the Malawi Union of Savings and Credit Cooperatives (MUSCCO) is an affiliated network of 72 SACCOs. Both MUSCCO and its member SACCOs are independently registered cooperative associations.

Table 2-3: Registration of Regulated and Non-Regulated MFIs in Malawi

Service Providers	Registering Act				Licensing Authority (GoM Ministries)		
	Trustees	Banking	Companies	Cooperative	Finance	Gender & Youth	Industry & Commerce
FINCA			x				x
PRIDE Malawi			x				x
SEDOM	x						x
DEMAT	x						
MSB		x			x		
OIBM		x			x		
MRFC			x		x		
MUSCCO				x			x
SACCO				x			x
NABW	x					x	

In addition to the multiple legal forms and Acts by which semi-formal microcredit providers can enter the market, several sponsoring agencies can facilitate the process. These include the Ministry of Women, Youth and Gender, MoIC and Ministry of Agriculture and Irrigation (MoAI) among others. While it is inefficient to have so many ministries involved, it also means registration is relatively easy. Nonetheless, the all-pervasive role of numerous GoM entities in licensing regulated and non-regulated MF providers is striking. This creates opportunities for the government to become directly involved in credit schemes through the sponsored organizations, typically the parastatals – a clearly undesirable outcome when attempting to build a sustainable microfinance sector.

NGOs in Malawi have an independent umbrella organization with voluntary membership called the Council of NGOs in Malawi (CONGOMA) and it is widely seen as their representative. In 2002-2003 the NGO Act was passed requiring all NGOs to register with the NGO Board housed in the Ministry of Gender and Youth, however the process to establish and register under the Trustees Incorporation Act remained unchanged.

The NGO Board is empowered to issue directives on the structure and composition of NGO governance structures but falls short of a more defined role. According to some interviewed by the Assessment Team, the objective of the NGO Act is to increase GoM control over NGO operations and thus it is widely disliked. It is thought that the newly created NGO Board was founded to counter CONGOMA's role as the NGOs' spokes-agency to propagate a more pro-government stance on public policies.

Sources of funds

There are no restrictions on semi-formal institutions for accessing funds from domestic and foreign sources but the limited opportunities for financial intermediation in Malawi means that the domestic capital market is largely closed to them. The lack of financial intermediation instruments also means that securitizing lending portfolios is very difficult. Commercial banks are allowed to lend against un-collateralized portfolios, thus microcredit providers can theoretically leverage their portfolios to access commercial funds. However as of now, no commercial bank has lent to a semi-formal, non-government MFI without a guarantee. Though non-regulated MFIs are not legally allowed to intermediate compulsory savings, at least one MFI violates this restriction and on-lends compulsory savings.

Conclusions

The Assessment Team believes that there are no significant policy barriers to entry preventing the establishment of semi-formal microfinance institutions to start and maintain operations in Malawi.

C3. Regulatory Environment for Formal Institutions

Among the regulated financial service providers, only commercial banks and savings banks are relevant to this assessment. Currently Opportunity International Bank of Malawi (OIBM) is the only commercial bank that specifically targets microsaving and microcredit clients. The special case of Malawi Savings Bank (MSB) should be also noted. It was first incorporated in June 1994 as a private company limited by shares under the Companies Act to carry out operations of the defunct Post Office Savings Bank. In March 1995 MSB was granted a banking license requiring it to conform to the Banking Act and other relevant legislation but the RBM has regularly granted it temporary exemptions from certain requirements.

OIBM's early success at tapping into an unmet demand for microsavings products has shaken up the microfinance market and generated interest amongst semi-formal MFIs to transform into banks. This search for a new business model is due to the inability of microcredit providers to capitalize loan funds at levels needed to ensure financial sustainability. Transformation into a commercial bank is one way forward since it allows deposit mobilization, a relatively cheap source of funds.

The commercial bank licensing process and relevant regulations are discussed below.

Entry requirements[7]

- *Establishment and registration.* RBM is the licensing and regulatory authority under the framework for financial regulation set by the Banking Act of 1989. Only a commercial bank license allows demand, savings and time deposit activities. The process seems to be straightforward and a decision from the RBM on an application for banking license is not expected to take more than 90 days.

- *Minimum capital requirements.* The minimum start-up capital requirement to become a commercial bank is quite low at US$ 1.5 million (~MK 160 million). Merchant banks and finance institutions have a minimum capital requirement of US$ 750,000 (~MK 80 million) but their deposit services are subject to a MK 10,000 (~US$ 95) minimum deposit limit. Clearly, only the commercial banking license is compatible with a microfinance model because the minimum deposit requirement applicable to merchant banks and finance institutions rules out microfinance deposit activities. Furthermore, these institutions are limited to accepting only time deposits, which are less attractive to microsavers who often need emergency access to funds on short notice.

  None of the MFIs met by the Assessment Team considered the minimum capital requirements too restrictive. Besides, the Banking Act permits granting exemption to these minimum requirements if such exemption is "required in the public interest or in the interest of the national economy or in the special circumstances of the case." (p.7 Banking Act Directives) In discussions with RBM officials, the Assessment Team confirmed RBM's willingness to consider allowing MFIs to qualify for a banking license with a lower capital requirement than for traditional commercial banks.

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[7] The requirements are drawn from The Banking 1989 and Directives for Commercial Banks, Reserve Bank of Malawi publication.

- *Liquidity reserve requirements.* The liquidity reserve requirement (LRR) of commercial banks in Malawi is 30 % of deposit balances. There are no reserve requirements for other financial institutions. The current rate of reserve is fairly high and could pose a liquidity problem for new banks but the RBM seems flexible about granting waivers on this requirement as well, making it less of an obstacle for MFIs in real terms. Also, as mentioned earlier, in accordance with the IMF adjustment program for Malawi, the LRR is expected to go down to 10% by end-December 2004.

Ongoing Regulatory Requirements

- *Ownership.* One of the requirements for securing a banking license is to first be registered as a company with distinct owners and sources of capital. While the ownership requirement poses a significant challenge for some NGO-MFIs wanting to transform, this RBM requirement seems fair in terms of prudential regulation. For example, there needs to be identifiable owners who can respond to a "capital call" should the need arise. RBM maintains a liberal policy towards ownership structure of financial institutions in Malawi with no restrictions on foreign ownership (though the RBM may introduce such provisions in the future).

- *Capital adequacy requirements.* Malawian commercial banks are required to maintain core capital 4% and 8% of the risk-weighted assets of their total capital. (Basel criteria recommend 8% CAR). These are relatively low rates for prudent microfinance supervision which would require substantially higher ratios given the unique nature and risk profile of the microfinance sector.

  (See Table 2-4) Conflicts about the interpretation of asset quality however, may make the calculation of minimum capital ratios difficult.

- *Provisioning and write-offs.* The RBM is not repressive in limiting unsecured lending to a high percentage of the bank's equity base nor is there any regulation requiring a higher-than-usual provisioning for all unsecured loans even those that are not delinquent.

  Current RBM policies on provisioning and write-offs indicate that banking

Table 2.4

Risk-Weighted Capital Adequacy Ratio (CAR) in select African countries	
Country	Risk-weighted CAR
Ethiopia	12% - MFI
Ghana	6% - Rural Bank 10% - Deposit-taking NBFI
Uganda	15%(core capital) – Micro Deposit-taking Institution 20%(total capital) – Micro Deposit-taking Institution
Malawi	4% (core capital) – banks 8% (total capital) – banks

Table 2-5

Comparison of RBM Provisioning and Best Practice (BP) MF Provisioning		
Past due period	RBM	BP MF
1-30 days past due	On-time	10%
31-60 days past due	On-time	25%
61-90 days past due	On-time	50%
91-120 days past due	On-time	75%
> 120 days past due	On-time	100%
181 – 365 days past due	20%	100%
1 year – 2 year past due	50%	100%
> 2 years	100%	100%

regulation was conceived with a traditional banking model in mind. For example, the prudential guidelines on asset quality list both subjective and objective criteria to classify loans as substandard, doubtful and unrecoverable. The classification determines what provisioning percentage to apply. The subjective criteria may be difficult to apply to microfinance borrowers without documented collateral or cash flow. However, in Malawi most MFIs require some form of collateral (cash or chattel or land to supplement non-quantifiable group guarantees) so this requirement may not prove to be an impediment. But, strict application of the existing criteria could cause a microcredit portfolio to be classified as substandard or worse, even though it might be perfectly healthy in terms of microfinance best practices.

The provisioning and write-off policies of the RBM for banks are considerably more lenient than is considered prudent in the microfinance industry and thus present no hurdle for MFIs. The RBM regulators should however be sensitized to the special nature of microfinance which warrants more aggressive provisioning due to the unsecured nature of microfinance loans.
(See Table 2-5).

- *Permissible products.* Only licensed commercial banks are allowed to mobilize savings of different categories (time, demand, term) from the public. Licensed non-banking financial institutions are permitted to mobilize only select types of savings from the public (See Table 2.6). An exception to this general rule is the Malawi Rural Finance Company (MRFC), a parastatal that is allowed through a special Act to mobilize savings but is not allowed to intermediate them.

Table 2.6

Permissable Activities of Banking and Financial Institutions in Malawi		
Type of Institution	Demand Deposits	Time and Savings
Commercial Bank	Yes	Yes
Merchant Bank	No	Time only
Finance Institution	No	Time only
Mortgage Institution	No	Yes
Source: The Malawi Economy and it Financial System, RBM publication		

- *Other regulatory issues.* Written approval of the RBM is required for opening and closing of branches and static or mobile agencies. This may be burdensome for MFIs and might require some re-examination by RBM.

  All banks and financial institutions in Malawi are prohibited from lending more than 25% of their capital base to one customer or a group of related customers to prevent risk concentration. This is unlikely to be a contentious issue for MFIs given that scores of small loans characterize the microfinance business.

  All banks are subject to on and off-site inspection by RBM and are required to report quarterly to the regulator and to have an annual independent audit. External auditing is a practice followed by most sizeable MFIs and should not be a deterrent.

Conclusions

In summary, the regulatory framework of the formal financial sector poses few insurmountable impediments to the entry of new players into the sector and limited impediments to transformation of non-regulated MFIs into banks. The experience of OIBM points to the relative ease of entry where the licensing process took only three months.

Regulated entities face few ownership restrictions and current laws allow unlimited foreign ownership and management. Malawi's prudential reporting requirements are fair and consistent with other comparable countries. In fact, many of the regulatory requirements for Malawi's commercial banks are more lenient than is considered prudent for MF institutions (e.g. CAR, loan loss provisioning). For this reason, if any microfinance-specific revisions are to be made, we would recommend tightening certain regulations to better manage the unique risk inherent in the provision of microfinance services and making the banking system more secure.

C4. Supervision of MF Providers

Semi-formal Providers

Despite the fact that many agencies are able to license or sponsor different types of non-regulated MF institutions in Malawi, few of these agencies provide oversight and active supervision of the entities they helped to create.

Policies are in place for supervision of some of the non-regulated providers through periodic reporting to the ministry that sponsored it. In practice, there is poor adherence to this policy and there are little to no sanctions against non-compliance. For example, entities registered under the Companies Act are required to file annual returns. MRFC is in contravention of this provision having filed only three annual returns since incorporation in 1994. Pride Malawi, on the other hand, intermediates the compulsory savings of its clients in direct violation of its legal status as a private company limited by guarantee with no permission from the RBM to intermediate such funds.

GoM supervision is informally conducted through review of board minutes as the GoM either sits on, or appoints, the boards of several key MFIs. The State President through the Ministry of Statutory Corporations appoints the boards of SEDOM and DEMAT. MRFC and MSB are wholly owned government institutions and the GoM is intimately involved in both management and oversight. The MoIC sits on MUSCCO's board and it is defined as a key stakeholder with governance responsibilities in PRIDE Malawi. As for NGOs with microcredit operations, there is no specific supervisory oversight of their activities.

The Registrar of Cooperatives, housed in the MoIC, supervises cooperatives and issues their licenses. It is responsible for protecting the SACCOs' depositors but rarely exercises active supervision. There are no performance standards that financial cooperatives must meet and according to the MoIC there is little independent verification of the monthly reports sent by SACCOs to the ministry due to lack of resources, and very possibly capacity. Since 1990 MUSCCO has disaffiliated 81 SACCOs and only 1 SACCO has been liquidated thus far by the Registrar of Cooperatives.

MUSCCO, which is licensed by the MoIC, has the Registrar of Cooperatives as an ex-officio member of its Board. This hands-on supervision is a potential for conflict of interest as the licensing and regulatory authority for cooperatives becomes co-opted in the decision-making process with ample opportunity for government interference in a private institution. The cases of MRFC and MSB and the parastatals DEMAT and SEDOM have similar potential for conflict of interests. The system of checks and balances that should be provided by different arms of a corporate governance structure is thus weakened when arms-length distance is not maintained between licensing agencies, regulators, governing structures, and management of financial institutions.

Thus, effective supervision of non-regulated microfinance providers is almost non-existent. While there is little need to burden non-deposit taking microcredit institutions with prudential supervisory requirements since they pose little systemic risk to the financial sector, GoM involvement in financial institutions has the potential to create conflicts of interests and should be avoided.

Regulated MF Providers

RBM is the regulatory and supervisory authority for all licensed banking institutions. It has clearly defined reporting standards and a staff of thirty people to review and enforce regulations. From all accounts, the department is working at full capacity supervising the existing licensed entities and has little room to add more institutions to their workload. More importantly, though the RBM has clear policies on sanctions in the case of non-compliance of its directives, in practice it does not always enforce them. MSB is in non-compliance on more than ten counts, including minimum capital requirements, liquidity reserve requirement, and lending limits. These findings raise questions about the prudential regulatory and supervisory functioning of the RBM. The fact that MSB is a government entity is likely the key reason for RBM's tolerance of its non-compliance.

It is widely accepted that two key issues need to be considered before assigning responsibility of supervision:

1. Capacity of supervisory authority in terms of monetary and human resources;

2. The cost of supervision *vis a vis* its benefits.

The capacity of RBM staff will need to be built before it takes on the regulation of microfinance, for them an unfamiliar category of financial institution that differs in many fundamental ways from traditional banks. Among other things, officials must become familiar with microfinance's different risk profile to see that traditional banking supervisory tools may be inappropriate for MFIs. For example on loan loss provisioning, the differences between traditional banking and microfinance are considerable because microfinance loans typically have very short-term maturities and are often unsecured. This type of loan requires aggressive provisioning.

Regarding costs, under the Banking Act the costs of supervision are borne by the financial institutions being supervised. Other countries' experience suggests that supervising MFIs cost about 2 % per year of the assets of those institutions, or about thirty times the cost of supervising commercial banks. The cost of compliance by MFIs is also substantial and ranges from 5 % of assets in the first few years of supervision to 1 % of assets thereafter. Given that few MFIs in Malawi cover their basic administrative costs, loan loss expenses and costs of funds (operating self-sufficiency) it seems unlikely that many will be able to cope quickly with these additional costs if they were to suddenly be regulated.

C5. Legal Framework for Microfinance

There is a well-established legal system in Malawi based on English common law and customary law. The legal framework to establish and register juridical entities and contractual obligations in commercial and credit transactions and the procedures for legal remedies and satisfaction of unpaid debt obligations is well structured and documented. While some of these laws may require updating, most do not pose severe obstacles to the conduct of MF business[8]. However, other aspects of the existing legal system (discussed below) warrant an immediate review and alignment with the needs of microfinance.

1. The Hire-Purchase Act, which specifies interest rate ceilings for hire-purchase transactions, needs to be repealed to remove such restrictions.

2. The Business Licensing Act, which prohibits activities of hawkers and peddlers, needs to be amended to recognize these as acceptable forms of business activities since a large number of microenterprises would fall under this category.

3. The Land Registration Act requiring consent of the Minister of Land for mortgage loans should be amended as this provision creates considerable delays in the securing of mortgages without adding value to the process.

4. Limited land titles in rural areas serves as a major constraint to accessing financial services by the poor and needs to be reviewed.

5. Exclusion in the Bills of Sale Act (1967) of assignments for the benefit of creditors and trust receipts on goods arising from letters of credit.

6. Exclusion in the Bills of Sale Act of coverage of chattel interests in real estate, fixtures assigned with freehold, growing crops when assigned with interest on land, shares, things in action, and livestock animals by Bills of Sale instruments. This provision is particularly relevant for MF as many of the providers use chattel as collateral for loans.

7. Enforcement of security interest for chattels is further delayed by the provision in the Bills of Sale Act that allows five days for non-removal of chattel from the possession of debtor from notice of default. This time allows debtors to apply for restraining orders from High Court for removing and selling the chattels adding to a long process.

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[8] For a detailed discussion of the laws relevant for microfinance that are currently in operation in Malawi refer to Gallardo, Joselito, *Assessment of the Legal and Regulatory Framework for Operations of Microfinance Institutions in Malawi* World Bank paper July 1998.

There is sufficient legal and judicial basis to support secured transactions in Malawi. The issues relating to the various steps in the process of exercising rights of collateral are well documented under the Rules of Court and Civil Code. Though the legal procedures are in place for exercising right of collateral, there are practical issues that make collection challenging, not least of which is the judicial process (only required for re-possession of items estimated to be above MK 0.5 million), which is lengthy due to an over-burdened judiciary. In addition, the appointment of the sheriff for enforcement of security interests appears problematic since the Sheriffs Act requires that he be paid before the debtor's property is seized and auctioned thus the incentive to process the claim is gone. The conversion of real estate to cash by the lending institution is thus possible, but difficult.

One of the key support structures for exercising of rights of collateral by a pledgee is the Registrar General's Office in Blantyre. This Office is the only place in the country responsible for registration and filing requirements on corporate entities, commercial entities, and securities. The volume of work in this office is overwhelming and even more so when one considers that the entire process and office is operated on a manual basis with no computerization. Officials from the Registrar General's Office admitted that they are often unable to locate appropriate legal documents in time for court proceedings due to the primitive filing infrastructure of the office delaying the judicial process further. There are no back-ups of documents and no provision against destruction through fire and/or other natural disasters. The manual nature of the systems also inhibits cross-referencing of borrowers and consequently credit searches.

Taxation policies of MFIs

The tax code is clear and fairly well defined in Malawi and does not create distortions in the market. As expected, NGOs are not required to pay corporate taxes; cooperatives though not officially tax-exempt can apply for annual exemptions from MoIC; private companies limited by guarantee are not subject to corporate tax. An issue that was raised by MUSCCO was that under the current process savings and credit cooperatives must apply at the end of each year for tax exemption. In the event tax exemption is denied, the payment of tax is big enough to put a large number of SACCO's in deficit and at risk of closure. Public companies and commercial banks are required to pay corporate taxes (up to a rate of 35%) and a withholding tax of 20% on any investment income.

Traditionally, government employees and private sector employees have been subject to different tax laws all of which favor government employees. In the last year, there has been some movement to reconcile the tax status of government and private employees. It is important to complete this process and move towards a uniform tax code for all so as to create a level playing field as far as costs of MFIs go especially as government-owned credit programs are the major players in the sector today.

Conclusions

Overall, on the legal framework, the areas requiring the immediate attention are the Hire-Purchase Act, Business Licensing Act, Land Registration Act and Bills of Sale Act and the uncertainty of SACCO's continued tax exemption status.

C6. Regulatory and Legal Framework – Enabling or Impeding?

The Assessment Team's analysis of the existing regulatory and legal framework in Malawi leads us to conclude that there are few aspects of the current regime that inhibit ease of operation and expansion of the MF sector. While there seems to be a reasonably comprehensive structure to monitor and provide legal cover to the formal and semi-formal financial market in Malawi, the supervisory and enforcement mechanisms are either inadequate or in some cases, non-existent.

The lack of tighter supervision may not necessarily be negative as it permits semi-formal microfinance providers the room to innovate with different business models and products. Such leniency in the present could pave the way for creating a regulatory framework over time that is more in tune with the imperatives of the market and facilitate the development of the MF sector as an integral part of Malawi's financial system.

Then Why the Rush to Regulate?

The view that the regulatory and legal framework in Malawi is not the binding constraint to the growth of the sector was echoed by almost all the microfinance practitioners interviewed by the Assessment Team. The only key stakeholder of the sector who deemed it important to develop a regulatory framework for microfinance was RBM.

The MF sector in Malawi is clearly in its infancy and demonstrates the following characteristics:

1. Systemic risk is low as most MFIs in Malawi are microcredit institutions and few mobilize deposits. There are no restrictions against lending by non-regulated entities and in terms of protection of depositors, the existing regulatory framework is sufficient as it prohibits non-regulated entities (except cooperatives which are technically regulated by the MoIC) from mobilizing deposits from the public.

2. There is not a credible mass of MFIs operating at sustainable levels. Only a few might be at or near operational self-sustainability level (OSS) and none are at financially self-sustaining levels (FSS).

3. The likelihood of successful transformations of existing operations (e.g. Pride Malawi and FINCA) to commercial banks are unlikely in the near future given their current state of operations so there is an absence of a critical mass of qualifying institutions mobilizing savings and requiring prudential regulation. However, with appropriate, demand-driven technical assistance, some informal MFIs would be expected to become candidates for transformation to commercial banks. In this event, the existing regime is acceptable and not repressive or regressive in any way.

Thus critical elements that warrant the time, effort and expense of regulating are missing from the microfinance sector in Malawi at the present time leading the Assessment Team to conclude that the creation of any regulatory regime specific to microfinance is rather premature. CGAP Consensus Guidelines for Regulation and Supervision of Microfinance advocates: "in countries where none or almost none of the existing MFIs have yet demonstrated that they can manage their lending profitably enough to pay for and protect the deposits they want to mobilize…. The government should consider the option of waiting and monitoring microlenders' performance, and open the window only after there is more and better experience with the financial performance of the MFIs."

On some of the relatively minor regulatory issues needing attention, the effective regulation and supervision of the financial cooperatives may be the most immediate need since there are many, they mobilize savings, and some are of considerable size. Also, at some later stage when there are a greater number of qualified players serving the microfinance market the reporting requirements could be reviewed to ensure they are appropriate for microfinance banks.

The most urgent need is the professionalization of MFIs to create a credible number that would warrant creating a new regulatory space for them. As part of their capacity-building process MFIs would be expected to demonstrate effective internal regulation through: (i) appropriate governance structures, (ii) sound risk management, (iii) effective internal controls and audit standards, (iv) performing information systems, and (v) quality external audits.

Another immediate need is to sensitize the central bank on the unique nature of microfinance before it takes on the responsibility of initiating legislation and regulating the industry. It is essential that government agencies' technical capacities in microfinance be built prior to developing a new regulatory framework. If not, such processes often give rise to political discussions on such things as setting interest rate caps that could threaten the viability of microfinance.

SECTION 4

Demand for Microfinance Services

This section examines the profile of microenterprises in Malawi and their reported constraints. It also estimates the size of the demand for microfinance services and presents research on client preferences.

A. Characteristics and Size of Demand

Malawi is a dominantly rural economy with more than 85% of the population living in rural areas. As a consequence the concentration and nature of the micro and small enterprise (MSE) sector is defined by the geographic spread of the population and influenced by agriculture and related economic activities.

A1. Size of the Market

Over the last four years, a number of client studies on the MSE sector have been conducted in Malawi that shed light on the characteristics, size and distribution of demand for financial services by this segment of the population. One such study was the Malawi National GEMINI MSE Baseline Survey of 2000 that sampled over 22,000 rural and urban households and small businesses with up to 50 employees.[9] On-farm agricultural activities were included in the survey, if 50% of farm production was sold and the household earned more than MK 6,000 from its sale. Against these criteria, it was estimated that 747,000 MSEs exist in Malawi, which employ over 1.7 million people or 38% of the total labor force. Of the total, women accounted for 42% of the MSE sector.

The annual turnover at these MSEs was not large. Twenty-six percent had gross annual sales of less than MK 10,000 in the survey year (2000), 21.3% had sales between MK 10,000 – 20,000, and 23.7% had annual sales between MK 20,000 – 50,000. At the time of the survey the MK / US$ exchange rate was about 60:1 so MK10,000 equaled about $166 and MK 50,000 equaled about $833. This level of turnover indicates that these enterprises could be considered potential clients for microcredit loans, which we defined earlier as having an approximate value of $145 in 2003.

Of the 747,000 MSEs, the survey estimated that 680,000 were microenterprises (ME). To quantify the demand for microcredit by these MEs, we must first apply a discount factor (often 50%) to take into account that not all MEs qualify for or wish to have a loan at any given time.[10] Applying this method, we estimate Malawi's microcredit demand to be about 340,000 potential clients. As for the percentage of "satisfied demand," that is the total of MSEs who were able to

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[9] Ebony Consulting International, the National Statistical Office (NSO), Kadale Consultants, and Wadonda Consult. Malawi National Gemini MSE Baseline Survey. Funded by British Department for International Development (DFID). February 2001.

[10] Christen, Robert Peck, 2000. Commercialization and Mission Drift: The Transformation of Microfinance in Latin America. Occasional Paper No. 5, Washington, D.C.; CGAP

access microcredit, the Survey found that only 6% of MSEs surveyed received credit some time during the five years prior to the survey. This works out to only 32,000 MSEs, which leaves more than 700,000 potential MSE clients without needed access to finance.

While the gap between microcredit demand and supply appears large, the GEMINI MSE Baseline Survey actually underestimates the total number of MSEs since it did not count enterprises of one to four workers who do not sell 50% of their goods. This uncounted segment would include smallholder households and other economically active enterprises that produce for consumption purposes and/or whose annual sales did not achieve the 50% sales threshold.

To determine what this larger demand number might be, we know that 85% of Malawi's labor force or 8.5 million people are employed in agriculture. However, the Baseline Survey counted only about 200,000 MEs, with an average firm size of 3.8 employees, involved in crop production that met the survey criteria. This translates into 760,000 people employed in farming, a number far less than what would be expected. Based on the extremely high levels of poverty in Malawi (see Table 3-1) it can safely be assumed that a large percentage of these uncounted MEs in the GEMINI survey are subsistence farmers who could be current or potential clients of microcredit services, subsidized or otherwise, and who are targets of ongoing government and/or other social lending programs.

Table 3-1: Poverty Levels in Malawi

Region	% Below Poverty Line
Southern rural	**68%**
Northern rural	**67%**
Central rural	**63%**
Urban	**55%**
National weighted avg. poverty line	**65%**

Source: Profile of Poverty in Malawi, 1998.

A2. Geographical Distribution

The rural-urban divide of MSEs mirrors the distribution of Malawi's population as 83% of all MSEs are based in rural areas. The 17% found in urban areas are concentrated in the four major cities of Lilongwe, Blantrye, Mzuzu and Zomba. Apart from urban/rural distinctions, there are other differences seen in the types of enterprises found in Malawi's three geographical regions. In the north farming activities dominate, a mixture of farming and non-farm activities characterizes the central region, and non-farm activities prevail in the southern region.

A3. Sectoral Distribution

The distribution of MEs by type of activity reveals four distinct sectors that account for 98% of the total. These are (i) commerce, trade and tourism (44%), (ii) manufacturing (30%), (iii) crop production (17%), and (iv) services (5%). It should be pointed out that due to the dominance of agriculture in the economy, the activities of commerce and manufacturing frequently involve agriculture-related trade in resource inputs and crop processing.

A4. Seasonality of Credit Demand

There is an observed seasonality of demand by MSEs that is more pronounced in the rural areas due to the seasonality of farm/rural production. On average, any one MSE operates only about nine months per year as labor shifts to other activities corresponding to the season. In rural areas this figure drops to nearly eight months per year whereas in urban areas MSEs are active about 10 months per year.

It should also be noted that counter-intuitively, agricultural input credit is an important financial service demanded by both urban and rural clients. This seemingly anomalous finding is explained by the fact that urban residents often maintain fields both for subsistence and income diversification. Farmers, on the other hand, often adopt diversification strategies such as non-agricultural businesses for income-generation to smooth out the 'lumpiness' of agricultural incomes and also to spread the risks of dependence on agricultural income.

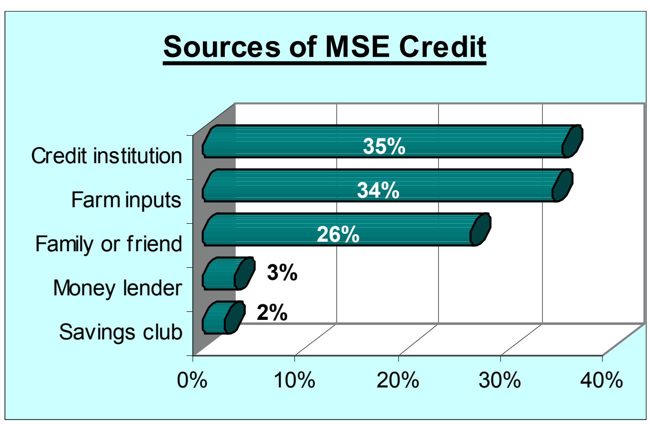
B. Characteristics of Smallholder Farms

Smallholders are characterized by landholdings of less than one hectare, which is inadequate to achieve food self-sufficiency. Thus, there is an imperative need for rural families engaged in subsistence farming to increase agriculture productivity, diversify into other food and cash crops and seek non-farm income generation opportunities. This indeed is observed, as considerable movement in and out of microenterprise activities is reported. (GEMINI Survey) Microfinance (credit and savings) services have been identified as enabling factors that support strategies of diversification of income generation activities.

As important as the provision of microfinance is to MSEs, it seems that the accessibility of microfinance programs alone can change entrepreneurial behavior. Thus in discussing demand for microcredit services it is important to distinguish between access to credit, participation in credit programs, and being credit constrained. (Diagne et al. 2001) The mere access to credit, knowing that it is available if needed, will boost a household's risk-bearing ability and modify its risk-coping strategies. In the Malawi context, this could mean adopting new farm technologies or starting new income-generating businesses. Or, it could mean abandoning maize production, a relatively low-risk crop though sensitive to drought, in favour of cash crops with higher potential return. Should the self-financed new venture fail, the availability of credit could help the household cope and get back on its feet. Thus widely available microfinance services can have positive effects on enterprise behavior, even with non-clients.

Given the wide disparity noted between microcredit demand and supply, it is important to explain where MSEs are sourcing their credit. Graph 3-1 indicates that credit institutions provided only 35% of the credit needs. Evidence from a recent study conducted by Enterprising Solutions Global Consulting indicated that when semi-formal sources of finance (NGO-MFIs etc) are available, they replace family and friends as sources of finance.

Graph 3-1: MSE Credit Sources

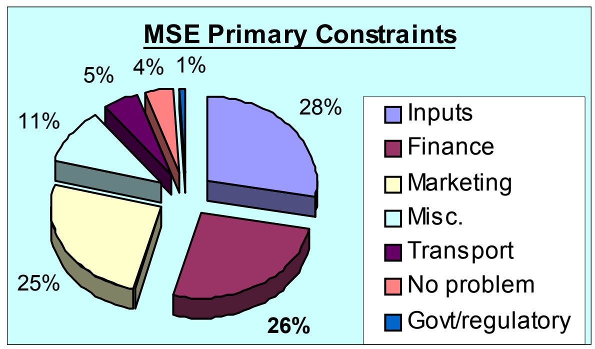


Source: Malawi GEMINI MSE Survey 2000

Another characteristic of Malawi smallholder households is their propensity to form into groups. Individual smallholders in Malawi typically organize themselves into economic associations called 'clubs' that increase their leverage to access resource inputs, financing, and product markets. A former USAID Malawi project that led to the creation of the successful National Association of Smallholder Farmers Association of Malawi (NASFAM) reinforced this process and strengthened farmers' clubs by linking them together into a national federation. NASFAM estimates that 10% of all smallholders in Malawi are members of its umbrella federation. Other institutions such as MRFC see self-forming farmer clubs as appropriate conduits for group loans by making loans available to the groups of five to ten members where each shares joint-liability for the loan repayment.

C. Constraints to MSEs

Graph 3-2: MSE Constraints



According to the GEMINI study, almost all MSEs (90%) reported constraints to their businesses of one type or another. By a wide majority, three main constraints emerged that were roughly equal in terms of importance. The three problems most often mentioned were:

1. Access to finance
2. Resource inputs
3. Market problems

Though each was mentioned at about the same frequency, at the sectoral level of activity, differences emerged on their relative importance. For example, problems with finance tended to be most often reported by urban MSEs whereas inputs were more a problem in rural areas.

The identification of finance as one of the key constraints to MSE development was echoed by a second study[11] in Malawi where the researchers found evidence that almost half of the households participating in credit programs still had binding credit constraints. Meaning they could not borrow amounts large enough to completely satisfy their needs. In terms of agricultural credit, this same study reported the negative impact on incomes of borrowers who received in-kind credit for hybrid maize and fertilizer packages under a GoM farm input distribution program between 1993-1996. Farmers who received in-kind loans reported lower incomes than those who did not. While this would seem to argue against expanding credit to the farm sector, the reasons for the reduction in borrower incomes was due to faulty GoM policies and not the utility of the loan or their inherent capacity to service debt. The in-kind inputs packaged developed by the GoM for farmers were badly formulated and concentrated on a single, drought-sensitive product (maize). Excess quantities of fertilizer were forced on farmers at a time when the MK was massively devalued and fertilizer subsidies were being dismantled, which increased

11 Diagne, Aliou and Manfred Zeller, Access to Credit and Its Impact on Welfare in Malawi. International Food Policy Research Institute. 2001.

fertilizer prices by 300%. This misguided, market distortion led to large defaults in the loan portfolios of in-kind credit providers as farmers were faced with the decision to starve or repay their loan. Most chose not to repay their loan.

Findings from the same study also suggest that credit may be the best or only option for smallholder farmers to finance their input acquisition after experiencing crop failure. Evidence showed that without access to credit, the ability of the smallholder farmers to recover from a crop failure is extremely limited. (Diagne, Aliou et al. 2001)

Client Preferences

This section examines the types of financial service products and their attributes that microfinance clients have shown they prefer. It also presents empirical evidence from various studies that show what aspects clients do not like about certain Malawian microfinance programs.

A common finding observed at MFIs in Malawi and East Africa is high client dropout rates that exceed 50%. The key drivers for this condition appear to be the MFI's service methodology where products and processes do not match client needs and preferences. A recent study conducted by Enterprising Solutions Global Consulting (ESGC) in mid-2003 examined these issues more closely. The research focused on the clients of PRIDE Malawi but the findings are believed to be readily applicable to other programs in the country.

The ESGC study looked to define the key microfinance product attributes that clients preferred and found the following items influenced client satisfaction. They are presented of decreasing importance:

1. *Loan term.* The length of the loan repayment period must be adequate to allow clients enough time to invest the full amount of the loan and generate returns on the investment to service the debt.

2. *Individual graduation*. PRIDE offers loan products that follow a solidarity group lending methodology in which the maximum size of the loan is determined in part by the number of previous loans (disbursement/repayment cycles) that have been successfully repaid. While clients find this acceptable in earlier cycles, the majority believed the option of taking larger loans should depend on the individual financing needs of members in the group and not age of the solidarity group or completion of loan repayments by all members.

3. *Loan size*. Clients felt that the loan size should match the needs of the business and not the length of time in the program. For example, women prefer smaller size starting loans while men prefer larger amounts primarily because they have bigger businesses that can absorb higher capital.

4. *Compulsory savings.* Like most microcredit providers in Malawi and elsewhere, clients are required to save minimum amounts to access loans of a particular size. This savings is actually a cash collateral payment that is used to secure not just the individual loan but

also those of other members in the solidarity group. Unfortunately, clients frequently become upset to learn that their "savings" is withdrawn to repay a loan that has defaulted.

Interestingly, clients forced to come up with compulsory savings as cash collateral also rate this requirement high on the list of attributes they like about the loan program. The fact that clients cite compulsory savings used to guarantee loans as a desirable feature indicates the lack of alternative savings options elsewhere.

A finding from another study revealed that the level of interest rates charged on loans is not an important factor for households in making credit decisions and selecting MFIs. Non-price attributes were found to be more important in the decision-making process. (Diagne, Aliou et al. 2001) Other attributes that ranked higher than interest rates included the types of loans provided and what, if any, restrictions were attached to their use. Also importance was attached to whether or not there was any non-financial services that were made available as part of the microcredit product. The type of training that came with the loan played a role in the decision to borrow or not.

SECTION 5

Supply of Microfinance Services

A. Introduction

Microfinance supply in Malawi is a mixture of agriculture credit and business finance carried out in rural and urban areas by a variety of public and private sector entities. With 85% of the working population living in rural areas and employed in agriculture, it is not surprising that Malawi's microfinance sector is dominated by agricultural-related credit. As described in the demand section of this report, crop finance is characterized by small seasonal loans with extended grace periods to coincide with lump-sum repayments at harvest time. In the Malawi context seasonal agricultural loans frequently take the form of in-kind inputs of fertilizer and seed.

Governments have historically played a dominant role in agriculture policies and practices and Malawi is no exception. Although in recent times, the GoM has made noteworthy progress to liberalize its markets through private sector-enabling legislation, it has not completely dismantled the parastatal structures that still dominate its microfinance sector today. In addition, certain projects that it jointly manages and/or co-funds with donors distort the market for microfinance and promulgate non-sustainable practices on the part of microcredit providers.

The Malawi microfinance sector is dominated by a few major players. On the public sector side, three parastatals operate today.

- *The Malawi Savings Bank (MSB),* successor to the failed Postal Savings Bank and wholly owned by the GoM, is the only rural bank targeting the microsaving client and it is in precarious financial condition.
- *The Malawi Rural Finance Company (MRFC),* also wholly owned by the GoM and successor to the failed Smallholder Agriculture Credit Association (SACA), supplies more than 50% of microcredit in Malawi and is highly subsidy-dependent.
- *Other parastatal entities* involved in subsidized, directed microcredit over the years are the Small Enterprise Development Organization of Malawi (SEDOM) and the Development of Malawian Enterprise Trust (DEMAT). Of the two only DEMAT has an active microcredit program and the running costs of both organizations are subsidized by the GoM.

Besides controlling microfinance parastatals, the GoM has substantial involvement in private sector microfinance as well. The main private sector providers are MUSCCO, FINCA, PRIDE Malawi, non-affiliated SACCO's and more recently OIBM.

On the governance side, the GoM sits as an observer on the Board of Directors of PRIDE, one of Malawi's two largest private sector companies providing microcredit, and as an ex-officio member of the Board of MUSCCO, Malawi's only apex federation of credit unions. Through a jointly funded EU/GoM project called the Agricultural Productivity Investment Programme (APIP), more than twenty government, private, and non-government organizations received interest-free loan capital for crop-specific, targeted on-lending to smallholder farmers. In the three growing seasons prior to 2003/2004, the APIP program issued more than 258,000 loans having a value of about MK 590 million. But, through September 3, 2003, 66% of these loans remained unpaid and 3 entities having ties to the GoM accounted for about MK 390 million or 65% of the unpaid loans.

Table 4-1 lists the providers of microfinance in Malawi by the two categories of Public and Private Sector entities. It is clear that the GoM has a major, concentrated position in the supply of financial services to the sector, accounting for 55% of savings mobilized and 52% of loans outstanding in the microfinance sector. In addition to the GoM's direct provision of microfinance through its parastatals, it also has a direct hand in the APIP program, an EU project run through the MoAI. APIP loans outstanding as of September 3, 2003 accounted for nearly 40% of all public sector microcredit.

Table 4-1: Malawi Microfinance Providers

MICROFINANCE PROVIDERS (microfinance activity only)							
MF Providers	Legal Status	Outreach		Savers		Loans	
		Regions	Service Points	Number	Value (MK)	Number	Value (MK)
MSB	GoM Company/Bank	3	332	132,953	453,107,520	-	-
MRFC	GoM Company	3	198	140,588	212,811,000	100,000	900,000,000
DEMAT	GoM Trust	3	8	-	-	4,300	5,555,099
SEDOM	GoM Trust	3	31	-	-	*inactive*	
ADMARC	GoM Company	3	?	-	-	?	46,350,330
SUBTOTALS			**569**	**273,541**	**665,918,520**	**104,300**	**951,905,429**
OIBM	Bank	1	1	5,151	41,700,000	162	5,400,000
MUSCCO	Cooperative	3	72	58,668	46,122,116	18,963	363,057,950
PRIDE	Company	3	13	-	-	6,315	62,670,040
FINCA	Company	3	26	-	-	18,026	85,157,000
CUMO	NGO	1	1	-	-	2,754	2,678,901
NABW	NGO	3	?	-	-	2,202	1,359,643
ECLOF	NGO	1	1	-	-	1,500	20,362,173
Other (APIP-IAs)	misc.	3	?	-	-	?	345,314,470
SUBTOTALS			**114**	**63,819**	**87,822,116**	**49,922**	**886,000,177**
TOTALS			**1366**	**337,360**	**753,740,636**	**154,222**	**1,837,905,606**

MSB loans were to GoM entities and not microcredits; included in service points are 262 Mpost service poinits to close

MRFC data at March 2003, includes about MK 550 million in seasonal loans; # loans is estimated.

ADMARK is listed for outstanding APIP loans from the 2000/2001 growing season

OIBM data as of Dec 3, 2003

MUSCCO totals refer to its 71 SACCO structures that are members, at Sep 30, 2003

Other refers to outstanding loans as at 9/3/2003 to 17 APIP Program Implemating Agencies (IA) offering credit during the prior 3 growing seasons. The IAs are:: FCC, Galeke, Mwasacho, Smallholder Coffee, Self Help Int., Movimondo, Casdecom, KTFT, NASSPA, Hodeza, World Vision, Liweza, Kasungu SACCO, ELDP, DAPP, Linyangwa Farmers; 62 % of the outstanding loan balance in the table is >1 year past due.

B. Parastatals in Microfinance

There are three major GoM parastatals currently providing microfinance services: MSB, MRFC, and DEMAT. A fourth parastatal that in the past had a large microcredit program, SEDOM, advised the Assessment Team that they no longer provided microcredit (due to lack of loan funds) but would be willing to re-enter the market if given the chance. The parastatals cannot be ignored. Together MRFC and MSB hold $6.34 million in savings from more than 273,541 depositors that include individual savings accounts as well as those of farmers groups made up of several persons. In addition, the parastatal's large market share of microfinance loans means their credit pricing policies and procedures set the tone of the competitive environment.

MSB and MRFC are currently under evaluation for possible privatisation. A three-stage process managed by Malawi's Privatisation Commission has already begun. The first stage, just completed by PricewaterhouseCoopers, consisted of a situational analysis. The second in 2004 will examine the restructuring alternatives. If the decision to privatise is chosen, the last stage in 2005 will select the appropriate plan of action and begin its implementation.

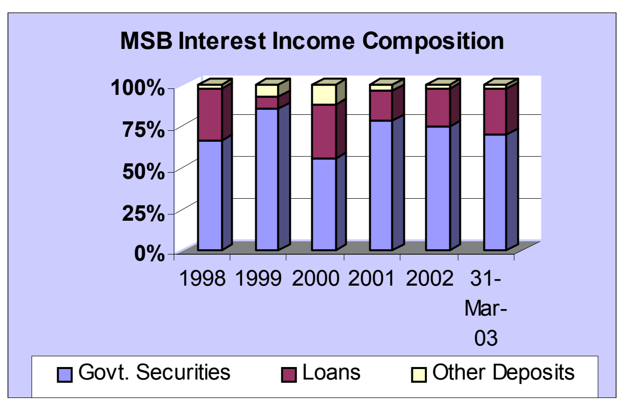
The main features and methodology of key microfinance providers in Malawi are detailed below.

B1. MSB

MSB has traditionally been known as the "people's savings bank" because of its extensive presence in rural areas and its large number of accounts with small average balances. MSB got its start when it took over the financial service activities of the Malawi Post Office Savings Bank (POSB). POSB was created in 1911 to mobilize savings in rural areas but was rife with problems when it was taken over, not the least of which was the lack of customer records for the entire period between 1991 and 1994. (J. Gallardo. 1999) Unfortunately, MSB has been unable to completely reconstitute those records to this day.

MSB and the Malawi Post Corporation (MPC) signed an agency agreement permitting MPC staff to process transactions for MSB depositors. Under this agreement designated postal outlets would collect savings and remit the net amount collected at the end of each month to MSB along with account transaction reports. However, in July 2002 MPC suspended the agency agreement and the two have operated without a legally binding agreement ever since. This is problematic for a number of reasons. Foremost is the fact that MSB reports discrepancies between the amounts collected from depositors by MPC and the money transferred to MSB. Amounts due but not transferred contributed to an increase in MPC's debt to MSB from about MK 26 million in July 2002 to nearly MK 31million in December 2002. Without an agency agreement, MSB could have difficulty enforcing collection of MPC's debt.

Graph 4-1- MSB Income Composition



Since its inception, MSB has survived through subsidies and preferential treatment provided by the GoM. Though MSB showed a net profit in the past year, its capital adequacy has been below the minimum US$1.5 million since 1998 and it is highly dependent on income from investments in government securities. (See Graph 4-1) When interest on treasury bills eventually comes down, MSB will not be able to cover its operating cost.

Legal Status and Governance Structure

MSB was incorporated on June 16, 1994 as a private company limited by shares under the Companies Act and all assets and liabilities of the defunct POSB were transferred to it. MSB was granted a banking license in March 1995 and is subject to all Banking Act regulations and relevant legislation relating to financial institutions. However the RBM gave it a temporary exemption from the 30% liquidity reserve requirement until July 2004. As noted earlier, the RBM is open to relaxing this requirement in special circumstances. According to MSB's General Manager, the RBM considers MSB a non-bank financial institution and therefore accords it some latitude in meeting the full range of Banking Act provisions.

MSB has a six person Board of Directors and its Chairman represents the Ministry of Finance. The GoM holds essentially 100% of issued and fully paid up shares in MSB.

Financial Products

MSB offers a variety of savings products that include ordinary savings accounts, thirty, sixty, and ninety day certificates of deposit (CD), and premium deposit "now" checking accounts. Deposit interest rates in June 2003 ranged from 0 -10% on "now" accounts to a maximum of 26-30% on time deposits. In line with its interest in mobilizing microsavings, the minimum deposit on savings accounts is MK 400. The GoM has exempted interest earned on MSB savings and CD accounts from taxation because MSB's customer database is not accurate and it would be unable to collect the tax. This gives MSB an implied subsidy and a competitive edge over other banks without this exemption.

While MSB is known as the "people's savings bank" because of its mobilization of microsavings, it is dependent on deposits from parastatal and quasi-government institutions to supplement savings mobilized from individuals.

With its banking license MSB is able to on-lend the savings it mobilizes. However, its loan portfolio is concentrated in a handful of parastatal or quasi-governmental entities and their contribution to MSB's interest income is negligible as seen in Graph 4-1.

Outreach and Savings and Loan Portfolios

MSB provided the Assessment Team data on client deposits by branch that covered the past three years. It listed 332 service points consisting of 5 dedicated branch offices, 34 MSB-manned agencies in offices of the Malawi Post Corporation (MPC), and 293 MPC branches manned by MPC-staff.

MSB has made efforts over the past four years to improve its client service and performance by opening new branches and MSB-manned agencies that are clearly favored by clients. Because of the dramatic differences in the performance of MSB-manned offices and MPC service points as shown in Table 4-2, MSB has received its Board's approval to close 262 of the MPC-manned teller windows. While this will reduce the total number of offices by 80%, it affects only 23% of depositor accounts and 13% of depositors' balances according to the data provided the Assessment Team.

MSB has inadequate records of its depositors' ledger and the amount of deposit liabilities in MSB's books does not agree with client records. Confirmed client records could be up to ten times less than what MSB is carrying on its books. This problem was largely inherited from the Malawi Postal Corporation due to mis-posting or non-processing of information. While efforts have been made to reconcile the accounts, a lack of funds and weak operating systems at MPC-staffed service points has prevented MSB from making a concerted effort to finally solve this problem.

Table 4-2 - MSB Branch Performance

#	Avg. No. Depositors/office	Dec-01	Dec-02	Sep-03
5	MSB branch	6,309	7,369	7,858
34	MSB-manned agency	1,547	1,751	1,787
8	M. Post to become MSB-manned	873	973	981
23	Malawi Post to continue	348	370	371
262	***Malawi Post to close***	***129***	***130***	***131***
332				
#	**Avg. savings / depositor (MK)**	**Dec-01**	**Dec-02**	**Sep-03**
34	MSB-manned agency	3,713	4,073	3,682
5	MSB branch	4,634	5,068	3,381
8	M. Post to become MSB-manned	3,427	3,863	2,672
23	Malawi Post to continue	2,836	2,755	2,372
262	***Malawi Post to close***	***2,205***	***2,239***	***1,802***
332				

Source: Malawi Savings Bank

Over 90% of MSB's MK 106 million in loans outstanding are to GoM parastatals and repayment has seriously deteriorated over the last three years. Provision for doubtful accounts has risen from 2% in 1999 to 30% midway through 2003.

Challenges

Reconciling depositor base. Since its inception, MSB's financial statements have been subject to a qualified audit opinion because of the earlier noted problems in the deposits ledger. An accurate record of the depositors' database must be established. Once this is done, MSB's actual capital adequacy gap will be known.

Rationalizing branch structure. There is an imperative need to rationalize MSB's current branch and agency network to realize cost savings as well as improve the quality of client service and overall transaction data accuracy. MSB and MPC should decide on how they will interact and a new Agency Agreement should be signed that makes clear each party's responsibilities and recourse for action in case of non-compliance.

Treasury Management. More than 80% of MSB's interest income comes from investment in treasury bills and local registered stocks. When interest rates fall, MSB's total income will reduce drastically while its operating costs will change little. MSB should develop a medium to long-term strategy to develop a diversified micro loan portfolio that serves its target clientele. This would also have the added benefit of reducing its risk and dependence on GoM loans, which now contravene RBM rules on limits to concentration of lending risk. However, in the short-term MSB must first fix its immediate problems of reporting, accounting discrepancies and branch office rationalization before it diversifies to microlending.

MIS. MSB's management information systems and credit processes are weak and do not support best practice savings and loan portfolio management. Until the planned rationalization of MPC service points occurs, the mixture of manual and computerized data systems will continue be problematic. As an interim measure, MSB should work at getting its manual systems completely in order for the day everything will be computerized.

Regulatory standards. According to the analysis conducted by PricewaterhouseCoopers, MSB was in non-compliance with several RBM regulations governing commercial banks. MSB should verify these findings by conducting its own examination and either conform as required or request a waiver from the RBM on those provisions it cannot immediately meet.

According to MSB, the capacity building assistance they need is in the following areas:

- Credit management
- Treasury management
- Risk assessment and financial management
- Development of an in-house training department
- Design of new demand-driven microsaving products

B2. MRFC

The MRFC succeeded the failed Small Holder Agriculture Credit Administration (SACA) in 1993 with financial and technical assistance from the World Bank. The World Bank provided a US$ 25 million credit line to the GoM under the Rural Financial Services Project and the International Fund for Agricultural Development (IFAD) provided a US$ 12 million credit line under the Mudzi Financial Services Project. MRFC began operations in October 1994 retaining much of SACA's infrastructure that consisted of rural extension service offices of the Ministry of Agriculture and Irrigation (MoAI).

MRFC headquarters are in Lilongwe and it operates in all regions of the country through 8 branches, 27 supervisory satellite offices, and 163 local MoAI field offices.

Legal Status and Governance Structure

MRFC was licensed under the Companies Act in February 1993 with the purpose of providing financial services in the rural areas. It received a special exemption from the RBM to accept demand deposits from the public but it cannot use savings to capitalize its loan portfolio. Under the Companies Act MRFC is required to file annual returns. However it has made only three annual returns since incorporation.[12] Perhaps because of its special parastatal status, no negative consequences have been felt as a result of MRFC's failure to report.

MRFC applied to become a non-bank financial institution (NBFI) in 2000 but was told by the RBM it should apply for a full commercial banking license, as some of its current activities could not be undertaken by a NBFI. MRFC is preparing an application to transform into a commercial bank.

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12 PWC. Restructuring and privatization of MSB and MRFC: Draft Final Situation Assessment. Report Volume 3. Malawi Privatisation Commission. October 2003.

The Principal Secretary in the Ministry of Finance sits on MRFC's Board of Directors as an ex-officio member. The Advisor to Malawi's Vice President on microfinance issues is also a Board member.

Financial Products and Methodology

MRFC's principal activities are the provision of seasonal agriculture loans, medium-term agricultural loans, small business loans, and personal loans to employees of various companies/organizations. It is permitted to mobilize savings but cannot intermediate savings.

Seventy percent of MRFC's lending is for agriculture production. Many of MRFC's loan officers were agricultural extension agents with intimate knowledge of this market segment. A variety of methodologies are employed, from solidarity group loans to individual lending. Depending on the source of funds, the loans could be in-kind or cash; MRFC participates in both the APIP program and the Mudzi credit project. Seasonal agriculture loans are typically disbursed between October to January with reimbursement occurring after harvesting between February and March.

MRFC requires cash collateral and/or chattel and land on all loans except the Mudzi Small Business Loans Scheme. Smallholder farmers taking seasonal loans must have the equivalent of 15% of the loan's value in a blocked savings account. All others must have 20% cash collateral. Commercial loans require 20% cash plus additional collateral equal to 130% of the amount borrowed. MRFC claims it charges commercial rates of interest on all its loans.

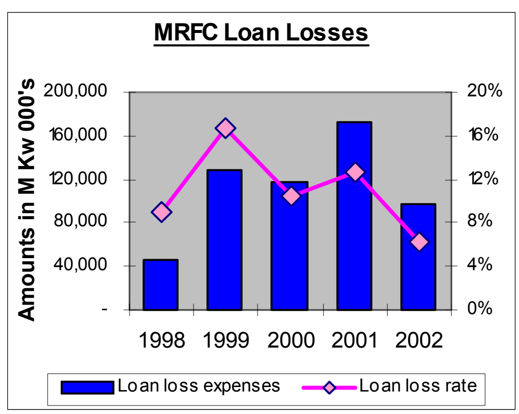
Table 4-3 - MRFC Loan Use & Bad Debt (cumulative)

Loan Use *(amts in MK million)*	**Principal (P)**	**Accrued Interest (I)**	**Total (P+I)**	**Provision for P+I Loss**	**% Loss**
Agriculture	1,104	197	1,301	662	51%
Business	169	127	296	123	42%
Personal	31	2	33	-	
Discretionary	13	7	20	-	
MRFC Staff	25	1	26	-	
	1,342	334	1,676	785	47%

Source: Restructuring and privatization of MSB and MRFC: Draft Final Situation Assessment; data as at 31 March 2003

To ensure maximum return on capital, MRFC invests in government treasury bills between April and September when agriculture loans fall due and it has excess liquidity. For the fiscal year ending September 30, 2002, investments in GoM securities contributed about 42% (MK 218 million) to MRFC's total revenue for the year. The loan portfolio contributed about 40% (MK 205 million) but it is not clear from MRFC's financial statements whether this was net of loan loss expense.

Graph 4-2: MRFC Loan Losses



MRFC offers an ordinary demand savings product and a type of savings club where the individual contracts to deposit a set amount over a predetermined period. It also sets up mandatory savings accounts to receive deposits of cash collateral needed to obtain loans that are frozen until the loan is repaid.

A distinguishing feature of MRFC is its substantial outreach in rural areas. However, MRFC is highly dependent on the nearby presence of commercial banks to intermediate its transactions on clients' savings accounts and loan disbursements and repayments. Liquidity limits at MRFC branches and satellite offices require excess cash to be deposited into MRFC accounts at commercial banks such as Stanbic, National Bank of Malawi, Loita Investment Bank, and Malawi Savings Bank.

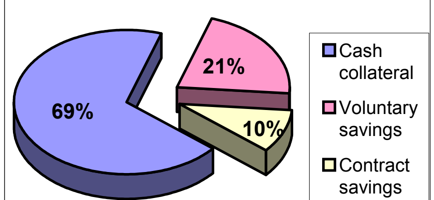
Outreach and Savings and Loan Portfolios

MRFC's portfolio reports are broken out into the type of loan and the branch office region from which the loan was issued. However, MRFC's reporting format is unconventional and not conducive to typical best practice microfinance portfolio analysis. For example, loan disbursements and repayments are recorded cumulatively and loans in arrears are provisioned and expensed but are not written off the balance sheet. While this complies with RBM provisioning policies for commercial banks, this accounting policy makes it difficult to isolate the current period from what transpired in years past.

MRFC's agriculture loans have historically accounted for 82% (MK 1,104 million /1,342 million) of total loans disbursed. MRFC estimates that in 2003, 70% of its loans outstanding were used to finance seasonal agriculture production and 30% of Malawi's smallholders are serviced by MRFC each season. Thus, Table 4-3 includes about MK 550 million in seasonal loans that would have mostly been repaid at the close of MRFC's fiscal year September 30.

MRFC's includes in its loan loss provision, unpaid principal as well as accrued but uncollected interest. Analysis of this data suggests that historically speaking, losses on agricultural loans are close to 50% and 47% of all loans issued were later expensed as losses. However, one must be careful in interpreting the data when non-performing loans are not written off since MRFC's acquisition of SACA's portfolio is probably included in these figures. At the time of the transfer, the SACA loan portfolio was MK 250 million of which MRFC is estimated to have collected less than 10%. MRFC's actual reported loan loss expense and annualized loan loss rate over the previous five years is presented in Graph 4-2. (PWC 2003) This graph shows the volatility of agricultural lending and the need to build retained earnings to weather poor years that invariably occur, due to the high covariant risk of non-diversified agricultural finance.

Graph 4- 3: MRFC Savings



Although MRFC is legally able to mobilize public deposits, it has thus far not been very successful at it. (Table 4-4 and Graph 4-3) Over the last five years, the average deposit balance per account has barely changed in

Table4-4: MRFC Savings Mobilized

Amounts in MKw 000's	Fiscal Year Ended 30 September				
	1998	1999	2000	2001	2002
Customer deposits	71,928	102,920	135,055	186,787	189,486
No. deposit accounts	51,843	70,292	103,697	130,588	135,588
Avg. deposit / account	1,387	1,464	1,302	1,430	1,398

Source: Restructuring and privatization of MSB and MRFC: Draft Final Situation Assessment nominal terms. Looking at the composition of MRFC client deposits, nearly 70% of savings was mandatory collection of cash collateral. However client surveys noted in Section 4 of this report, reported that savings products are highly valued by entrepreneurs. Several plausible explanations might explain why MRFC's savings mobilization is so low. The first is that the cash collateral mobilized by MRFC is deposited in a group account for solidarity loans and there is little incentive on the part of individuals to save in excess of what is required. Excess savings would be used to repay the loan of a co-member who defaults. Another reason could be that since MRFC focuses on seasonal loans with long grace periods its savings products are neither well-designed nor aggressively marketed by loan officers who lose contact with the client for long periods during the year.

Challenges

Subsidy dependence. MRFC receives subsidies it might not enjoy if it were privatised. MRFC benefits from use of agricultural extension offices and officers to help mobilise savers and borrowers. It also enjoys subsidized loan capital through various credit schemes such as the IFAD-supported Mudzi Financial Services, the EU-funded APIP program, and the Governments Apprentice Credit Fund.

Operations and financial position. The PWC analysis of MRFC recommended three priority issues to be addressed: resolution of the RBM loan financing, branch rationalization, and information technology fixes to improve the MRFC's data integrity.

- *Repayment of loan.* MRFC's most immediate concern is repayment of a US$ 17 million loan it received from the GoM through the RBM. Recall that the source of this money was the US$ 25 million credit line the World Bank provided to the GoM under the Rural Financial Services Project. The loan to MRFC is Kwacha denominated with the foreign exchange risk borne by the GoM. MRFC was given a ten year and six month grace period starting from February 1994 and it is obliged to repay the loan plus accrued interest in ten equal half-year instalments beginning in 2005. MRFC's estimated annual payments to service this debt will be around MK 300 million per year, a sum it cannot pay without de-capitalizing its loan fund. In 2002 MRFC earned about MK 72 million profit before tax. Its projection for 2005 is to earn MK 153 million, or about 50% of what it will need to service its credit line loan.

- Rationalization of offices. The PWC assessment for the privatisation of MRFC noted that five of its eight branch offices posted a negative return on operating profits and assets. MRFC pointed out that it does not allocate head office costs or revenue earned through its treasury function to branches. If it did, it is possible that branch profitability would change. But, it is unlikely to alter the conclusion that MRFC needs to carefully analyse the cost / benefit of maintaining its existing network of offices in light of its need to reduce costs to service its long-term debt. Nonetheless, some MRFC senior management are of the opinion that profitable branches should subsidize unprofitable ones to maintain a presence in all rural communities. Unless this attitude changes, rationalization of branches is unlikely unless it is forced upon MRFC.

- *Information Technology.* MRFC's information technology (IT) department consists of two persons and is vastly understaffed given its importance to management. The software used is an old version of FAO Microbanker system that MRFC has modified extensively, to the point where the system is vulnerable to IT-related fraud and business disruption. (PWC 2003) A detailed, independent IT review needs to be conducted, the Microbanker software upgraded to a later version, and any security loopholes sealed. MRFC management should add staff to the IT department and take steps to ensure continuity of operations should any employee of that department leave unexpectedly.

Based on reports of weaknesses observed in different departments, MRFC would benefit from job linked, skills-based training and technical assistance for its accounting, finance, and audit departments.

MRFC's self-reported needs to build Malawi's MF sector were:

- Establishment of a credit bureau
- Deployment of a national identification system
- Design and put in place a management information system at the Malawi Microfinance Network secretariat
- Passage of enabling legislation permitting NGOs to mobilize and intermediate savings
- Reduction in the time needed to process repossession of collateral on unpaid loans
- Capacity building of MFIs

B3. DEMAT

The Development of Malawian Enterprises Trust (DEMAT) has five main programs: Business Advisory Services and Training, Technical Advisory Services and Training, Business Advisory Services for Women, Credit Services, and Special Programs. DEMAT charges nominal fees for its services except in the case of work for institutions, which are charged on a cost-recovery basis. DEMAT is funded by the GoM, donors, and by its own revenue.

Legal Status and Governance Structure

DEMAT is a GoM Trust established in 1979 under the Trustees Incorporation Act to provide financing, business and technical advisory and marketing services to MSMEs in the manufacturing, trade and service sectors. DEMAT's Board of Directors is appointed by Malawi's President through the Ministry of Statutory Corporations.

Financial Products and Methodology

DEMAT benefited from a UNDP/UNCDF credit project that started in1992 and just ended. The project provided 6-month loans to groups comprised of 10-12 members. The maximum size of first loans to group members was MK 4,000. Subsequent loans increased by MK 2,000 per loan cycle up to a maximum MK 12,000 after 4 cycles and 2 years. Borrowers were required to open an account at either Stanbic or the National Bank, partners in the project, and deposit a cash collateral equal to 20% of the loan value. The bank would write the loan and disburse cash directly to the borrower group that would make monthly repayments to the bank. Loan interest was about 45% on a declining balance basis, which the bank retained. In the event of default, the 20% savings was withdrawn first. The bank assumed the next 20% risk and a guarantee fund of $100,000 deposited at each bank covered the remaining 60% of the loan.

Groups received 8 weeks of training in business and credit management that culminated in a loan application reviewed by a 5-person loan committee. The committee consisted of one representative each from the MoIC, Ministry of Gender and Community Service, the Malawi Council for the Handicapped, MABW, and DEMAT; 3 out 5 members formed a quorum. The loan committee passed its decision to the bank manager. If it were a first cycle loan, the bank manager would accept the committee's decision and issue the loan. If it was the second loan or later, the bank manager could overrule the committee's decision and deny the loan without recourse to the borrower.

Besides this project, DEMAT manages another in-kind credit scheme funded by Oxfam and the GoM. Loans are to groups of 10 members and are targeted to poultry producers.

Outreach and Loan Portfolio Performance

The UNDP/UNCDF credit program operated in Nsanje, Thyolo, Mchinji, Mangochi, Dedza, Nkhata Bay, Mzuzu, and Salima. The in-kind poultry loans were available in all three regions.

The Assessment Team was provided a portfolio report on the UNDP/UNCDF program as of May 2003. The results showed about MK 5.4 million in loans outstanding but more than MK 4.1 million (76%) of the portfolio at risk greater than 120 days past due and another MK 224 thousand at risk and past due between 1 and 119 days. No loan aging report was available for the Poultry In-kind Credit programs but loans disbursed totaled about MK 5.5 million, indicating of the scale of this activity.

Challenges

DEMAT advised the Assessment Team of its intention to separate its microcredit activities from its other core businesses. The Assessment Team wholeheartedly supports this as it would permit DEMAT to measure the sustainability, and subsidy dependency of its microcredit activity. However, the same sentiment was expressed in an earlier 1999 report on Malawi's MF sector and it has yet to be done. (J. Gollardo.1999)

The failed UNDP/UNCDF program is illustrative of why many microcredit programs suffer from high default rates. While it is a good idea to encourage commercial banks to serve the micro entrepreneur's financing needs, too many participants with little at risk were brought into this credit scheme. DEMAT was responsible for training the borrower groups but did not directly suffer if borrowers defaulted, nor did the members of the loan committee who represented a cross-section of special interests. Once a loan fell into default, which would follow-up with the borrower, and what would be their motivation to collect on the loan? Regarding the long-term sustainability of the scheme, when members drop out of the group and new members enter, who will retrain the group to be sure all its members have the same advantage? DEMAT did this while it was paid to do so by project funding. Would it continue to do so indefinitely?

The sustainable provision of microfinance services requires dedicated professionals whose job security depends on how well they perform. It is extremely difficult to instil such feelings in bureaucrats from government or quasi-government institutions.

C. Private Sector Microfinance Companies

C1. PRIDE Malawi

In 1999 Pride Africa's proposal to UNCDF to fund the start-up of a new microfinance program in Malawi was accepted and operations began in March 2000. Total UNCDF project funding was just under US$3.5 million, of which about $1.4 million was budgeted for loan fund capitalization. Pride Management Services Limited (PMSL), run out of Pride Africa in Nairobi, provided technical assistance and staffing to implement the program start-up.[13]

Legal Status and Governance Structure

Pride Malawi (PM) acquired legal status on May 9, 2002 as a Company Limited by Guarantee, two years after it started providing microfinance operations. This form of registration has no shareholders but rather "members" who guarantee the repayment of all debts and obligations of PM up to a limit of MK 1,000. PM's corporate structure also designates two "stakeholders" who are to receive quarterly reports of PM's ongoing activities. The two stakeholders are UNCDF/UNDP and the GoM represented by the MoIC. Stakeholders are endowed with substantial power over PM, a private sector entity. Either UNCDF/UNDP or MoIC have the right to veto nominations to the Board of Directors, dismiss either members or directors, and block changes to PM's Memorandum and Articles of Association.

Up to now, PMSL nominated all members to PM's Board. However, PMSL's management contract was set to expire in January 2004 and the Assessment Team was advised it was likely that it would not be renewed.

Recently we were advised hat PM approached the RBM about transforming itself into a full-service commercial bank so it may be permitted to mobilize savings. Receiving a favourable response, PM is preparing a three-year business plan, a prerequisite to initiate the licensing process, and hopes to receive a commercial bank license by mid-2004.

Pride Malawi's Loan Insurance Fund.

PM's legal status does not permit it to mobilize, pay interest on savings or intermediate deposits for on-lending. However, it requires its borrowers to transfer to PM an amount of cash to secure a loan. In the event of default, PM withdraws the cash it collected and placed in what it calls a "Loan Insurance Fund" (LIF) up to the amount of the arrears.

Once a year PM pays a bonus to clients based on their average balance in the LIF. Upon leaving the program, the borrower's contribution to the LIF, plus any "bonus" paid, less any withdrawals to cover loan default, is returned to the borrower.

PM also uses the LIF to capitalize its loan portfolio. In the past as much as 30% of PM's portfolio has been funded by the LIF. If the RBM were to look more closely at this practice it may interpret its legality differently. Thus this practice poses a potential risk to PM.

[13] Information on PRIDE was gathered from interviews and various reports listed in the resource section of this document as well as the assessment questionnaire that was completed by PRIDE management.

Financial Products and Methodology

PM offers three loan products: group, consumer and premium. The consumer and premium loans are new products introduced in 2003. The group loans follow a methodology pioneered by Pride Africa in other countries and practiced by PM since its start-up.

The group methodology combines elements of solidarity group lending and village banking to form a two-tier guarantee system. The process to form and train groups takes about six weeks. It starts when an average of five businesses of two to three employees self-select to form an Enterprise Group (EG). PM then merges ten EGs to form a Market Enterprise Committee (MEC).

After a six-week training period, members in the MEC qualify to receive their first loan provided they put up a cash collateral equal to a minimum 25% of the loan size. PM collects this collateral, which they call a Loan Insurance Fund (LIF), and deposits it into PM's bank account. In a two-tier solidarity guarantee system, members of the same EG as well as other EG groups in the same MEC are held responsible in the event of default. As a last resort, the LIF is used to cover loan defaults by withdrawing first from the borrower' LIF balance, then her EG and finally the full MEC. At the end of each fiscal year, PM may pay up to a 10% "bonus" to clients based on their average balances in the LIF. However in the past PM's LIF bonus payment policy has not been well understood by either clients or field staff and many think of it as their savings. Hence, they dislike when their LIF is used to reimburse unpaid loans from others in the MEC who they may either not know, or self-select to be in the same MEC.

PM's consumer and premium individual loans were launched in 2004 to broaden the product line and diversify the loan portfolio. PM set a loan portfolio target of 20% in consumer loans, 30% premium and 50% group. A table comparing PM's different loan products follows:

Table 4-5 : Pride Malawi Loan Products

Loan product	Type	Loan Amount (Mkw)		Term	Collateral
		Minimum	Maximum		
PREMIUM	Individual	200,000	1,000,000	12 - 24 mos.	10-25% of loan value in cash (LIF) & chattel with value no less than 100% of loan
CONSUMER	Individual	10,000	500,000	12 - 24 mos.	10 - 25% LIF payment; Repayment directly from employer. Loan size must be less than borrower's accumulated pension fund
GROUP	Individual with group	~ 6500	~ 250,000	16 - 50 wks	25% of loan value in cash (LIF); group guarantee

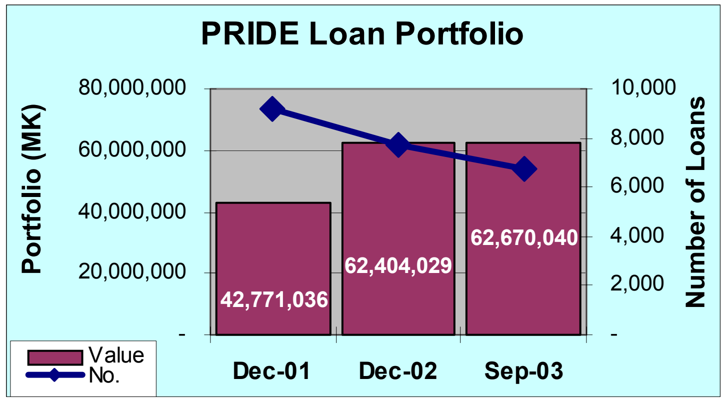
Outreach and Loan Portfolio

PM works through twelve branch offices located in all three regions of Malawi. Six of the branches are in cities and six in district towns. Clients are mainly urban and as of October 2002, about 50% of the 6,315 clients were women. Prior to the introduction of the Premium and

Consumer loan products about 94% of the group loans were for various commerce and trade businesses.

PM's loan portfolio grew rapidly in its first years but in 2002 its number of loans began to fall and portfolio outstanding stagnated. (Graph 4-6) During this time, portfolio at risk increased from 8% in 2001 to 11% in 2002 due to weakening economic conditions and poor internal operating systems and management capacities. However, PM reports that by Dec 2003 it succeeded in bringing the portfolio at risk rate down to 7%.

Graph 4-6: PRIDE Malawi Loan Portfolio



Source: PRIDE Malawi

Challenges

Human resources. Staff turnover at PM has been high: 14% in 2001 and 21% in 2002. This contributes to low productivity, poorly trained clients, decrease in portfolio quality, and potentially unqualified people forced into positions for which they are not ready. Also there is the added cost of training new staff and a lack of continuity between credit officers and clients.

Client drop-out. PM's client dropout rate is also high, averaging greater than 50% since the start of the project. In 2002 alone 9,483 clients left the program, about 86% of whom were expelled for not meeting loan conditions. This number is extraordinary when one considers that training new clients in the group methodology takes 6 weeks minimum and at considerable cost and loss of income. Dropout rates of this size raise the question of where new clients in a particular area will come from once PM burns through a substantial portion of the demand.

Systems and procedures. An Institutional Assessment / Impact Appraisal of PM in December 2002 found examples of standard operating procedures not being followed, inaccurate record keeping at the client level, and accounting practices not in compliance with generally accepted accounting principals or international standards, particularly with regards to the treatment of loan loss expense and provision.[14] If these problems still persist, PM needs to fix them to record accurate data, properly gauge portfolio risk and exert financial control. It is imperative that these weaknesses be eliminated if PM is given a banking license to mobilize and intermediate public savings.

Governance. The substantial power wielded by a donor (UNDP/UNCDF) and the GoM over PM, a private sector entity may arguably be appropriate during a project start-up but it is problematic moving forward. Given the poor record of donor and GoM performances over the years in Malawi's MF sector it would be best that an exit strategy is devised that sets a time line to remove the GoM from direct governance of PM.

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[14] Perrett, G.D. and Chirwa, W.T. UNCDF and the government of Malawi Sustainable Financial Services at the District Level Malawi Institutional Assessment/Impact Appraisal – Draft Report. December 2002.

Sustainability. Over its first three years of operation PM had a very high cost structure due to its dependence on expatriate labor supplied by PMSL and paid by project subsidy. This coupled with excessive loan losses has kept its level of operational sustainability under 50%. In 2003 steps were taken to reduce labor costs and control delinquency rates and the positive effects are just being seen. In the 9 month period from Jan 1, 2003 to Sep 30, 2003 PM's return on assets improved from –64% to –30% while its return on equity improved from –12% to –52%.

C2. FINCA

Foundation for International Community Assistance (FINCA) opened in Malawi in 1994 as a project managed by its parent, FINCA International, a U.S. registered NGO which pioneered the village banking methodology. Over the years it has received assistance from USAID, DFID, Oxfam, DANIDA, and the Rotary Fund.

Legal Status and Governance Structure

Like Pride Malawi, FINCA is registered under the Companies Act, Limited by Guarantee. It has five members on its Board of Directors, three from FINCA Intentional (two USA, one Uganda), the FINCA Malawi country director, and a Malawi businesswoman.

Financial Products and Methodology

FINCA follows the village bank methodology in which 15 to 30 persons are trained over a five-week period meeting once per week for about two hours. During this time, members must open a savings account at a commercial bank and deposit a set amount each week, which helps secure loans in case of default. FINCA makes a single loan to each village bank that then on-lends it to individual members in the presence of a FINCA loan officer. The initial individual loan is limited to a maximum MK 10,000. Loans are repaid in equal, weekly repayments of principal and interest over a 16 week loan term. Interest rates were 24% flat plus a fee of 2% of the loan, of which 1% is paid to FINCA International and 1% goes into a loan insurance fund (LIF) managed by FINCA Malawi.

Borrowers are required to save a minimum of 20% of their loan during the repayment period. This qualifies them to receive larger loans equal to the amount of the previous loan plus accumulated savings. An April 2002 Impact Assessment Study of FINCA's village bank members showed they highly value the savings component, despite delays in withdrawing savings upon leaving the program.[15] The same study reported high dropout rates in FINCA's village bank program. Fifty-eight percent of respondents participating in a repeat survey who had been borrowers a year earlier had left the program. Evidence suggests that FINCA's village bank members stay an average of three to four loan cycles before leaving the program. While this was a non-random sample, it is high enough to indicate a problem that should be examined more closely. High dropout rates undermine the sustained provision of financial services to clients and increase the cost of MFI operations.

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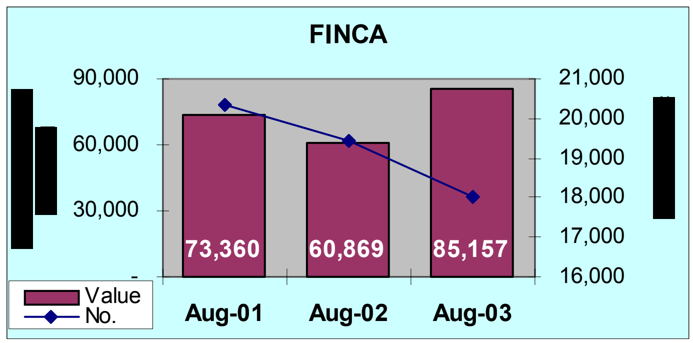
[15] Johnson, Susan, James Copestake and Kadale Consultants. FINCA-Malawi Impact Assessment Research. Final Report. April 2002.

Commercial banks play an important financial intermediation role in the FINCA methodology. As mentioned, village banks must open an account at a bank to deposit savings and excess liquidity. When FINCA finances a village bank, it transfers money to the bank account and the village bank disburses loans to its members in the form of bank checks drawn on its account. Most village banks have accounts at either Stanbic or the National Bank.

In 2003, FINCA elected to participate in the EU-funded Agricultural Productivity Investment Programme (APIP) implemented with assistance from the Ministry of Agriculture. In-kind vouchers for maize or legume inputs of seeds and fertilizer are distributed at village bank meetings and reimbursement is made when crops are harvested.

Outreach

Graph 4-7: FINCA Loan Portfolio



Source: FINCA-reported data

FINCA opened first in Blantyre in 1994 with the support of USAID and later expanded to all regions of Malawi. Today FINCA operates in 26 out of 28 districts through 3 regional offices, 14 branches, and satellite offices where credit officers work out of their homes.

Occasionally FINCA has received grant assistance from donors wanting it to expand services to a new market area. In 2000, DANIDA provided funds for FINCA to expand to the North before it was ready, and institution-threatening problems resulted. At the time PRIDE was just beginning to set up operations in the North and this provided additional competitive pressure to enter the market first. In a rush, FINCA hired unqualified staff and began operations before having the proper systems and controls in place. As a result client village bank savings were reported stolen by FINCA staff and a large number of loans went uncollected. Within two years FINCA's portfolio at risk ballooned to 34% countrywide and 72% in the North; in the end, about MK 10 million in past due loans was written off. The effect on FINCA's loan portfolio can be seen in Graph 4-7.

Loan Portfolio and Sustainability

FINCA is dependent on building its loan fund from grants, loans, or retained earnings, as it does not have the right to intermediate savings. It has been successful on all counts, including operating with a commercial loan on a letter of credit from FINCA International. It continues to look for ways to diversify its loan products and find other sources of loan capital, which led it to participate in the APIP in-kind loan program this growing season.

Portfolio at risk was 2% at September 2003 having come down from 13.6% in August 2002 and 10.1% in August 2001. In another move to cut costs, total staff was reduced from 157 to 111 in the last year. Despite these efforts, return on assets for the year ending August 2003 was negative 29% and a net loss of about MK 32 million was recorded.

Challenges

Client drop-out. FINCA needs to listen to clients and find ways to reduce its dropout rate. Since village bank members who stay in the program have access to larger loans, FINCA's net profit per borrower over the same loan period is greater when there are fewer dropouts. Also, members who stay together longer are more likely to form a stronger solidarity guarantee.

Subsidized, directed credit impact. The APIP program FINCA joined has the potential to introduce a higher risk into its village banks. The organizers of APIP point out that borrowers of in-kind loans for maize and vegetables cannot expect to earn enough from the inputs received to repay the loan with interest. Repayment must come from other income generation activities, thus putting pressure on those businesses to repay the APIP loan as well as a village bank loan from FINCA.

Sustainability. If FINCA expands its product line, as it is doing with the APIP program, it needs to ensure that its staff, operating systems, and financial management are up to the task. Because of its current operating deficit it is not able to easily absorb additional losses without de-capitalizing its loan fund. However since its recurring costs are no longer subsidized by project funding, it is well aware of its need to be operationally self-sustaining and it is actively seeking ways to increase revenue streams and operate more efficiently.

D. Savings and Credit Cooperatives

Credit Unions: MUSCCO & SACCOs

The Malawi Union of Savings and Credit Cooperatives (MUSCCO), registered since 1980, is the apex organization and Central Finance Facility for 71 affiliated Savings and Credit Cooperatives (SACCOs). In addition there are about 69 independent SACCOs in Malawi that are not members of MUSCCO, nor aligned in another federation. Due to time constraints, the Assessment Team did not examine non-affiliated SACCOs.

Over the years MUSCCO has received technical assistance from WOCCU, the U.S.-based World Council of Credit Unions, and still maintains close ties with them. This relationship has undoubtedly helped MUSCCO to tap into their considerable expertise over the years.

Legal Status and Governance Structure

The Registrar of Cooperatives within the MoIC issues licenses for cooperatives defined as: "…autonomous associations of persons united voluntarily to meet common economic and social needs through jointly owned and democratically controlled enterprises and/or businesses. The common bond uniting persons may either be *community* (members of the same locality) or *occupational* (belonging to the same profession or common employer)."

MUSCCO and SACCOs are member-owned financial cooperatives whose primary objective is to provide financial services to their members. The Cooperative Act neither defines specific standards of operations for specialized financial cooperatives nor does it distinguish between local cooperatives and federated structures such as MUSCCO.

The Registrar of Cooperatives has a non-voting seat on MUSCCO's board and is tasked to play an intermediary role between MUSCCO and the SACCOs. In practice, MUSCCO observed that the Registrar is very slow to settle disputes with SACCOs that have arisen. For example, although MUSCCO has disaffiliated 81 SACCOs since 1993 the MoIC through the Registrar has revoked only one SACCO's license.

Financial Products and Methodology

MUSCCO set up a Central Finance Facility (CFF) that acts as a financial intermediary to affiliated SACCOs. The CFF offers SACCOs deposit services, loan products, insurance and other banking services and performs MUSCCO's treasury function. It is also MUSCCO's primary source of revenue.

Each SACCO must invest 10% of its member shares in the CFF, up to a maximum of MK 2 million in four years; dividends are paid on these shares. SACCOs are also required to invest 15% of their members' deposits in a liquidity reserve account at the CFF to safeguard against bankruptcy or a liquidity crisis. The CFF offers SACCOs the option to deposit excess liquidity in either term, preferential or ordinary deposit savings accounts paying a market interest rate. While not mandatory, SACCOs are encouraged to invest 10% of their total assets with MUSCCO as a statutory reserve deposit. A SACCO can apply for loans from the CFF with repayment terms of one month to two years.

MUSCCO administers a mandatory microinsurance program for each SACCO member's deposit accounts and loans. The charge of the insurance is 0.25% of the savings or outstanding loan amount per month. In the event of a member's death or disability, MUSCCO matches the savings account balance (up to MK 100,000 max.) and adds it to the amount withdrawn when the account is closed. Should a member die leaving an unpaid loan, MUSCCO pays off the loan (up to MK 225,000 max.) to the SACCO. Until 1999 this insurance program was underwritten by Credit Union National Insurance, a USA firm. When the firm withdrew from the African market, MUSCCO took it over but has yet to engage an actuary to evaluate MUSCCO's risk on this product to help determine an appropriate fee structure. MUSCCO also offers a fidelity bonding insurance to protect SACCO assets against such things as fraud, embezzlement, and fire.

Other services MUSCCO provides affiliates are: skills development training, information system technical assistance, financial management tools and accounting books, operating manuals, and advocacy representation.

Outreach

MUSCCO affiliates are found throughout Malawi, in both urban and rural areas. SACCOs united by common employment include sixteen teacher groups, UNDP, Reserve Bank of Malawi, ADMARC, Malawi Broadcasting, and Ministry of Transport to name a few. The total number of members per SACCO ranged from 62 to 3,232 with a mean average of 203 recorded at September 30, 2003.

As seen in Table 4-6 males dominate statistics measuring total membership, volume of savings, and amount of loans. Groups and/or clubs make up only a small portion of the total. In dollar terms using an exchange rate of MK 105 per US$, about US$ 3.68 million in savings has been mobilized and the gross loan portfolio outstanding stands at US$ 3.19 million. The average member has saved about US$ 63 while the average loan size of $ 168 falls within the definition of microcredit noted earlier.

Table 4-6: MUSCCO-Affiliate Membership Data

Malawi	SACCO MEMBERSHIP			Total
	Male	Female	Groups/Clubs	
Membership	43,981 75%	13,929 24%	758 1%	58,668
Savings (MK)	351,593,472 91%	28,951,456 7%	5,863,655 2%	386,408,583
savings/member	7,994	2,079	7,736	6,586
Loans (MK)	296,840,169 88%	28,760,898 9%	8,975,407 3%	334,576,474 100%
# loans	16,797	2,050	116	18,963
avg loan size (MK)	17,672	14,030	77,374	17,644

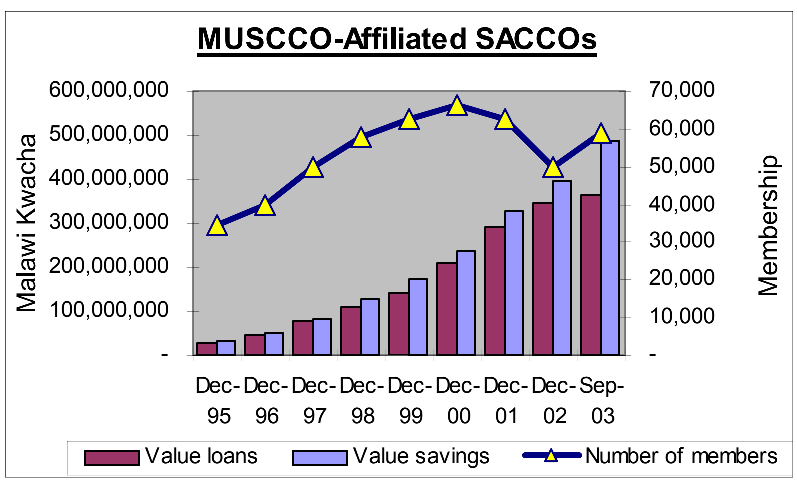
Source: MUSCCO; "SACCO Quarterly Financial and Statistical Report for the period ending Sept 30, 2003: note that data in this table is slightly different than that reported by MUSCCO in the "SACCO Trend Analysis" report of the same date.

The Credit Union model has the potential to reach deep into Malawi's rural areas to provide both savings and loan products to the population. A limiting factor however is the general lack of minimum security features at most SACCO offices such as safes and reinforced doors and windows. To cope with this, SACCOs establish limits on how much cash can be held at one time and excess funds are deposited at the closest commercial bank. However, the recent rationalization of branch offices by STANBIC and the National Bank of Malawi created problems for a number of SACCOs who now have to travel greater distances.

Loan and Savings Portfolios and Sustainability

MUSCCO-Affiliated SACCOs. To remain a member of the MUSCCO federation, SACCOs agree to conform to specified performance standards, policies, procedures, and reporting requirements. In exchange, the affiliate members have access to all the financial and non-financial services offered by MUSCCO noted earlier. In the past eight years, the network recorded dramatic growth in key indicators, with only minor exceptions. Graph 4-8 shows the loan portfolio, savings, and membership figures for all SACCOs since 1995. Over the years, disaffiliation of non-performing SACCOs was relatively balanced by new SACCOs joining the federation – until 2001, when there was a net

Graph 4-8: SACCO Portfolio and Membership Trends



Source: MUSCCO Internal Financial Reports loss of thirty-seven SACCOs followed by a loss of four more in 2002. The reduction in affiliates explains the loss in membership seen in the graph during this period. Despite the loss of total members, the loan and savings portfolios did not suffer appreciably with the loss of the SACCOs, reflecting their poor financial condition at the time of their disaffiliation.

MUSCCO advised the Assessment Team that some SACCOs complain of unpaid salaries by employers into their employees' credit union accounts. As mentioned earlier, many credit unions are organized to serve employees of the same business, parastatal, or GoM ministry. MUSCCO estimates that more than MK 40 million is past due by employers that should have been deposited directly into the member's account. Since loans are often secured by direct withdrawal from payroll deposits, this condition has led to higher arrears and cash flow constraints. It also highlights the higher exposure to risk faced by credit unions which serve a single employer group.

MUSCCO Federation. MUSCCO has made great strides to offer a wide range of financial products and services to its members. In the period ending December 31, 2002 it posted a net profit before dividends of just over MK 9 million. If it can maintain an adequate number of financially healthy SACCOs, it should continue to be operationally sustainable.

Challenges

Building brand equity. The proportion of non-performing SACCOs needs to be decreased by additional capacity-building efforts wherever demanded. When it becomes necessary to disaffiliate a SACCO, it should be clear to the public that it is no longer part of the MUSCCO federation. As it stands now, MUSCCO engages in practically no brand marketing and oftentimes the public is not aware of who is a MUSCCO member and who is not. If MUSCCO manages to clearly identify MUSCCO affiliation to its SACCO members, this would lay the groundwork for establishing a network of well-known, reliable SACCOs clients would trust with their savings. If not, MUSCCO's reputation can be irreparably damaged when a non-affiliated member loses members' savings.

Weak SACCO capacity. Despite an overall strong showing, many affiliated SACCOs are not performing well. Eighteen out of fifty-eight (31%) SACCOs reporting at June 30, 2003 posted year-to-date losses and about 30% of SACCOs in the federation are chronically late in filing their financial reports with MUSCCO. These are signs that additional SACCOs are at risk of disaffiliation and that capacity building assistance is needed.

Historically the SACCO loan portfolio default rate is 20% but in the period ending September 2003, only 4% of the portfolio was reported to be at risk.

Savings mobilization. Savings mobilization at SACCOs might be greater if there were better physical security at credit union offices. Market research conducted by Opportunity International Bank of Malawi (OIBM) found poor depositors wanted their institution to look like a bank with teller windows, guards, safes, etc. MUSCCO admits SACCO security needs to be improved.

Governance. While there may be advantages to having the Registrar of Cooperatives on MUSCCO's board there are risks as well that the Registrar will apply political pressure to a private sector entity.

MUSCCO management sited the need for better regulatory and supervisory oversight over SACCO operations, pointing out that the Cooperative Act was too general and did not set operating standards for credit unions or their federated union. It would like these issues to be corrected.

Management and systems for scaling up. Lastly many of the SACCOs have grown substantially since establishment and require capacity building to manage their increase in size. On a visit to a SACCO by the Assessment Team, the manager requested training in risk management and the development of different financial products, procedures, and systems to manage them.

E. Commercial Banks

E1. Opportunity International Bank of Malawi (OIBM)

OIBM is a licensed commercial bank in operation since May 2003. Its main objective is to deepen access to banking services for the poor and other communities in Malawi who lack access to any banking system. OIBM is part of the Opportunity International Network, which is USA-based and operates programs in 31 countries around the world. OIBM acquired the assets of Usiwata Wathia Credit Trust, a previous microcredit project in Lilongwe funded by DFID. However OIBM's staff is completely new as is its approach to the market.

OIBM is assisted by funding from USAID to set up a retail bank network consisting of a headquarters in Lilongwe linked with at least five satellite branches in the three regions. From its branch offices it intends to employ mobile banking services to deepen its outreach in the rural areas.

Legal Status and Governance Structure

OIBM obtained a full commercial bank license within three months of application. Its Chief Executive Officer is also the Chairman of the Board. Prior to joining OIBM he was Governor of the Reserve Bank of Malawi. Other members of the Board include three Opportunity International executives based in England and one from the USA. Two other Malawians round out the Board. The GoM has no role whatsoever in either OIBM's governance or management.

Financial Products

OIBM has concentrated on the mobilization of savings during its initial eight months of operation and has found the market to be highly responsive to its product offer. It has taken a very market-oriented approach to its business and has carried out several client surveys to understand what its target clientele want in a banking experience. For example, it learned that depositors wanted their financial institution to "look like a bank" with teller windows, guards, and visible security. Their survey found 65% of respondents were victims of a robbery at one time or another. Also, savers wanted to open an account quickly and have access to their funds when they wanted.

The lack of a national identification number and inefficient procedures makes opening an account a very long process at most banks in Malawi. Typically several trips to the bank and are required in a process that can take up to two weeks. OIBM reduced the time to four minutes with streamlined procedures, staff that value customers' time, and a SmartCard with an imbedded computer chip that registers a client's fingerprint on the card. The SmartCard is linked into the Central Bank's Malawi Switching Centre (Malswitch) infrastructure that interconnects financial institutions. The SmartCard can be used to make withdrawals at ATM machines as well as at point of purchase terminals in retail establishments, like BP gas stations.

With an eye towards keeping costs low, OIBM does not issue deposit and withdrawal slips or deliver account statements unless requested. Transactions are recorded on the SmartCard, which clients learn to trust. OIBM noted that after opening accounts, many savers initially test the system by making numerous withdrawals of small amounts from ATMs over a short period. Once assured that their money was secure and the system worked, clients systematically increased their savings balances. As part of instilling a sense of client ownership, OIBM is called "Banki Yanga" which means "My Bank" in the local language.

OIBM has moved slowly to add credit services to make sure their procedures and collections systems were performing. It now offers micro loans to groups of 5 – 10 members with 6 month maximum repayment terms and commercial rates of interest. SME loans are priced at 4-5% above the base lending rate and microloans are at 4.5% flat per month.

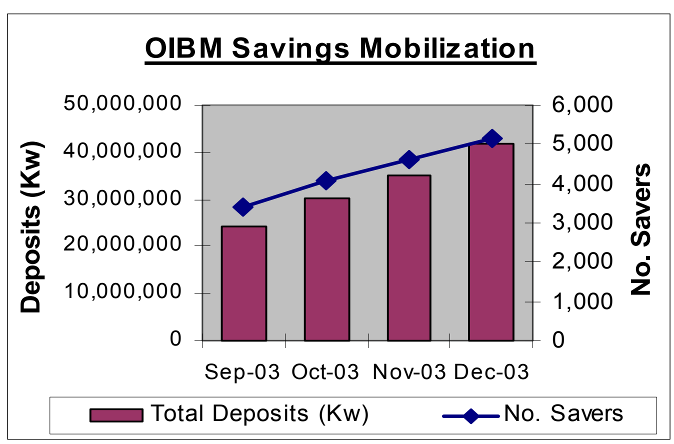
Loan officers and supervisors take 10 days to form and train borrower groups. All loans are disbursed and repaid at the bank branch. To prevent loan delinquency, OIBM staff contact borrowers the day before the loan is due if the client's account balance is below the repayment amount due. While this is costly in terms of time and resources, OIBM feels it is important to instil the right client attitude from the start.

OIBM has a foreign exchange license that it hopes will attract NGOs and project businesses funded by foreign money transfers to Malawi.

Outreach and Savings and Loan Portfolios

OIBM experienced rapid growth in both the number of new savings accounts as well as the volume of savings mobilized. As of December 2003 it counted 4,918 savings accounts with MK 33.5 million and 233 fixed deposits (30 and 60 day) valued at MK 8.2 million. The average balance per each type of deposit account was MK 6,811 and MK 35,193 respectively. The dramatic growth in savings mobilized can be seen in Graph 4-9.

Graph 4-9: OIBM Savings



Source: OIBM

OIBM's success attracting a large number of new clients so quickly has been noticed by other commercial banks and semi-formal microfinance providers. Microcredit corporations like PRIDE are encouraged to investigate transforming into a commercial bank, while the National Bank and Stanbic are looking at changing some of their operating procedures to mimic those of OIBM.

As of September 30, 2003 the loan portfolio outstanding was MK 5.4 million with 162 loans disbursed. Late payments greater than 30 days were nil.

Challenges

OIBM is a young bank with experienced managers. It seems to be doing most things right, taking a cautious approach to introduce new products while it ensures systems are working properly and clients' needs are satisfied. Its loan portfolio is smaller than envisioned at this point in time but the Assessment Team agrees with OIBM management that conservatism with a focus on savings mobilization is the better practice when starting out. Savings products are vital as much of the market demand for microsavings in Malawi is unmet. Also, time wise, November to February is the most difficult credit season in Malawi since investment in the agriculture cycle has mostly been made and crops are not yet harvested to provide liquidity to the majority of the population engaged in smallholder farming. OIBM's decision to delay expanding its loan portfolio during this period is warranted.

OIBM will need to plan its expansion carefully to maintain the online information system it enjoys with a single office. The need for accurate and timely data will need to be reconciled with the need to hold down expenses in rural areas that may not have the infrastructure in place to support low cost, information technology solutions. Cost-effectiveness will also need to be a key factor in evaluating the results of OIBM's pilot IT activities: if they do not lead to a direct impact on the bottom line, they should probably not be adopted.

The ability to find and retain competent staff when rural branches open will be a challenge. An in-house training program might be in order, or at the very least the development of training materials that can be utilized by outside consultants may be a possible solution.

E2. National Bank of Malawi and Stanbic Bank

All of the semi-formal microfinance providers utilize commercial banks in some way to provide their clients financial products. Some of them require lending groups or individuals to open accounts or transact directly into the MFI's account at the commercial banks to make mandatory savings deposits, repay loans, or deposit excess liquidity (in the case of SACCOs and village banks.) Others like ECLOF and DEMAT have a lending methodology whereby the borrower's loan contract is with the bank. Frequently, a loan guarantee fund is set up to share the risk of default. Relationships like these make the continued presence of the commercial bank in the proximity of the MF provider critical. A decision to close an office could cause widespread loan defaults in a nearby microcredit program. Conversely, a new commercial bank in a previously un-served area could be an opportunity to expand microfinance in the same area. The location of NBM and Stanbic branches are listed in Table 4-7:

Table 4-7: NBM and Stanbic Bank Branch Locations

National Bank of Malawi			Stanbic Bank		
	Branch Name	City		Branch Name	City
1	NBM Head Office	Blantyre	1	Stanbic Head Office	Blantyre
2	Henderson Street	Blantyre	2	Balaka	Blantyre
3	Victoria Avenue	Blantyre	3	Ginnery	Blantyre
4	Chichiri	Blantyre	4	Lunzu	Blantyre
5	Karonga	Karonga	5	Mwanza	Blantyre
6	Kasungu	Kasungu	6	Mzuzu	Blantyre
7	Capital City	Lilongwe	7	Dedza	Dedza
8	Lilongwe	Lilongwe	8	Kasungu	Kasungu
9	Churchhill Road	Limbe	9	Capital City	Lilongwe
10	Customs Road	Limbe	10	Lilongwe	Lilongwe
11	Mangochi	Mangochi	11	Limbe	Limbe
12	Mulanje	Mulanje	12	Luchenza	Limbe
13	Mzuzu	Mzuzu	13	Managochi	Mangochi
14	Zomba	Zomba	14	Ntcheu	Netcheu
			15	Dwangwa	Salima
			16	Dwangua	Salima
			17	Salima	Salima
			18	Zomba	Zomba

National Bank (NBM) generally limits its crop lending to the estate sector however they reportedly have made an exception and currently provide finance directly to a number of NASFAM-affiliated clubs and associations. It is estimated NBM may provide up to 30% of all financing received by NASFAM members, primarily due to its confidence in NASFAM’s involvement.

In the case of larger microfinance programs like FINCA and PRIDE Malawi, letters of credit arranged through their international partnerships and local banks permit them to increase their funds available for on-lending.

In meetings held by the Assessment Team at the National Bank and Stanbic we were told that both banks are open to the idea of lending against a microloan portfolio should an MFI make a compelling argument that it was a good investment.

The success of OIBM, a new competitor on the scene, may cause commercial banks like National Bank and Stanbic to move downmarket more aggressively and go after the micro and small business market. At the present time, they seem content to mostly sit back and play a facilitating role, but this could change if and when MSB and MRFC are privatised and record profits from servicing this market segment. The Assessment Team learned that some Malawian banks have expressed interest in acquiring the assets of one or both if the privatisation moves forward.

F. NGO Microcredit Programs

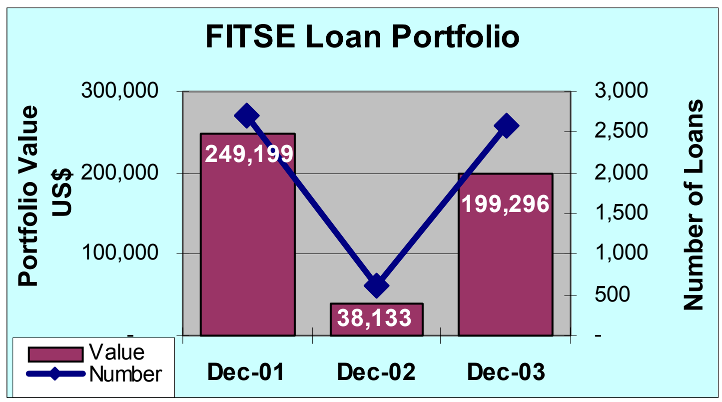
A number of NGOs are involved in microcredit as part of broader development programs targeting poor, marginalized segments of Malawi's population. Some of the more prominent include the National Association of Businesswomen (NABW), Ecumenical Church Loan Fund (ECLOF), and World Vision (WV).

Oftentimes NGO microcredit programs are heavily cross-subsidized by other activities of the NGO and are not managed by specialized microfinance staff. Occasionally, the microcredit programs evolve over time, becoming separate entities that acquire the capacities to become sustainable specialized financial institutions.

The Assessment Team examined the typical case of the Finance Trust for the Self-Employed (FITSE) that was created by World Vision and registered under the Trustees Incorporation Act in September 2000.

Financial Products and Methodology

Graph 4-10: World Vision's FITSE Loan Portfolio



FITSE uses a group loan methodology modelled after Freedom from Hunger's (a USA NGO) *Credit with Education* program. Clients are organized into credit associations of 15-25 members and solidarity groups of 5-7 members. After a 5-week training program, clients are provided with microloans that are repaid in weekly or biweekly instalments over a 16 or 24-week period. Compulsory savings equal to 10% of the loan amount are deposited into a group account opened at MRFC prior to receiving the loan. During mandatory weekly meetings, clients receive training in health, business management, and bible study.

Outreach and Loan Portfolio

FITSE operates in the Mzuzu district from branch offices in Karonga, Mzuzu and Rumphi. It is in the process of rebuilding its program following severe problems with portfolio arrears one year after its start-up in 2000. In 2003 an influx of new loan capital and grants from various World Vision support offices around the world and the African Development Bank via the Malawi local government. Approximately 50% of the amounts received was for loan fund capitalization while the remainder was used to cover operations and fixed asset acquisition.

FITSE estimates that it will need to hold portfolio at risk to under 5% and increase its number of clients to 5,000 and its loan fund in excess of $600,000 to be operationally self-sufficient in two years.

Challenges

Like PRIDE and FINCA, FITSE has the advantage of a parent organization with international experience in microfinance that it can call upon. Nonetheless, it must continue to develop local staff capacities to achieve full-sustainability even as it supplies non-financial service training activities undertaken by its credit program. This may prove an impossible task if competition increases to the point where alternative lending programs offer similar products without mandatory training that may not be desired by all FITSE clients.

It was not possible to determine from the information provided to the Assessment Team why FITSE suffered such high rates of default in the past. Obviously FITSE must take care not to repeat its mistakes.

According to a June 2003 institutional assessment of FITSE conducted by an external WV team, areas that were satisfactory but could benefit by capacity building assistance were:

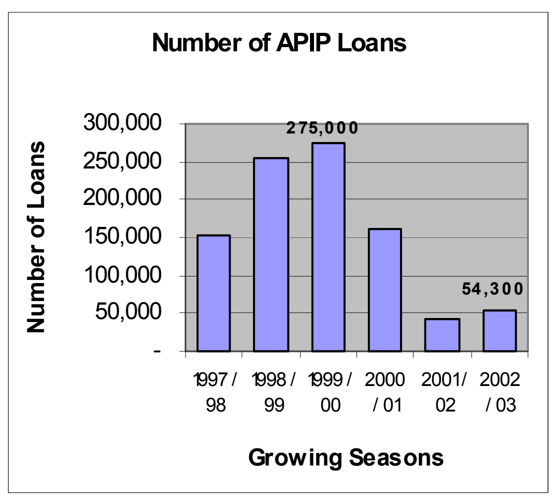
- Management and leadership
- Corporate governance
- Markets and clients
- Credit methodology and performance
- MIS
- Financial management

G. Donor Programs

G1. Agricultural Productivity Investment Programme (APIP)

APIP is a joint EU-GoM program created in 1997 and providing seasonal agriculture credit since the 1997/1998 growing season. Its funding source is the European Commission's Malawi Food Security Program and it operates through the MoAI. Over five growing seasons it issued a total of 940,000 loans. (See Graph 4-11) and over the last three seasons (2000 – 2003) it issued loans totalling MK 600 million through nineteen different Implementing Agencies (IA) consisting of NGOs, cooperatives, parastatals, and corporations. (See Table 4-8)

Graph 4-11: APIP Loans Issued



Source: APIP Loan Repayment Status Reports

Table 4-8: APIP Implementing Partners

APIP LOAN PORTFOLIO at 9/3/2003 for seasons: 2000/2001; 2001/2002; 2002/2003 (MK)					
	Microcredit Partner	**Orig. Loans**	**Repayment**	**Balance Due**	**% Repaid**
1	FFC (private/Gom connected)	159,138,040	7,000,000	152,138,040	4%
2	MRFC (GoM)	108,323,870	53,160,736	55,163,134	49%
3	ADMARC (GoM)	46,350,330	-	46,350,330	0%
4	Baleke (private company)	62,962,800	17,911,560	45,051,240	28%
5	Mwasacho (private company)	47,599,960	28,206,570	19,393,390	59%
6	Small Holder Coffee (NGO)	33,041,100	18,238,800	14,802,300	55%
7	Concedrn Universal (NGO)	23,543,385	13,950,791	9,592,594	59%
8	Self Help Int. (NGO)	25,857,700	18,180,000	7,677,700	70%
9	Movimondo (NGO)	9,572,500	2,427,053	7,145,447	25%
10	Cadecom (NGO)	13,473,000	7,011,874	6,461,126	52%
11	KTFT (?)	10,759,820	4,845,169	5,914,651	45%
12	NASSPA (?)	5,091,270	-	5,091,270	0%
13	Hodeza (NGO)	11,654,659	7,639,736	4,014,923	66%
14	World Vision (NGO)	9,206,000	6,020,000	3,186,000	65%
15	Liweza (NGO)	9,470,075	6,363,123	3,106,952	67%
16	Kasungu SACCO	4,775,000	2,460,000	2,315,000	52%
17	ELDP (?)	4,226,412	2,530,608	1,695,804	60%
18	DAPP (?)	3,450,000	2,415,000	1,035,000	70%
19	Linyangwa Farmers (?)	1,079,800	370,900	708,900	34%
	TOTALS	**589,575,721**	**198,731,920**	**390,843,801**	**34%**
	at constant 105MK/US$:	**$ 5,615,007**	**$ 1,892,685**	**$ 3,722,322**	**34%**
Source: APIP Loan Repayment Status Report through Sep 3, 2003					

It is worthy to note that APIP is a directed, in-kind credit program limited to maize and vegetable crops and consisting of seed and fertilizer input packages. The in-kind credit for maize can be considered a consumption loan as APIP project documents indicate it expects repayment of maize inputs to come from other income generating activities. APIP acts as an apex structure in this scheme by entering agreements with IAs that are responsible for the distribution of vouchers for in-kind supplies and collecting repayments from borrowing farmers before the next growing season. APIP finances the value of the loan, which it provides interest-free to the IAs. APIP and the GoM assume 75% of the risk of default with the IA assuming 25%. Also, APIP subsidizes the IA's direct administration and transportation costs for the program, which for some amounts to 20-25% of the loans written. Because the cost of capital is nil, many IAs charge borrowers less than commercial rates of interest and the repayment record over the years has been poor.

While some of the loans in Table 4-8 are from the growing season 2002/2003 the overall recovery is only 34%. During the two growing seasons 2000/2002, loans outstanding were MK389 million and repayment received was MK 146 million, a 38% recovery rate. Included in this was MK 46million to the parastatal ADMARC (0% recovered) and MK 159 million to FFC (4% collected). FFC (Farmers Financing Company) is the failed credit arm of Farmers World, a private company with strong ties to the GoM.

Transformation of APIP

A new four-year EU project proposal has been circulating that would transform APIP into a more formal apex organization with a central financing facility (Strategic Savings Guarantee Fund). The new APIP would tentatively be called the Agricultural Finance Limited (AFL). Under the proposed project plan, the MoAI and the AFL would train and set up at least 400 Rural Financial Associations (RFA) at the village level with the support of the traditional authorities. The RFA will be federated into District Rural Finance Associations (DRFA) who would then become general assembly members at the apex level of the AFL. It is proposed that AFL will take over the remaining assets and loan fund of APIP. A steering committee tentatively composed of representatives from the Ministry of Finance, Secretary to the Treasury, Ministry of Agriculture Irrigation and Food Security, Donors and other Representatives.

The proposed project document has received the endorsement of the Ministry of Agriculture and Irrigation on February 13, 2003, and the Ministry of Finance on March 7, 2003. It is now before the European Commission for funding consideration. An EU consulting team looking at the APIP and other agriculture programs in January 2004 was expected to provide an opinion on the desirability of the this new project proposal. Their final conclusions were not available at the time this report was written. However, the Assessment Team has several concerns with this proposed project. The first is what we see is the low absorptive capacity of Malawi's immature MF sector to absorb loan funds pumped out of an Apex structure run with substantial GoM involvement. Given the proposed project structure, there will be a lot of pressure to release loan funds to either newly created credit unions or non-specialized microcredit providers, neither of which will likely have acquired the necessary microfinance best practice acumen.

G2. DFID

DFID is actively involved in two MF programs, OIBM and Concern Universal Microfinance Organization (CUMO). DFID became an investor in OIBM when the assets of Usiwata Wathia Credit Trust were transferred to OIBM. In the case of CUMO, DFID is investing 3.0 million Pound Sterling in its four-year village banking project in Dedza that started in January 2003.

G3. USAID

USAID/Malawi has several ongoing and planned projects to support economic growth in Malawi's micro and small enterprise sector. Under its SO-6 (Strategic Objective) to achieve "Sustainable Increases in Rural Incomes," USAID/Malawi describes three core intermediate results that will support the achievement of SO-6:

1. Increased Agricultural productivity
2. Increased employment in agriculturally-linked enterprises
3. Increased household revenue from community-based natural resource management.

Agricultural productivity. To increase agricultural productivity USAID/Malawi has three ongoing projects. A three-year, $6.3 million project with NASFAM is helping to build the strength of farmer associations, farmers' management capacity and diversify crop production. A three-year project implemented by Land O'Lakes valued at just under $5 million is helping revitalize Malawi's dairy industry. Lastly, a three-year $5 million project implemented by IFDC is focused on improving access to agricultural inputs.

Agriculturally-linked employment. To increase employment in agriculturally linked enterprises, USAID/Malawi has a three-year $2.1 million project with OIBM focused on increasing access to microfinance services. Another three-year project funded at just under $1 million looks to improve the commercialization of Malawi's cassava industry. Lastly, anew private sector linkages project is in the process of being bid.

Increased household revenue. For the past five years USAID/Malawi supported a project to increase household revenue from community-based natural resource management implemented by DAI. It is in the process of reviewing bids for an extension of this project.

USAID/Malawi's current and planned projects should increase the demand for microfinance services by removing constraints to private sector development and expanding and enhancing the available economic opportunities. On the microfinance supply side, USAID/Malawi is enabling OIBM to start-up and expand its new savings and credit products to rural areas.

G4. World Bank

As described earlier, the World Bank (WB) was involved with the transformations of the Malawi Post Office Savings Bank into the Malawi Savings Bank and the Smallholder Agriculture Credit Administration into the Malawi Rural Finance Company. During meetings held with WB representatives and the Assessment Team, it was not decided if/or to what extent the WB would be involved in the possible privatization of MSB and MRFC.

Following the departure of the Assessment Team, USAID/Malawi learned that the WB was examining the possibility of supporting the creation of a "Community-driven Mortgage Bank" whose idea dated back at least to 2002. The new institution would have the following characteristics:

- It would be a new commercial bank focused on agricultural lending as well as more "traditional" microfinance.
- Ownership would be a mixture of private and GoM shares with possibly some shares held by outside members, such as the International Finance Corporation (IFC)
- It would have a start-up capitalization of about $38 million but would also mobilize savings for on-lending

Reportedly, the WB has approved the concept paper describing this new bank and discussions with key stakeholders are ongoing at this time. Should it be fully accepted, implementation could begin by July 2005. As a further step in this process, a WB team was in Malawi during the month of January to further investigate Malawi's MF sector.

Should this initiative go through, its impact on Malawi's MF sector will be strong and immediately felt due to its immense size in relation to the existing market as well as the fact that its start-up will be fully subsidized. While MRFC may be hit the hardest initially, the semi-formal microcredit suppliers will also feel the impact of this new competitor.

To minimize the distortion this start-up will have on the market, it should price its financial services at market rates and compete on quality rather than price. Also, it is recommended that it increase its loan portfolio gradually so as to permit the market to absorb the additional supply.

H. Support Structures for Microfinance

There are few support structures for microfinance in Malawi. The absence of such things as credit bureaus and rating agencies is a function of the microfinance sector's early stage of development and their lack does not currently pose any constraint. However other structures would help the sector today and their absence constrains the sector from operating at peak effectiveness to provide vital financial services to the poor. Some of the more important ones follow.

H1. National ID card

Currently there is no national identification card of any kind, which MFIs pointed out is a problem to identify delinquent borrowers and to prevent them from securing another loan from the same or different MFI, or to take multiple loans. This inability to verify basic information on clients results in sub-optimal allocation of capital.

OIBM has worked around this problem by introducing a biometric card with fingerprint technology for its customers. The cost of this card is about MK 1000 per card, which becomes an impediment for most MFIs to adopting this technology.

H2. Domestic Network of MFIs

In countries such as Malawi where many microfinance practitioners do not generally follow best practices, a network of practitioners can assist the development of the sector in a sustainable manner and one of the keys ways it can do this is by adopting a members' Code of Conduct.

Malawi's microfinance practitioners have recently created the Malawi Microfinance Network (MAMN) and drafted a Code of Conduct that it shared with the Assessment Team. MAMN states that "… the Code will serve as a self-regulatory mechanism for microfinance institutions in Malawi."

While the Assessment Team supports the need for a Code of Conduct, it feels MAMN's code is far too general to serve as an effective guide to microfinance institutions. In addition, it lacks the specificity to be a self-regulatory mechanism for MFIs. For example, it lists a hodgepodge of ideas that members agree to uphold that include such things as "audited by a reputable/professional audit firm" and agreement to "protect their clients." Noticeably absent from this listing is agreement to charge full-cost recovery interest rates, provide full-disclosure to borrowers of their loan terms and conditions, or refrain from engaging in practices that distort the MF market.

The Code has a section on "Performance Standards" but instead of stating what these are, it lists the benefits of performance standards. According to MAMN, the benefits are:

- Encourage efficient utilization of financial and other resources
- Prevent leakages and other wastage of loan portfolio funds
- Ensure that microfinance institutions progress towards sustainability
- Promote transparency and accountability
- Promote wider outreach
- Ensure that microfinance institutions do not transfer the costs of their own inefficiencies to their clients

Unlike a well-formulated code of conduct that embodies best-practice principals, performance standards alone will not promote wider outreach, transparency or other items on this list. What performance standards can do is promote competition within the industry and serve as benchmarks of performance by permitting MFIs to compare themselves to other MFIs and to themselves over time.

A common role for microfinance networks elsewhere is advocacy with the government to help ensure the establishment of an enabling environment. However, five of MAMN's fourteen members are GoM parastatals and the GoM plays a governance role in key private sector MFIs. Given these conditions, it is hard to see how MAMN can effectively play an advocacy role to lobby the GoM. The same holds true for its ability to self-regulate. For example, the Assessment Team learned that at least one member, SEDOM, agreed to accept GoM loan funds that come with the condition that they be lent at less-than-market rates, in violation of MAMN's Code of Conduct.

H3. Apex MF Institutions

Other structures that could help the sector scale up are second-tier apex institutions that serve as a wholesaling or re-financing facility for microfinance institutions. MUSCCO plays this role for its affiliate SACCOs and it is a role envisioned for a transformed APIP program.

If support were available, there may be demand from non-MUSCCO SACCOs to assist them to establish a union of currently independent credit unions.

SECTION 6

Key Findings and Recommendations

This section provides ideas for the way forward that would help Malawi's microfinance sector to create an efficient, responsive and financially sustainable MF industry that could over time, be integrated into the financial system of the country.

A. Key Findings

The GoM plays a dominant role in Malawi's MF market with parastatals accounting for the lion's market share of microcredit and microsavings supply. The oversight regime is complicated with multiple ministries intimately involved in microfinance licensing, management and governance. Apart from private commercial banks, supervision of microfinance is limited and informal. Existing regulation of microfinance does not appear overly restrictive or in need of major change but there is an urgent need to expose key leaders in the sector to microfinance best practices.

The cooperative law does not adequately distinguish between credit unions and other associative structures nor does it address the unique needs of federated apex structures like MUSCCO. The need for cooperatives to reapply for yearly tax exemption subjects SACCOs and MUSCCO to inordinate financial viability risk each year.

Malawi is not burdened by a poor borrower credit culture as much as it is straddled with a poor microfinance supply culture created by years of market distortions promulgated by public sector involvement in microfinance and supported by donor funding. Since the GoM dominates and distorts the microfinance market, a first step to establishing a good credit culture will be to facilitate the withdrawal of the GoM as an operator of MFIs.

Overall weak capacity amongst microfinance suppliers poses a major constraint to scaling up the sector, which is needed if demand is to be satisfied. Management Information Systems (MIS) at MFIs are not providing managers accurate, timely, and appropriate information on clients and financial performance that are essential if MFIs are to be effective and financially self-sustaining. A greater use of technology by MFIs might help to reduce transaction costs and improve MIS performance over time but there is little activity on this front. High default rates are endemic in some lending programs and pose risks to healthy loan portfolios comprised of similar clients living the same area.

There is low market penetration of microfinance services, particularly with regards to savings mobilization, and credit is available in only a limited range of products and methodologies. Client dropout rates in excess of 50% indicate that financial service needs are not being met. Not one microfinance supplier is financially self-sustaining without subsidy and there appears to be only a few, under-developed support structures needed to build the microfinance industry's skills and performance (i.e., refinancing facilities, training firms, credit bureau, etc…). GoM-subsidized programs (APIP, Targeted Input Program, etc…) and institutions (MSB, MRFC, SEDOM, DEMAT, etc…) crowd out private sector firms who might otherwise attempt to satisfy the market at full-cost recovery prices.

Commercial banks provide services that enable microfinance providers to operate. They hold deposits of borrowers' cash collateral, cash checks to disburse loans, and accept repayments of loans by allowing deposits to the lender's account. If a commercial bank, like National Bank or Stanbic, were to close a rural office this would put enormous pressure on semi-formal MFIs and MRFC who depend on the banks' continued presence to manage excess liquidity securely and play a role in the delivery of microfinance services.

B. MF Sector Investment Principles

The Assessment Team believes that any investment in the sector should be governed by a set of principals to ensure that scarce resources are programmed in the most efficient and effective way. We suggest the following principals be applied:

1. *Adherence to free market principles.* Reliance on market forces, rather than subsidies, should be used to mobilize savings and encourage financial intermediaries to improve their loan disbursement and loan recovery. Subsidies, when used, should be temporary, transparent and linked to institution building and not to lending activities or to cover recurrent operating costs.

   Market distortions created by support to one MFI but not another with similar needs and justification should be avoided.

2. *Transparent selection process.* Criteria for investments should be clearly stated and available to anyone meeting the minimum requirements and serious about achieving sustainable operations. The selection process should employ review panels given clear guidelines on how to score investment proposals.

3. *Demand-driven.* Any assistance to the sector should be demand driven, based on the applicants' analysis of their needs. Financing entities should avoid imposing solutions on investment recipients. For meaningful change to occur and endure, capacity building assistance must be desired and valued by the client. External agencies should avoid imposing solutions on microfinance providers.

4. *Over time, foster local capacity for capacity-building services.* Although the market for "Business Services" for MFIs is likely to not be sufficiently developed at this time, building local capacity to deliver the services MFIs will need on an on-going basis must be part of the overall vision.

5. *Cost participation, increasing over time.* Requiring MFI clients to participate in the investment cost helps to ensure that assistance is demand driven and that the recipient takes ownership and responsibility for achieving results. Cost sharing from MFIs should be on an increasing basis as sustainability is improved.

6. *Continued assistance dependent upon performance.* Continued investment in a client should be contingent on their full commitment to the capacity-building exercise and to achieving maximum returns on investment.

C. The Way Forward

The Assessment Team has divided its options for the future into the categories of Policy, Regulatory, Legal, MFI Capacity, and Support Structures. To achieve long-term sustainability, the MF sector in Malawi will need to progress through four stages of change, which could take up to five years to achieve.

1. Improve the general level of knowledge about MF best practices and transparency in tracking and reporting performance.[16]

2. Build the institutional capacity at the governance, management, operations, and financial management levels that leads to greater industry competitiveness in a strengthened policy environment.

   Support the privatisation of MSB and MRFC by selective investments to build their institutional capacity and adherence to microfinance best practices.

3. Support the emergence of a critical number of MFIs performing at financially sustainable levels who might qualify for a regulated status that permits limited deposit taking and financial intermediation but falls short of a full commercial bank license.

4. Assist a limited number of MFIs to receive a full commercial bank license, expanding their networks both in breath and depth, including in rural areas. By this stage, the microfinance industry would be integrated into the main financial sector, with some MFIs moving up into the regulated world and some banks moving down to serve more of the microenterprise sector.

C1. Policy Level

Development and donor organizations should work with the national government to create an enabling environment for microfinance. This includes improving macroeconomic and sectoral policies. Direct GoM involvement in financial sector interventions should be avoided to prevent market distortions and to allow private sector provision of microfinance services using proven methodologies for sustainable microfinance delivery. Microfinance is a private sector activity and the role of government is best focused on creating and maintaining a fair and competitive marketplace framework. There is need for rigorous self-regulation among donors and government to halt 'bad practices' in microfinance that distort the market. A strong microfinance association could be an effective partner in broadening this best practices dialogue.

In rural finance programs, directed, subsidized credit results in the sub-optimal utilization of human and capital resources and discourages the flow of commercial credit into the market, thus reducing the creation of new financing options. Subsidies provided over a limited time, which are designed to build the management capacity of rural financial institutions, are preferred to providing cheap agricultural credit.

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[16] See USAID programs in Uganda (SPEED), Senegal (DES), Georgia, Mexico, and other countries

Some of the activities that could help create an improved policy environment are:

- *Policy awareness seminars and workshops.* These could be scheduled for interested donors, executives of MFIs, members of Parliament, Reserve Bank of Malawi, Ministries of Finance, Agriculture and Irrigation, Industry and Commerce, Youth and Gender, etc… Such seminars and workshops can be an effective forum to bring in outside experience to help explain to policy makers not only the benefits that a robust MF sector may offer to their country, but how to bring it about. These activities help develop a shared understanding of basic principles of microfinance (e.g. cost-covering interest rates, drivers of sustainability etc.) among the government and donor agencies. Given that the government is already in the midst of grappling with options for new microfinance regulation it is advisable that such events be organized in the near future. [17]
- *Exterior study tours, conferences and training.* Exterior study tours, conferences and training programs for select individuals to attend are other means to sensitize government stakeholders to the special needs of microfinance and microenterprise support. These have the advantage of bringing key leaders face to face with microfinance "success stories" as well as to look at the attributes of the policy environment in other countries where microfinance has flourished.
- *Development of performance standards.* The existence of performance standards at the level of donors, practitioners and policy makers help to ensure accountability at all levels of support to the microfinance sector and provide a means to measure compliance with best practice. [18]
- *Engagement of the Ministry of Finance.* The MoF should be engaged sooner rather than later into discussions on how to develop the microfinance sector. There should be strong and unified government support for microfinance from the top down as a key component of the national poverty reduction strategy. The MoF can provide a mandate to the RBM to champion the development of the microfinance sector and to insure over time that it is properly integrated into the financial system of the country.

C2. Regulatory Level

The Assessment Team learned that consideration was being given to draft a new Malawi MF regulatory framework. Given the presidential elections due in May 2004 it is advisable to refrain from developing any new frameworks ahead of the elections, as it may be vulnerable to political motivations. *<u>Further, considering the stage of development of the sector, the GoM focus should not be on external regulation of semi-formal MFIs</u>*.

Instead emphasis should be placed on creating strong systems of internal regulation through establishing: (i) appropriate governance structures, (ii) sound risk management, (iii) internal controls and audit standards, (iv) performing information systems, and (v) quality external

[17] There are many examples in Africa of countries that are building their microfinance sector successfully, including Uganda, Tanzania, Senegal, Ghana, South Africa, among others.

[18] See the common donor reporting tools developed by Chemonic's Joanna Ledgerwood for the SPEED project in Uganda, which was written up CGAP.

audits. As noted earlier, there are numerous examples of GoM representatives sitting on the boards of MFIs where, if they remain, they could see that these features are put into place. Other suggestions include:

- Best practice and standards of performance for MFIs need to be developed as a substitute for regulation. More importantly there needs to be some form of enforcement and sanctions for violating such standards that would serve as disincentive to market participants (e.g. disaffiliation from the MAMN, or revocation of legal status).
- Investments in consultancies to work directly with the RBM to improve understanding of issues unique to MFIs. Prudential regulation of non-deposit taking institutions should be avoided since the RBM has neither the resources nor the capacity to engage directly with regulation of credit-only MFIs who pose no systemic risk to the formal financial sector.
- Investigation can be made into the design of a payment or cash transfer system within Malawi. Access to safe and reliable payment services allow transfer of remittances between rural and urban areas, providing another method to increase investment and reduce vulnerability to risk.

C3. Legal Level

As a result of activities taken at the policy and regulatory levels outlined above, the Assessment Team feels that the following enabling changes in the legal environment would support the development of the sector:

- Repeal, amend and revise the Hire-Purchase Act, the Bills of Sale Act, the Land Registration Act, and the Sheriffs Act.
- Reconcile the tax structure of government employees and private sector employees completely to avoid creating distortions.
- Pass a law to exempt financial cooperatives from taxes without requiring annual applications of exemption.
- Amend the Cooperative Act to address distinctive differences between financial cooperatives and all others. At the same time, look into whether similar adjustments are needed to encompass the activities of a central financing, apex structure such as MUSCCO or the proposed APIP successor.

C4. Donor Level

Donor support has enabled the GoM to take a dominant position at all levels of Malawi's MF sector, which we believe has contributed to the slow development of the sector and inefficient allocation of human resources and capital.

The sector now finds itself at a critical crossroad where it is poised to make changes that will determine its direction and form for years to come. Some of the possible changes include: new regulatory legislation for microfinance; MRFC and MSB undergoing privatization; the APIP program transformed into an Apex structure; World Bank lobbying for a new microfinance bank that would dwarf existing MFIs. If not handled properly, these changes have the potential to retard the development of Malawi's MF sector as whole.

What seems to be starkly missing in Malawi's MF sector today is adequate donor coordination to support the microfinance sector development as an integral part of Malawi's formal financial system. Therefore, our recommendations for donors include the following:

1. *Donors and GoM need to look at the MF sector as a whole.* Donors (bilateral and multilateral) and the GoM should be thinking in broad sectoral terms instead of institution by institution. Donor support for non-commercially oriented and publicly owned microfinance providers, allows these institutions to engage in market distorting behaviors to the detriment of the sector as a whole.

2. *Consensus of major MF stakeholders is needed.* Donors should promote stakeholder meetings to build a solid and unified agreement on development policies and practices that will create an enabling environment for the MF sector. All stakeholders (donors/GoM/MFIs) should be on the same page as to what constitutes microfinance best practices. Best practice microfinance should be integrated into both the poverty alleviation strategy and the mainstream of the financial sector.

3. *Donor coordination.* Donors should coordinate assistance to the sector to ensure that a "financial systems approach" is followed whereby all constraints to the full development of the microfinance sector are removed.

C5. Financial Service Provider Level

We feel efforts should be concentrated on specialized MFIs that show promise of achieving sustainability within a reasonable period and have the potential for creating significant outreach, especially among the rural population.

Non-specialized Credit Programs

Retail-level financial services should be provided by specialized institutions. The inclusion of credit components managed by non-professionals within multi-activity social projects rarely achieves the expected results. Project units that channel credit components seldom have adequate technical capacity in microlending or a commitment to achieve long-term sustainability of the financial services provided. As a result, loan funds are quickly de-capitalized and credit services cease when the project ends. Subsidized credit delivered by unqualified providers crowd out the specialized credit and savings organizations that would otherwise be attracted to that market segment. Best practice MFIs seeking long-term viability and full-cost coverage will not compete in a market environment characterized by subsidized interest rates and high levels of delinquency.

In Malawi there is abundant evidence supporting these findings. The dismal repayment results posted by most of APIP's implementing partners, 90% of which are not specialized financial institutions[19] is one such example.

Therefore, the Assessment Team feels that the approach to take with non-specialized institutions, involved with the direct provision of microcredit should be:

- Refrain from including financial services in multipurpose projects but in cases where it is unavoidable, projects should implement credit components through local, specialized, single-purpose MFIs.
- If the credit component is managed by a non-specialized institution, investment should be made in training and technical assistance for staff responsible for the credit components; microfinance best practices should be utilized and inadvertent introduction of market distortions due to project subsidy should be avoided.
- Make technical assistance available to develop appropriate exit strategies for credit component at project's end.
- Do not invest in fixed assets, additional loan funds, or subsidize recurrent costs of credit operations for non-specialized credit institutions.

In the specific cases of the parastatals SEDOM and DEMAT, the Assessment Team recommends that these non-specialized GoM-subsidized microcredit providers should not operate lending programs and should instead concentrate on their other non-financial services. This is consistent with the section of the GoM Action Plan that states the private sector should supply the microfinance market demand.

Financial Cooperatives

Credit unions are one of the options available in Malawi to broaden the outreach of MF services in rural areas. The work of MUSCCO as an apex federation has raised the quality standard of its affiliates and increased their effectiveness and efficiency is evident. However, much work remains to be done not only with MUSCCO affiliates but with the independent SACCOs as well.

The SACCO weaknesses include:

- Low staff capacity
- Weak or disregarded accounting systems and controls leading to inaccurate records and difficulty reporting on performance
- Inadequate office security and poorly equipped offices
- Poorly designed financial products with an emphasis on credit products
- Dependence on volunteer management structures

[19] Non-specialized institutions are those that engage in many activities besides microcredit and cross subsidize operating costs. Included are parastatals such as DEMAT, SEDOM, ADMARC, etc… as well as NGOs such as CUMO, World Vision, Self-help International, Care, etc… It could also include private corporations or non-financial cooperatives who engage in providing loans (cash or in-kind; with interest charges or not)

- Difficulty achieving adequate scale due to membership restrictions related to the size of the group forming the cooperative
- Co-variant risk when all members of a cooperative have the same employer

Provided the SACCO is motivated to improve, investments can be made to alleviate constraints and lead to increases in membership, savings and loan portfolios, and revenue generation.

MUSCCO would benefit by investment in an improved information technology infrastructure, extending to the SACCO level, to allow affiliate data to be compiled and analyzed more quickly. The capacity of MUSCCO's audit department should be built so it could provide better supervisory oversight of affiliates; routine, internal audits should be randomly conducted by MUSCCO at all its affiliates. Physical security enhancements at SACCO offices should be made.

An improved MUSCCO training department would help ensure that affiliates meet the minimum performance requirements of the federation and reduce the number of disaffiliated SACCOs. It is in the interests of MUSCCO that all its affiliates adhere to the same high quality standards and that these same high standards are associated by the public with the MUSCCO federation. Along that same line, MUSCCO needs to develop its brand in the market and technical assistance could be used to come up with an appropriate marketing and communication strategy.

Private Sector Microfinance Companies

In Malawi this category is filled by PRIDE Malawi and FINCA. Both these structures have the potential to provide sustainable financial services throughout Malawi and are dedicated microcredit institutions. Both need to look at improving rates of client retention and might want to reexamine how well their products meet client demands, with an eye towards introducing new or modified products as needed. Because neither is legally able to intermediate savings, financial management is critical to maximize the return on capital. In situations of high inflation and depreciating currency the capacity of the accounting and finance departments must be high to maintain profitability and asset value.

PRIDE and FINCA would benefit by capacity building training, technical assistance, and equipment. However, since these institutions are well passed the startup stage, they should not require coverage of recurring costs or provision of additional loan capital. Depending on the results of an in-depth institutional assessments and client preference, the following areas are candidates for improvement:

- Ownership and governance
- Management Information Systems and Information Technology solutions (accounting systems, client database, report design and distribution, computer equipment…)
- Internal control and audit functions
- Financial management (liquidity management, risk analysis, budgeting, forecasting)
- Research, design, and introduction of demand-driven microcredit products (loans, insurance, leasing, mortgages, payment transfers, debit cards, etc…). Mobilization of savings in a manner allowed by the RBM
- Marketing and advertising campaigns

- Client satisfaction surveys
- Office equipment
- Study on the impact of HIV/AIDS on clients and program

Parastatals

Any effort to improve Malawi's microfinance sector cannot ignore MRFC and MSB given their sheer size, outreach, and importance to the nearly 300,000 poor who entrusted them with their savings. The first of a three-stage plan for privatization was just completed and the Assessment Team supports assistance to the privatization process by investing in areas needing immediate attention. Doing so will help move the process forward and build the institutional capacity of MRFC and MSB to operate without subsidy.

In the case of MSB some needed short-term actions are:

- Engage external consultants to reconstruct the depositors' database and transfer this data to an improved IT platform.
- Rationalize the current branch and agency network and design the operating structure and MIS processes to fit the resulting institutional configuration.
- Conduct a review of human resources to identify staffing shortfalls and training needs.

In the case of MRFC activities to undertake in the short-term include:

- Engage an exterior consultant to provide a non-biased evaluation of the optimum MRFC operating structure. Working with MRFC, the consultant will study, develop and help implement a plan to rationalize MRFC branches.
- According to the rationalized structure, reformulate MRFC's chart of accounts to permit analysis by cost and profit centers and to prepare consolidated financial statements meeting international standards.
- Conduct an independent review of MRFC's IT system, including an audit to test the adequacy of internal controls and IT security. Describe fixes needed to correct any deficiencies found.

For non-specialized parastatals such as DEMAT and SEDOM, assistance would best be confined to microfinance training. If either decides to spin-off its microcredit activity to a specialized private sector financial service provider, the provision of technical assistance in the form of consultancies to analyze and help implement the spin-off would be worthwhile.

Support Structures

Malawi Microfinance Network. There is a proposal to make the Malawi Microfinance Network (MAMN) the self-regulatory organization (SRO) for microfinance in Malawi. The Assessment

Team is uncomfortable with this proposition since we feel it does not have the constituency or the capacity to fulfill this role.

Self-regulation is often attractive because it is a lower-cost option than governmental regulation, allows for innovation, and helps reduce perceived risks in an industry. However more often than not, self-regulation is neither credible nor a fair arbiter of an established code of conduct. This sub-optimal outcome is clearly a risk in MAMN where five of the fourteen members are parastatals and two of these account for about 50% of microcredit and 88% of microsavings supply. When the dominant players are government-owned there is considerable opportunity for the introduction of market distorting, politicized policies and practices promulgated throughout the sector through the MAMN.

Furthermore, the MAMN body does not inspire confidence in its ability to ensure transparency in business and enforce a code of conduct uniformly and fairly, a feature essential for self-regulation to be effective. This is evidenced by a member (SEDOM parastatal) to accept to lend government money at below market rates in direct contravention with the Network's Code of Conduct.

Self-regulation can, at best, be only be a complement to stringent and rigorous internal regulation of MFIs based on good governance, use of sound risk management principles, internal control and audit, information systems and independent audits. External auditors must have a thorough understanding of the distinctive nature of MF business and knowledge of best practices in MF auditing. (CGAP Tool for Auditing MFIs).

Microfinance networks such as MAMN can play several important roles in the promotion of sustainable microfinance systems. They can spread awareness of key features of the financial systems approach to microfinance policy makers, development agencies and donors, and practitioners. They can help to integrate microfinance within the general financial sector and ensure complementary approaches are considered. In addition, they can collect and disseminate microfinance "best practices" to accelerate the outreach and financial self-sustainability of their member MFIs in terms of cost-saving technological developments, creation of linkages to expand outreach, and lessons learned from transformation and experiences.

MAMN could carry out these roles, if it had a core membership that was committed to best-practice microfinance, which is not currently the case. However, as part of a broad investment program to professionalize the MF sector, the core membership would be built and MAMN could become an appropriate structure to support. If this were the case, some of the possible activities envisioned in the short-term for MAMN include:

1. Gather and disseminate information on local adaptation of best practices.
2. In consultation with others, lead the development of standards and ratings for Malawian MFIs including the adaptation of standardized accounting and reporting formats.
3. Receive member MFI performance indicator data and financial statements. Compile the data to inform members and other stakeholders on the development of the MF sector in Malawi and its socio-economic impact.

4. Be a contact point educating donors to provide non-distortionary support to the sector.

5. Once the GoM has less direct involvement in ownership and direct governance of MFIs, serve as an interface between the microfinance service providers and relevant government ministries and departments.

6. Carry out relevant research and development on issues important to the development of the sector.

7. Develop linkages with other microfinance networks elsewhere to share lessons-learned.

8. Develop and implement, or assist another to develop, a Credit Bureau for micro and small enterprise borrowers.

Registrar General's Office. As described in Section 3(C5), and elsewhere in this report, the Registrar General's Office in Blantyre performs a key role in the registration of loan collateral taken by microcredit providers. The disarray at the Registrar General's office that operates on a strictly manual basis contributes to backlog and delays in processing claims on collateral. The fact that there are no back-ups of documents and no provision against destruction of documents through fire and/or natural disaster means that financial institutions are at serious risk of non-collection of debts secured by collateral stored at this one office.

For these reasons, the Registrar General's Office should find a way to improve its registration, filing, and security backup of documents important to microfinance providers.

SECTION 7

Areas for Research

In addition to our earlier thoughts, additional topics that have a broad audience with the potential to either encourage the adoption of best practices in the sector and/or can enlarge the microfinance market are the following:

- Conduct a market study to quantify and profile the demand for microsavings services in both rural and urban areas of Malawi. This research could be combined with an evaluation of demand for other products such as: remittances, check cashing, social security, and micro-insurance.

- Conduct a comparative study of methodologies for financial service deliveries in Malawi, including client satisfaction surveys to profile gaps in microfinance supply.

ANNEX A

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ANNEX B

List of Contacts

Concern Universal
Samson Hailu, Country Director

Concern Universal Microfinance Organization (CUMO)
Philip Acton, Technical Advisor

Department for International Development (DFID) –
Robert Rudy, Private Sector Development Advisor

Development of Malawi Enterprises Trust (DEMAT) –
Judith Chirwa, Acting General Manager; Boniface P. Mbundungu, Regional Manager;

Ecumenical Church Loan Fund (ECLOF)
Priscilla Mdala, Director; Dean T. Mushani, Program Accountant

Finance for International Community Assistance (FINCA)
Joseph Mononga, Managing Director; Jane Butao-Mlelemba, Operations Manager

Malawi Savings Bank (MSB)
Ian Charles Bonongwe, General Manager; Samuel J.C. Phiri, Head of Information Technology

Ministry of Commerce and Industry (MoCI)
Christopher C. Kachiza, Director of Industry; Macleod Tsilizani, Director of SMEs and Cooperatives; Christophe Kachiza; Alfred Vilili

Ministry of Finance (MoF)
Mr. George Kamba, Dept. of Economic Affairs

Malawi Agricultural Inputs Markets Development Project (AIMS)
Herschel Weeks, Chief of Party (USAID Project)

Malawi Hotels SACCO Ltd.
Henock Chakhaza, Manager

Malawi Microfinance Network
C. Chimuji, Secretary

Malawi Union of Savings and Credit Cooperatives, Ltd.
Sylvester Kadzola, Chief Executive; Bentry MKandawire, Information Technology Manager

Malawi Rural Finance Company Limited (MRFC)
Silas M. Murotho, General Manager; Falyson Kaimila

Malawi Rural & Microfinance Programm
Claude J.R. Guillemain, Microfinance Advisor to the Ministry of Agriculture, Irrigation, and Food Security; Benson Mtuwa, Regina Mwamdemange

National Association of Business Women (NABW)
Mary Malunga, Executive Director; Lackson Kapito, National Credit Coordinator

National Smallholder Farmers' Association of Malawi (NASFAM)
Betty Chinyamunyamu, Nascent Director; Helen Magombo, Finance Manager; John Engle, Former Chief of Party

National Bank of Malawi (NBM)
Augustine Chithenga

Opportunity International Bank of Malawi (OIBM)
Rodger Voorhies, Chief Operating Officer; Francis Pelekamoyo, Chief Executive Officer; Ken Appenteng-Mensah, Head of Microfinance Banking, Wilson Moleni, Product Development Officer

PRIDE Malawi Ltd.
Maynard Sawerengera, General Manager

Privatisation Commission
Jimmy K. Lipunga, Director of Finance

Reserve Bank of Malawi (RBM)
Neil Nyirongo, Deputy General Manager; Mathanga, Manager Domestic Money Markets; Noel MKulichi Chief Examiner Off-site Banking Supervision Department

Small Enterprise Development of Malawi Enterprise Trust (SEDOM)
Esther Chioka, General Manager; Stewart Kondowe; Maere Aly

Stanbic Bank
William Chatsala, Head Wholesale Banking

U.S. Embassy
Marc Dillard, Economics Officer

U.S. Agency for International Development (USAID)
Roger Yochelson, Mission Director; Joseph VanMeter, Deputy Mission Director and Program Development Officer; Lawrence Rubey, Sustainable Economic Growth Team Leader; Richard Kimball, Private Sector Advisor; Autman Tembo, Natural Resource Management Specialist

United Nations Capital Development Fund (UNCDF)
Kiendel Burritt

United Nations Development Programme (UNDP)
Zahra M. Nuru, Resident Representative; Bill Chanza, National Program Officer

World Bank
Stanley Hiwa, Senior Agricultural Economist; Francis M'Buka, Agricultural Services Specialist

ANNEX C

MFI Questionairre

Name of institution:

Headqarter's address: **Tel**

Contact prson: **Fax:**

Email

NOTE: Data below is self-reported and unaudited by Assessment Team

LINE #			for the year ending Dec0	for the year ending Dec2	for the 9 months ending Sep
A. INSTITUTIONAL PROFILE					
1	Total Assets	Includes all asset accounts net of all contra-asset accounts, such as the loan-loss allowance and accumulated depreciation.			
	% change				
2	Total Loan Portfolio	The outstanding principal balance of all outstanding loans, including current, delinquent, and restructured loans, **bt not bans witten off**. It does not include interest receivable.			
	% change				
3	Total Clients	The total number of active clients plus the number of individualswho are neither active borrowers nor depositors, but who remain members or are otherwise using the services of an MFI. For MFIs following a group methodology, **this counts algroupmembrs,hether they hae a ban outstanding or not**.			
4	Total Borrowers	The number of individuals who currently have an outstanding loan balance with the MFI or are primarily responsible for repaying any loan outstanding. This number should be based on the number of individual borrowers **and not** the number of groups.			
	AVG loan	total loan portfolio/total borrowers			
5	Total # Groups	Total number of groups, if institution follows a group savings and/or lending model.			
6	Group Size	Enter the maximum and minimum number of members per each group, if group methodology is followed.			
7	Portfolio at Risk*	The value of all loans outstanding that have one or more installments of principal past due. **This item includes the entire unpid pincipl balnce,** including both past-due and future installments, but not accrued interest. It does not include loans that have been restructured or rescheduled.			
8	Total Staff	The number of individuals who are actively employed by an MFI including contract employees or advisors who dedicate the majority of their time to the MFI, even if they are not on the MFI's roster of employees.			
9	Net Income	Total revenue **less** total expenses, operating and non-operating, including all donations and taxes.			
0	ROA (Return on Assets)	Total operating revenue **less** all expenses related to the MFI's core financial service operations, including total operating expense,financial expense and loan-loss provision expense **diided by** Total Assets			
1	ROE (Return on Equity)	Total operating revenue **less** all expenses related to the MFI's core financial service operations, including total operating expense, financial expense and loan-loss provision expense **diided by** Total Equity			

Name of Board Membr	Position on the Board	Please note any stakholder interests represented by the bard membr	Position outside of bard	Telephone	Email
Add rows as needed					

B. FINANCIAL STROTUE					
2	Net loans / Total Assets	The total loan portfolio (#2) less the loan-loss provision diided by total assets (#1)	92%	83%	91%
3	Investments / Total Assets	Financial assets (cash+net loan portfolio+currency investments) owned by the MFI diided by total assets (#1)	93%	94%	91%
4	Deposits / Total Assets	The total value of funds on deposit at an MFI that are payable on demand to a depositor. This item includes any current, checking, or savings accounts that are payable on demand. It also includes time deposits which have a fixed maturity date diided by total assets (#1)	1%	11%	4%
5	Share Capital / Total assets	Shareholders' equity diided by total assets (#1)	107%	168%	166%
6	External Borrowing / Total Assets	Funds received by an MFI through a loan agreement or other contractual agreement that carry interest rate diided by total assets (#1)	N/A	N/A	N/A
7	Capital reserves / Total Assets	Portion of equity reserved i.e. not available for lending diided by total assets (#1)	N/A	N/A	N/A

C. PROFITABILITY					
8	Portfolio yield	Cash collected as financial revenue from loan portfolio diided by Average gross loan portfolio ((Avg. portfolio = Portf. On Jan 1 + Portf. on Dec 31) divided by 2)			
9	Interest paid on deposits	All interest paid on deposi accounts of clients held by the MFI			
0	Interest paid on shares	Cash payments made to shareholders			
2	Operating costs / AVG gross portfolio	Operating costs including all administrative and personnel expenses diided by Average gross portfolio ((Portofolio Jan 1+ Port. Dec 31) / 2)			
2	Return on AVG assets	Total operating revenue less all expenses related to the MFI's core financial service operations, including total operating expense,financial expense and loan-loss provision expense diided by Average assets ((Assets Jan 1+ Assets Dec 31) / 2)			

D. PORTFOLIO AGING REPORT *(Note: please change days to reflect the institutions' provision policy as it is practiced.)*			At Dec0	At Dec2	At Se3
3	Vlue of bans pst pst due: prtfolo at risk	1-0 days			
		3-0 days			
		9-0 days			
		1 days <1 yr.			
		Totalprtfolo at risk Totalprtfolo % of Portfolo at risk			
4	Number of bans pst due: prtfolo at risk	1-0 days			
		3-0 days			
		9-0 days			
		1 days <1 yr.			

E. CRRENT FNDING SORCES FOR LOAN PORTFOLIO		Avg. interest rate %		Duration
Source	Amount MW	fixed	varab	
Malawi Govt. Loans				
Central Bank Loans				
Mandatory Savings				
Voluntary Savings				
Commercial Borrowings				
Bond Issue				
Equity				
Donor Loans 1) 2)				
Donor Grants 1) 2)				

ANNEX D

Completed Questionairres

Name of institution: DEMAT
Headquarter's address: P.O. Box 1540; Blantyre **Tel:+265 1 623 717**
Contact person:

NOTE: Data below is self-reported and unaudited by Assessment Team

LINE #		for the year ending Dec-01	for the year ending Dec-02	for the 9 months ending Sep-03
A.	**INSTITUTIONAL PROFILE (values in Malawi Kwacha**			
1	Total Assets	4,320,000	5,500,000	5,200,000
	% change		127%	95%
2	Total Loan Portfolio	6,091,847	6,441,734	5,555,099
	% change		106%	86%
3	Total Clients	4,000	4,500	4,300
4	Total Borrowers	700	600	550
	AVG loan	8,703	10,736	10,100
5	Total Number of Groups	300	320	290
6	Group Size	5 and 10	5 and 10	10 and 12
7	Portfolio at Risk	500,000	600,000	400,000
8	Total Staff	10	10	10
9	*Net Income**	*500,000*	*700,000*	*325,000*
10	ROA (Return on Assets)			
11	ROE (Return on Equity)	N/A	N/A	N/A

**** It appears that DEMAT reported GROSS income and not NET.***

B.	**FINANCIAL STRUCTURE**	
12	Net loans / Total Assets	No information provided
13	Investments / Total Assets	
14	Deposits / Total Assets	
15	Share Capital / Total assets	
16	External Borrowing / Total Assets	
17	Capital reserves / Total Assets	

C.	**PROFITABILITY**	
18	Portfolio yield	No information provided
19	Interest paid on deposits	
20	Interest paid on shares	
21	Operating costs / AVG gross portfolio	
22	Return on AVG assets	

D. PORTFOLIO AGING REPORT
(Note: please change days to reflect the institutions' provision policy as practiced.)

			At Dec-01	At Dec-02	At Sep-03
23	**Value of loans past past due: (portfolio at risk)**	**1 - 90 days**	No information provided		
		91 - 180 days			
		181 - 365 days			
		>365			
	Total portfolio at risk (estimated from part A.)		500,000	600,000	400,000
	Total portfolio		6,091,847	6,441,734	5,555,099
	% of Portfolio at risk		8.2%	9.3%	7.2%

E. CURRENT FUNDING SOURCES FOR LOAN PORTFOLIO

Source	Amount (KW)	Avg. interest rate (%) fixed	Avg. interest rate (%) variable	Duration
Donor Loans (name):	No information provided			

Name of institution: Ecumenical Church Loan Fund
Headquarter's address: Namiwawa,Chilembwe Road, P O Box 1897 Bla Tel:+265 1 623 717
Contact person: Priscilla M'dala, Director 09 926951 eclofmw@africa-online.net

Email:eclofmw@africa-online.net

NOTE: Data below is self-reported and unaudited by Assessment Team

LINE #		for the year ending Dec-01	for the year ending Dec-02	for the 9 months ending Sep-03
A.	**INSTITUTIONAL PROFILE (currency in Malawi Kwacha)**			
1	Total Assets	28,644,478	22,082,417	24,162,577
	% change		77%	109%
2	Total Loan Portfolio	32,023,474	36,207,733	40,987,194
	% change		113%	113%
3	Total Clients	1,300	1,600	2,000
4	Total Borrowers	900	1,118	1,500
	AVG loan	35,582	32,386	27,325
5	Total Number of Groups	258	278	467
6	Group Size	max 10,min 5	max 10,min 5	max 10,min 5
7	*Portfolio at Risk**	*15,693,693*	*20,505,891*	*13,524,036*
8	Total Staff	7	7	7
9	Net Income	(3,891,374)	(15,490,698)	(1,674,253)
10	ROA (Return on Assets)	-14%	-70%	-7%
11	ROE (Return on Equity)	N/A	N/A	N/A

**** Self-reported and contradicted in Aging Report below which is thought to be correct***

	B. FINANCIAL STRUCTURE			
12	Net loans / Total Assets	92%	83%	91%
13	Investments / Total Assets	93%	94%	91%
14	Deposits / Total Assets	1%	11%	4%
15	Share Capital / Total assets	107%	168%	166%
16	External Borrowing / Total Assets	N/A	N/A	N/A
17	Capital reserves / Total Assets	N/A	N/A	N/A

	C. PROFITABILITY			
18	Portfolio yield	26%	15%	15%
19	Interest paid on deposits	N/A	N/A	N/A
20	Interest paid on shares	1,248,000	1,724,599	880,000
21	Operating costs / AVG gross portfolio	23%	21%	12%
22	Return on AVG assets	-16%	-45%	-4%

D. PORTFOLIO AGING REPORT
(Note: please change days to reflect the institutions' provision policy as practiced.)

			At Dec-01	At Dec-02	At Sep-03
23	**Value of loans past past due: (portfolio at risk)**	**1 - 90 days**	31,387	43,404	1,221,037
		91 - 180 days	125,550	159,765	596,783
		181 - 365 days	1,255,495	1,485,724	2,364,439
		>365	14,281,261	17,416,007	16,442,762
	Total portfolio at risk		15,693,693	19,104,900	20,625,021
	Total portfolio		32,023,474	36,207,733	40,987,194
	% of Portfolio at risk		49%	53%	50%
24	**Number of loans past due: (portfolio at risk)**	**1 - 90 days**	3	3	44
		91 - 180 days	4	4	5
		181 - 365 days	15	19	20
		>365	133	176	178
	Total number of loans past due		155	202	247

E. CURRENT FUNDING SOURCES FOR LOAN PORTFOLIO

Source	**Amount (KW)**	**Avg. interest rate (%)** fixed	variable	**Duration**
Donor Loans (name):				
1) ECLOF International	40,219,455	See note #2 below		

Name of institution: FINCA Malawi
Headquarter's address: Kapeni Building; 382 Blatyre **Tel:+265 1 622256**
Contact person: Joseph Mononga, G. Manager Joseph_Mononga@fincamalawi.org

NOTE: Data below is self-reported and unaudited by Assessment Team

LINE #	*All values are in Kwarcha*	for the year ending Aug-01	for the year ending Aug-02	for the year ending Aug-03
A.	**INSTITUTIONAL PROFILE**			
1	Total Assets	141,885,888	100,634,000	110,945,000
	% change		71%	110%
2	Total Loan Portfolio	73,360,000	60,869,000	85,157,000
	% change		83%	140%
3	Total Clients	20,364	19,427	18,026
4	Total Borrowers	20,364	19,427	18,026
	AVG loan	3,602	3,133	4,724
5	Total Number of Groups	903	752	880
6	Group Size	15 - 30	15 - 30	15 - 30
7	Portfolio at Risk	7,409,360	8,278,184	2,895,338
8	Total Staff	143	157	111
9	Net Income	11,743,000	(22,608,000)	(32,199,000)
10	ROA (Return on Assets)	8.3%	-22.5%	-29.0%
11	ROE (Return on Equity)	12.4%	-31.9%	-84.0%

B.	**FINANCIAL STRUCTURE**			
12	Net loans / Total Assets	50.4%	54.0%	75.4%
13	Investments / Total Assets	83.2%	77.7%	85.4%
14	Deposits / Total Assets	0.01%	0.02%	0.06%
15	Share Capital / Total assets	66.6%	70.3%	34.6%
16	External Borrowing / Total Assets	12.9%	14.8%	42.0%
17	Capital reserves / Total Assets	7.9%	10.1%	9.0%

C.	**PROFITABILITY**			
18	Portfolio yield	133%	105%	97%
19	Interest paid on deposits	9,786,000	2,635,000	8,340,000
20	Interest paid on shares	3,844,000	14,206,000	12,898,000
21	Operating costs / AVG gross portfolio	113%	150%	133%
22	Return on AVG assets	8%	-19%	30%

FINCA PERFORMANCE INDICATORS

D. PORTFOLIO AGING REPORT

(Note: please change days to reflect the institutions' provision policy as practiced.)

			At Dec-01	At Dec-02	At Sep-03
23	**Value of loans past past due: (portfolio at risk)**	**1 - 30 days**	67,410,000	52,591,000	83,803,000
		31 - 60 days	2,899,000	942,000	999,000
		61 - 90days	1,084,000	867,000	167,000
		91 - 180	1,967,000	4,486,000	149,000
		>180	-	1,983,000	
	Total portfolio at risk		73,360,000	60,869,000	85,118,000
	Total portfolio		73,360,000	60,869,000	85,157,000
	% of Portfolio at risk		100%	100%	100%

E. CURRENT FUNDING SOURCES FOR LOAN PORTFOLIO

Source	**Amount (KW)**	**Avg. interest rate (%)**		**Duration**
		fixed	**variable**	
Malawi Govt. Loans 1) Local Government	72,000,000		40% of market rate	2 years
Mandatory Savings	4,708,000	18%		
Commercial Borrowings	40,000,000		Base lending rate	1 year
Equity	37,552,000	N/A	N/A	
Donor Grants (name): 1) Local Government	703,000	N/A	N/A	

Name of institution: PRIDE Malawi
Headquarter's address: **Tel:+265 1 633453**
Contact person: Maynard Sawerengera, General Mar **09 926951** **Fax: +265 1 625022**
Email: sawerengera@pridemalawi.com

NOTE: Data is self-reported or taken from reports and unaudited by Assessment Team

LINE #		for the year ending Dec-01	for the year ending Dec-02	for the 10 months ending Sep-03
A.	**INSTITUTIONAL PROFILE**	**(Values in Malawi Kwacha)**		
1	Total Assets	60,222,856	81,302,256	86,616,012
2	Total Loan Portfolio	42,771,036	62,404,029	62,670,040
3	Total Clients	9,185	7,748	6,757
4	Total Borrowers	6,021	5,376	4,560
	AVG loan	7,104	11,608	13,743
5	Total Number of Groups	212	263	213
6	Group Size	50	50	50
7	Portfolio at Risk*	7.22%	5.45%	1.97%
8	Total Staff	57	68	59
9	Net Income	34,843,625	4,758,940	3,986,248
10	ROA (Return on Assets)	-74%	-64%	-30%
11	ROE (Return on Equity)	-106%	-112%	-52%
B.	**FINANCIAL STRUCTURE**			
12	Net loans / Total Assets	69.77%	72.66%	69.51%
13	Investments / Total Assets	77.25%	85.70%	86.22%
14	Deposits / Total Assets	26.24%	31.58%	33.12%
15	Share Capital / Total assets	not reported		
16	External Borrowing / Total Assets			
17	Capital reserves / Total Assets			
C.	**PROFITABILITY**			
18	Portfolio yield	92%	70%	59%
19	Interest paid on deposits	0	1,522,912	939,275
20	Interest paid on shares	0	0	0
21	Op. costs / AVG gross portfolio	270%	160%	101%
22	Return on AVG assets	-105%	-74%	-31%

PRIDE MALAWI

D. PORTFOLIO AGING REPORT

(Note: please change days to reflect the institutions' provision policy as practiced.)

			At Dec-01	At Dec-02	At Sep-03
23	**Value of loans past past due:**	**1 - 30 days**	3,245,103	3,403,848	3,301,851
		31 - < 1 yr	598	36,211	12,333
	Total portfolio at risk		3,304,870	7,024,941	4,535,155
	Total portfolio		42,771,036	62,404,029	62,670,040
	% of Portfolio at risk		8%	11%	7%

E. CURRENT FUNDING SOURCES FOR LOAN PORTFOLIO

Source	Amount	Avg. interest rate (%) fixed	Avg. interest rate (%) variable	Duration
Malawi Govt. Loan				
1) Ministry of Gender	30 million MK	?	?	to begin in 2004
2) Ministry of Fisheries	US$ 1.2 million	?	?	Not yet signed
Mandatory Cash Collateral (Loan Insurance Fund				
Commercial Borrowings 1) National Bank of Malawi	30 million MK		61% effective	letter of credit
Donor Loans (name):				
1) Cordaid	500,000 Euros equivalent in MK		inflation rate + 3%	6 yrs payback with 1 yr grace
Donor Grants (name): 1) UNCDF	~US$1,400,000			Grant

Name of institution: FINCA Malawi
Headquarter's address: Kapeni Building; 382 Blatyre **Tel:+265 1 622256**
Contact person: Joseph Mononga, G. Manager Joseph_Mononga@fincamalawi.org

NOTE: Data below is self-reported and unaudited by Assessment Team

LINE #	*All values are in Kwarcha*	for the year ending Aug-01	for the year ending Aug-02	for the year ending Aug-03
A.	**INSTITUTIONAL PROFILE**		**Malawi Kwarcha**	
1	Total Assets	413,665,483	494,687,933	565,658,813
	% change		120%	114%
2	Total Loan Portfolio	290,445,650	344,771,864	363,057,950
	% change		119%	105%
3	Total Clients	62,602	49,629	58,668
4	Total Borrowers	N/A	N/A	18,963
	AVG loan	N/A	N/A	19,146
5	Total Number of Groups	N/A	N/A	N/A
6	Group Size	N/A	N/A	N/A
7	Portfolio at Risk	2,573,017	10,897,316	15,205,596
8	Total Staff	N/A	N/A	N/A
9	Net Income	37,961,431	49,447,095	37,123,320
10	ROA (Return on Assets)	9.2%	10.0%	6.6%
11	ROE (Return on Equity)	11.0%	11.8%	7.8%

B.	**FINANCIAL STRUCTURE**			
12	Net loans / Total Assets	50.4%	54.0%	75.4%
13	Investments / Total Assets	83.2%	77.7%	85.4%
14	Deposits / Total Assets	0.01%	0.02%	0.06%
15	Share Capital / Total assets	66.6%	70.3%	34.6%
16	External Borrowing / Total Assets	12.9%	14.8%	42.0%
17	Capital reserves / Total Assets	7.9%	10.1%	9.0%

C.	**PROFITABILITY**		**Malawi Kwarcha**	
18	Portfolio yield	133%	105%	97%
19	Interest paid on deposits	9,786,000	2,635,000	8,340,000
20	Interest paid on shares	3,844,000	14,206,000	12,898,000
21	Operating costs / AVG gross portfolio	113%	150%	133%
22	Return on AVG assets	8%	-19%	30%

D. PORTFOLIO AGING REPORT

(Note: please change days to reflect the institutions' provision policy as practiced.)

			At Dec-01	At Dec-02	At Sep-03
23	**Value of loans past past due: (portfolio at risk)**	**1 - 30 days**	67,410,000	52,591,000	83,803,000
		31 - 60 days	2,899,000	942,000	999,000
		61 - 90days	1,084,000	867,000	167,000
		91 - 180	1,967,000	4,486,000	149,000
		>180	-	1,983,000	
	Total portfolio at risk		73,360,000	60,869,000	85,118,000
	Total portfolio		290,445,650	344,771,864	363,057,950
	% of Portfolio at risk		25%	18%	23%

E. CURRENT FUNDING SOURCES FOR LOAN PORTFOLIO

Source	Amount (KW)	Avg. interest rate (%) fixed	Avg. interest rate (%) variable	Duration
	Not provided			

Name of institution: Finance Trust for the Self Employed (FTSE); World Vision
Headquarter's address: P.O. Box 1040, Mzuzu **Tel:+265 1 884 1811**
Contact person: Albert Thwinda

Email: albert_thwinda@wvi.org

NOTE: Data is self-reported or taken from reports and unaudited by Assessment Team

LINE #		for the year ending Dec-01	for the year ending Dec-02	for the 10 months ending Sep-03	for the year ending Dec-03
A.	**INSTITUTIONAL PROFILE**	**(Values in US Dollars)**			
1	Total Assets	240,101	53,173	170,407	417,531
2	Total Loan Portfolio	249,199	38,133	111,013	199,296
3	Total Clients	2,840	869	1,375	2,760
4	Total Borrowers	2,693	605	1,211	2,583
	AVG loan	93	63	92	77
5	Total Number of Groups	110	59	140	351
6	Group Size	Max 25/Min 5	Max 25/Min 5	Max 25/Min 5	Max 25/Min 5
7	Portfolio at Risk	119,962	3,334	10,227	27,002
8	Total Staff	17	11	17	17
9	Net Income	(25,540)	19,416	4,685	9,791
10	ROA (Return on Assets)	-11%	37%	3%	2%
11	ROE (Return on Equity)	Not reported			

B.					
12	Net loans / Total Assets	104%	72%	65%	48%
13	Investments / Total Assets	87%	3%	30%	25%
14	Deposits / Total Assets	Not reported			
15	Share Capital / Total assets				
16	External Borrowing / Total Assets	-	-	0.20	0.29
17	Capital reserves / Total Assets	-	-	-	-

C.	**PROFITABILITY**				
18	Portfolio yield	3%	12%	52%	15%
19	Interest paid on deposits	0	-	-	0
20	Interest paid on shares	0	0	0	0
21	Op. costs / AVG gross portfolio	5%	214%	178%	126%
22	Return on AVG assets	not reported			

D. PORTFOLIO AGING REPORT

			At Dec-01	At Dec-02	At Sep-03	At Dec-03
23	**Value of loans past past due: (portfolio at risk)**	**1 - 30 days**	***15,659***	***2,737***	***3,433***	***13,396***
		31 - 60 days	***59,327***	**-**	***1,809***	***3,078***
		61 - 90 days	***13,491***	**-**	***261***	***2,882***
		91 - 120 days	***5,118***	**-**	***568***	***2,188***
		121 - 180 days	***26,367***	***315***	***1,749***	***943***
		>181 days < 1 yr.	-	**282**	**2,407**	**4,515**
	Total portfolio at risk		119,962	3,334	10,227	27,002
	Total portfolio		249,199	38,133	111,013	199,296
	% of Portfolio at risk		48%	9%	9%	14%
24	**Number of loans past due: (portfolio at risk)**	**1 - 30 days**	***9***	***32***	***15***	***35***
		31 - 60 days	***17***	**-**	***6***	***13***
		61 - 90 days	***9***	**-**	***2***	***9***
		91 - 120 days	***7***	**-**	***1***	***7***
		121 - 180 days	***10***	***13***	***11***	***6***
		>181 days < 1 yr.	**-**	***16***	**-**	***12***
	Total loans past due		***52***	***61***	***35***	***82***

E. CURRENT FUNDING SOURCES FOR LOAN PORTFOLIO		**Avg. interest rate (%)**		**Duration**
Source	**Amount**	**fixed**	**variable**	
Malawi Govt. Loans (name Ministry)				
1) Local Govt Ministry	$123,151	18%		
Mandatory Savings	$21,418			

Name of institution: Opportunity International Bank of Malawi
Headquarter's address: Kamuzu Process, Lilongwe
Contact person: Rodger Voorhies **Tel:** **01-758-888**
Email: rvoorhies@opportunity.net

NOTE: Data below is self-reported and unaudited by Assessment Team

LINE #		for the year ending Dec-01	for the year ending Dec-02	for the 9 months ending Sep-03
A.	**INSTITUTIONAL PROFILE** (currency in Malawi Kwacha)			
1	Total Assets	not in operation		251,000,000
	% change			
2	Total Loan Portfolio			5,400,000
	% change			#DIV/0!
3	Total Clients			3,260
4	Total Borrowers			162
	AVG loan			
5	Total Number of Groups			11
6	Group Size			12
7	*Portfolio at Risk**			-
8	Total Staff			35
9	Net Income			27,000,000
10	ROA (Return on Assets)			-0.1
11	ROE (Return on Equity)			-0.12

**** Self-reported and contradicted in Aging Report below which is thought to be correct***

B.	**FINANCIAL STRUCTURE**			
12	Net loans / Total Assets	not in operation		2%
13	Investments / Total Assets			59%
14	Deposits / Total Assets			12%
15	Share Capital / Total assets			86%
16	External Borrowing / Total Assets			0%
17	Capital reserves / Total Assets			-

C.	**PROFITABILITY**			
18	Portfolio yield	not in operation		27%
19	Interest paid on deposits			769,000
20	Interest paid on shares			-
21	Operating costs / AVG gross portfolio			19.25
22	Return on AVG assets			-20.8%

D. PORTFOLIO AGING REPORT

(Note: please change days to reflect the institutions' provision policy as practiced.)

			At Dec-01	At Dec-02	At Sep-03
23	**Value of loans past past due: (portfolio at risk)**	**1 - 90 days**			nil
		91 - 180 days			nil
		181 - 365 days			nil
		>365			nil
	Total portfolio at risk				nil

E. CURRENT FUNDING SOURCES FOR LOAN PORTFOLIO

Source	Amount (KW)	Avg. interest rate (%) fixed	Avg. interest rate (%) variable	Duration
Mandatory Savings				500,000
Voluntary Savings				28,500,000
Equity		n/a	n/a	215,000,000
Donor Loans (name):				
1) USAID	US$ 700,000			
2) DFID	600,000 British pounds			

ANNEX E

Geo-reference Data & Contact Information

NAME		TYPE OF OFFICE				GEO REFERENCE				LOCATION			
MFI	Institution's Name for the Office	Head Office	Reg. Office	Branch	Other	Latitude	Longitude	GPS	Est.	P.O. Box	City	District	Region
CUMO	COMU Dedza		X	X		34.33608	-14.37918		X		Dedza	Dedza	Central
CUMO	Concern Universal	X				34.99737	-15.78474	X		1535	Blantyre	Blantyre	Southern
DEMAT	Balaka			X		34.95847	-14.98571		X	248	Balaka	Balaka	Southern
DEMAT	Central Regional Office		X			33.76337	-13.9856	X		555	Lilongwe	Lilongwe	Central
DEMAT	Chitipa			X		33.26484	-9.69955		X	21	Karonga	Karonga	Northern
DEMAT	Dedza			X		34.3291	-14.37221		X	104	Dedza	Dedza	Central
DEMAT	Ekwendeni			X		33.88117	-11.36842		X	239	Ekwendeni	Mzimba	Northern
DEMAT	Head Office	X				35.05928	-15.81445	X		1540	Blantyre	Blantyre	Southern
DEMAT	Karonga			X		33.93646	-9.93228		X	21	Karonga	Karonga	Northern
DEMAT	Kasunu			X		33.48012	-13.0354		X	242	Kasungu	Kasungu	Central
DEMAT	Lilongwe North			X		33.77484	-13.97412		X	555	Lilongwe	Lilongwe	Central
DEMAT	Mangochi			X		35.27035	-14.48604		X	134	Mangochi	Mangochi	Southern
DEMAT	Mchinji			X		32.88779	-13.79701		X	162	Mchinji	Mchinji	Central
DEMAT	Mponela			X		33.73584	-13.52796		X	72	Mponela	Mponela	Central
DEMAT	Mulanje			X		35.50794	-16.02381		X	144	Mulanje	Mulanje	Southern
DEMAT	Mwanza			X		34.51988	-15.6022		X	106	Mwanza	Mwanza	Southern
DEMAT	Mzimba			X		33.59731	-11.8974		X	95	Mzimba	Mzimba	Northern
DEMAT	Mzuzu			X		34.02407	-11.45614		X	239	Mzuzu	Mzimba	Northern
DEMAT	Nchalo			X		34.86169	-16.25695		X	144	Nchalo	Nchalo	Southern
DEMAT	Nkhata Bay			X		34.29648	-12.92863		X	85	Nkhata Bay	Nkhata Bay	Northern
DEMAT	Nkhotakota			X		34.29648	-12.92863		X	312	Nkhotakota	Nkhotakota	Central
DEMAT	Northern Regional Office		X			34.02021	-11.4572	X		239	Mzuzu	Mzuzu	Northern
DEMAT	Nsanje			X		35.2653	-16.92377		X	164	Nsanje	Nsanje	Southern
DEMAT	Ntcheu			X		34.63487	-14.81305		X	289	Ntcheu	Ntcheu	Southern
DEMAT	Rumphi			X		33.85737	-11.01757		X	212	Rumphi	Rumphi	Northern
DEMAT	Salima			X		34.46479	-13.77977		X	312	Salima	Salima	Central
DEMAT	Southern Regional Office		X			35.01719	-15.79649	X		1727	Blantyre	Blantyre	Southern
DEMAT	Thyolo			X		35.13645	-16.06612		X	5	Thyolo	Thyolo	Southern
DEMAT	Zomba			X		35.32005	-15.38495		X	369	Zomba	Zomba	Southern
ECLOF	ECLOF Head Office	X		X		34.99907	-15.78364	X		1897	Blantyre	Blantyre	Southern
FINCA	Centre Reg. Branch - Dedza			X		34.3291	-14.37221		X	A-104	Dedza	Dedza	Centre
FINCA	Centre Reg. Branch - Mchinju			X		32.88779	-13.79701		X	A-105	Mchinji	Mchinji	Centre
FINCA	Centre Reg. Branch - Salima			X		34.46479	-13.77977		X	A-106	Salima	Salima	Centre
FINCA	Centre Regional Office		X			33.78024	-13.98155	X		A-103	Lilongwe	Lilongwe	Centre
FINCA	Head Office	X				35.00567	-15.78444	X		382	Blantyre		Southern
FINCA	No. Reg. Branch - Karonga			X		33.93646	-9.93228		X	413	Karonga	Karonga	North
FINCA	No. Reg. Branch - Mzimba			X		33.59731	-11.8974		X	621	Mzimba	Mzimba	North
FINCA	No. Reg. Branch - Mzuzu			X		34.02734	-11.45269		X	621	Mzuzu	Mzuzu	North
FINCA	North Regional Office		X			34.01797	-11.45724	X		621	Mzuzu	Mzuzu	North
FINCA	So. Reg. Branch - Balaka			X		34.95847	-14.98571		X	382	Balaka	Balaka	Southern
FINCA	So. Reg. Branch - Blantyre			X		35.00568	-15.78464		X	382	Blantyre	Blantyre	Southern
FINCA	So. Reg. Branch - Mangochi			X		35.27035	-14.48604		X	382	Mangochi	Mangochi	Southern

NAME		TYPE OF OFFICE				GEO REFERENCE				LOCATION			
MFI	Institution's Name for the Office	Head Office	Reg. Office	Branch	Other	Latitude	Longitude	GPS	Est.	P.O. Box	City	District	Region
FINCA	So. Reg. Branch - Mulanje			X		35.73161	-16.07536		X	382	Mulanje	Mulanje	Southern
FINCA	So. Reg. Branch - Zomba			X		35.32005	-15.38495		X	382	Zomba	Zomba	Southern
FINCA	South Regional Office		X			35.00547	-15.79024	X		382	Blantyre	Blantyre	Southern
INDEFUND	Head Office	X				35.00517	-15.78545	X			Blantyre	Blantyre	Southern
INDEFUND	Regional Office (Central & North)		X			33.79407	-13.95894	X			Lilongwe	Lilongwe	Central
MRFC	Bangula				X	-14.48603	35.27035		X		Bangula	Nsanje	Southern
MRFC	Bazale				X	-15.79649	35.01719		X		Bazale	Balaka	Southern
MRFC	Blantyre		X			-15.20733	35.35348	X		30227, BT 3	Blantyre	Blantyre	Southern
MRFC	Bolero				X	-15.78198	35.0153		X		Bolero	Rumphi	Northern
MRFC	Bowe				X	-15.38494	35.32005		X		Bowe	Ntchisi	Central
MRFC	Bulala				X	-15.60219	34.51988		X		Bulala	Mzimba	Northern
MRFC	Bwengu				X	-16.02039	34.78875		X		Bwengu	Mzimba	Northern
MRFC	Chamama				X	-16.06612	35.13645		X		Chamama	Kasungu	Central
MRFC	Champhira				X	-16.02381	35.50794		X		Champhira	Mzimba	Northern
MRFC	Chawantha				X	-15.80504	35.64951		X		Chawantha	Lilongwe	Central
MRFC	Chibungu				X	-16.92377	35.2653		X		Chibungu	Mchinji	Central
MRFC	Chibvala				X	-14.97294	34.91467		X		Chibvala	Dowa	Central
MRFC	Chifumbwa				X	-9.71653	33.34997		X		Chifumbwa	Dedza	Central
MRFC	Chigonthi				X	-9.52006	33.21708		X		Chigonthi	Lilongwe	Central
MRFC	Chikwatula				X	-9.80815	33.82979		X		Chikwatula	Ntchisi	Central
MRFC	Chikwawa				X	-10.05179	33.98239		X		Chikwawa	Chikwawa	Southern
MRFC	Chikweo				X	-10.40049	34.21168		X		Chikweo	Machinga	Southern
MRFC	Chileka			X		-15.91743	35.36011		X		Chileka	Lilongwe	Central
MRFC	Chilipa				X	-10.27413	33.58205		X		Chilipa	Mangochi	Southern
MRFC	Chilomatambe				X	-14.17207	34.12324		X		Chilomatambe	Kasungu	Central
MRFC	Chimakala				X	-14.35878	35.50888		X		Chimakala	Kasungu	Central
MRFC	Chingale				X	-15.39434	34.65109		X		Chingale	Zomba	Southern
MRFC	Chinguluwe				X	-11.44963	33.41407		X		Chinguluwe	Salima	Central
MRFC	Chintheche				X	-15.48239	35.23821		X		Chintheche	Nkhata Bay	Northern
MRFC	Chipala				X	-11.28407	33.60429		X		Chipala	Kasungu	Central
MRFC	Chipoka				X	-11.32686	33.83559		X		Chipoka	Salima	Central
MRFC	Chipuka				X	-11.93841	33.44206		X		Chipuka	Ntchisi	Central
MRFC	Chipuka				X	-11.66686	33.43522		X		Chipuka	Ntchisi	Central
MRFC	Chirimba			X		-16.00583	35.30882		X		Chirimba	Blantyre	Southern
MRFC	Chisepo				X	-11.74028	33.66763		X		Chisepo	Dowa	Central
MRFC	Chitekwele				X	-11.54597	34.18151		X		Chitekwele	Lilongwe	Central
MRFC	Chitipa			X		-11.06279	33.9162		X		Chitipa	Chitipa	Northern
MRFC	Chiwenga				X	-11.82586	34.17191		X		Chiwenga	Lilongwe	Central
MRFC	Chiwoshya				X	-12.47357	34.11104		X		Chiwoshya	Mchinji	Central
MRFC	Chulu				X	-12.93584	34.29524		X		Chulu	Kasungu	Central
MRFC	Dedza			X		-10.97444	33.7444		X		Dedza	Dedza	Central
MRFC	Dolo				X	-12.58939	33.58903		X		Dolo	Chikwawa	Southern
MRFC	Dzaone				X	-12.33356	33.59341		X		Dzaone	Zomba	Southern

NAME		TYPE OF OFFICE				GEO REFERENCE				LOCATION			
MFI	Institution's Name for the Office	Head Office	Reg. Office	Branch	Other	Latitude	Longitude	GPS	Est.	P.O. Box	City	District	Region
MRFC	Emfeni				X	-16.4145	34.82512		X		Emfeni	Mzimba	Northern
MRFC	Eswazini				X	-16.45419	34.89429		X		Eswazini	Mzimba	Northern
MRFC	Euthini				X	-16.56587	35.1166		X		Euthini	Mzimba	Northern
MRFC	Golomoti				X	-16.55468	34.92476		X		Golomoti	Ntcheu	Central
MRFC	Gwelero				X	-16.60458	35.04788		X		Gwelero	Zomba	Southern
MRFC	Kalira				X	-16.05778	34.75902		X		Kalira	Ntchisi	Central
MRFC	Kalombo				X	-15.94203	34.41544		X		Kalombo	Chikwawa	Southern
MRFC	Kalulu				X	-15.7448	35.18622		X		Kalulu	Mchinji	Central
MRFC	Kaluluma				X	-16.25162	35.13942		X		Kaluluma	Kasungu	Central
MRFC	Kalumbu				X	-15.8687	34.97413		X		Kalumbu	Lilongwe	Central
MRFC	Kampini				X	-15.67339	35.2226		X		Kampini	Lilongwe	Central
MRFC	Kandeu				X	-15.62099	35.5443		X		Kandeu	Ntcheu	Central
MRFC	Kanyama				X	-15.58771	35.7893		X		Kanyama	Dedza	Central
MRFC	Karonga		X			-15.17626	35.29614		X	363	Karonga	Karonga	Northern
MRFC	Kasiya				X	-15.85452	35.7539		X		Kasiya	Lilongwe	Central
MRFC	Kasungu		X			-15.06153	35.22491		X	PB 90	Kasungu	Kasungu	Central
MRFC	Katuli				X	-15.78531	35.55037		X		Katuli	Mangochi	Southern
MRFC	Kavukuku				X	-15.57376	35.38142		X		Kavukuku	Chitipa	Northern
MRFC	Khombedza				X	-15.53248	35.30055		X		Khombedza	Salima	Central
MRFC	Lilongwe		X			-16.00583	35.30882	X		PB 46	Lilongwe	Lilongwe	Central
MRFC	Linga				X	-15.65431	35.45236		X		Linga	Nkhotakota	Central
MRFC	Linthipe				X	-15.45945	35.49185		X		Linthipe	Dedza	Central
MRFC	Lirangwe				X	-14.36184	35.51772		X		Lirangwe	Blantyre	Southern
MRFC	Lirangwe				X	-14.12729	35.19682		X		Lirangwe	Blantyre	Southern
MRFC	Lisasadzi				X	-14.18292	35.44432		X		Lisasadzi	Kasungu	Central
MRFC	Liwonde			X		-10.87142	33.98951		X		Liwonde	Machinga	Southern
MRFC	Lobi				X	-14.76966	35.67484		X		Lobi	Dedza	Central
MRFC	Luchenza			X		-9.93228	33.93646		X		Luchenza	Thyolo	Southern
MRFC	Luchenza			X		-9.69955	33.26484		X		Luchenza	Thyolo	Southern
MRFC	Lufita				X	-14.85738	35.57012		X		Lufita	Chitipa	Northern
MRFC	Lungwena				X	-14.88222	35.47854		X		Lungwena	Mangochi	Southern
MRFC	Lupembe				X	-14.49025	35.58702		X		Lupembe	Kasungu	Northern
MRFC	Machinga		X			-15.39316	35.17991		X	119	Liwonde	Machinga	Southern
MRFC	Madisi				X	-14.54275	35.37033		X		Madisi	Dowa	Central
MRFC	Magoti				X	-14.63327	35.5233		X		Magoti	Nsanje	Southern
MRFC	Maiwa				X	-14.67183	35.61664		X		Maiwa	Mangochi	Southern
MRFC	Malembo				X	-15.2231	34.88348		X		Malembo	Lilongwe	Central
MRFC	Malomo				X	-14.84371	35.16905		X		Malomo	Ntchisi	Central
MRFC	Malosa				X	-14.59867	34.7347		X		Malosa	Zomba	Southern
MRFC	Mangochi			X		-11.45268	34.02734		X		Mangochi	Mangochi	Southern
MRFC	Manyamula				X	-14.70109	34.97448		X		Manyamula	Mzimba	Northern
MRFC	Masambanjati				X	-14.40343	35.15129		X		Masambanjati	Thyolo	Southern
MRFC	Masuku				X	-14.53287	35.03954		X		Masuku	Mangochi	Southern

NAME		TYPE OF OFFICE				GEO REFERENCE				LOCATION			
MFI	Institution's Name for the Office	Head Office	Reg. Office	Branch	Other	Latitude	Longitude	GPS	Est.	P.O. Box	City	District	Region
MRFC	Matiya				X	-14.36058	34.82388		X		Matiya	Mangochi	Southern
MRFC	Mayaka				X	-14.41999	34.60177		X		Mayaka	Zomba	Southern
MRFC	Mayani				X	-13.98481	34.5154		X		Mayani	Dedza	Central
MRFC	Mbonechera				X	-13.75165	34.39198		X		Mbonechera	Machinga	Southern
MRFC	Mchinji			X		-11.60529	34.29659		X		Mchinji	Mchinji	Central
MRFC	Mfrc Head Office	X						X		39	Lilongwe	Lilongwe	Central
MRFC	Mikalango				X	-13.59112	34.30922		X		Mikalango	Chikwawa	Southern
MRFC	Mikundi				X	-13.65758	34.33275		X		Mikundi	Mchinji	Central
MRFC	Milindi				X	-13.30844	34.11884		X		Milindi	Lilongwe	Central
MRFC	Misozi				X	-13.21246	34.31687		X		Misozi	Lilongwe	Central
MRFC	Mitole				X	-14.87363	34.74755		X		Mitole	Chikwawa	Southern
MRFC	Mitundu			X		-11.01757	33.85737		X		Mitundu	Lilongwe	Central
MRFC	Mkanda				X	-14.59865	34.62054		X		Mkanda	Mchinji	Central
MRFC	Mkumba				X	-13.51851	32.95551		X		Mkumba	Mangochi	Southern
MRFC	Mlodzenzi				X	-13.58007	33.02525		X		Mlodzenzi	Lilongwe	Central
MRFC	Mlonyeni				X	-13.8568	33.0289		X		Mlonyeni	Mchinji	Central
MRFC	Mndolera				X	-13.41666	33.60772		X		Mndolera	Dowa	Central
MRFC	Mombezi				X	-13.53036	33.7363		X		Mombezi	Chiradzulu	Southern
MRFC	Mpamba				X	-14.07479	33.90825		X		Mpamba	Nkhata Bay	Northern
MRFC	Mpherembe				X	-14.24274	33.78341		X		Mpherembe	Mzimba	Northern
MRFC	Mpinda				X	-14.42649	33.68337		X		Mpinda	Phalombe	Southern
MRFC	Mpokwa				X	-13.89544	34.28031		X		Mpokwa	Zomba	Southern
MRFC	Mponela			X		-11.89741	33.59731		X		Mponela	Dowa	Central
MRFC	Mthiramanja				X	-13.96343	34.11416		X		Mthiramanja	Mangochi	Southern
MRFC	Muhuju				X	-14.03487	34.23898		X		Muhuju	Rumphi	Northern
MRFC	Mulanje				X	-13.73574	34.13206		X		Mulanje	Mulanje	Southern
MRFC	Mvera				X	-14.00937	33.4026		X		Mvera	Dowa	Central
MRFC	Mwanjiwira				X	-13.87926	33.50892		X		Mwanjiwira	Ntcheu	Central
MRFC	Mwankumbwa				X	-13.46417	33.39723		X		Mwankumbwa	Chitipa	Northern
MRFC	Mwansambo				X	-13.91552	33.34215		X		Mwansambo	Nkhotakota	Central
MRFC	Mwanza				X	-13.91678	33.16011		X		Mwanza	Mwanza	Southern
MRFC	Mzimba			X		-12.92863	34.29648		X		Mzimba	Mzimba	Northern
MRFC	Mzuzu		X			-15.52646	35.02085	X		828	Mzuzu	Mzimba	Northern
MRFC	Nachisaka				X	-13.96653	33.32558		X		Nachisaka	Dowa	Central
MRFC	Namwera			X		-13.0354	33.48012		X		Namwera	Mangochi	Southern
MRFC	Nankumba				X	-14.29473	33.78072		X		Nankumba	Mangochi	Southern
MRFC	Nansenga				X	-14.3799	34.07364		X		Nansenga	Mangochi	Southern
MRFC	Nanyumbu				X	-14.4641	33.94159		X		Nanyumbu	Machinga	Southern
MRFC	Nathenje			X		-13.34566	33.92165		X		Nathenje	Lilongwe	Central
MRFC	Negerenge				X	-14.13261	33.93982		X		Negerenge	Kasungu	Northern
MRFC	Neno				X	-14.19517	33.95887		X		Neno	Mwanza	Southern
MRFC	Ngabu		X			-15.52646	35.02085		X	PB 7	Ngabu	Chikwawa	Southern
MRFC	Nkhata Bay				X	-14.12622	33.85533		X		Nkhata Bay	Nkhata Bay	Northern

NAME		TYPE OF OFFICE				GEO REFERENCE				LOCATION			
MFI	Institution's Name for the Office	Head Office	Reg. Office	Branch	Other	Latitude	Longitude	GPS	Est.	P.O. Box	City	District	Region
MRFC	Nkhotakota			X		-13.98155	33.78024		X		Nkhotakota	Nkhotakota	Central
MRFC	Nkhunga				X	-14.07785	33.69631		X		Nkhunga	Nkhotakota	Central
MRFC	Nkhurambe				X	-13.70983	33.15731		X		Nkhurambe	Phalombe	Southern
MRFC	Nsanje				X	-13.79728	33.18667		X		Nsanje	Nsanje	Southern
MRFC	Nsaru			X		-13.79701	32.88779		X		Nsaru	Lilongwe	Central
MRFC	NSIPE				X	-13.61478	33.4259		X		Nsipe	Ntcheu	Central
MRFC	Ntcheu			X		-13.65157	33.93406		X		Ntcheu	Ntcheu	Central
MRFC	Ntchisi			X		-13.77977	34.46479		X		Ntchisi	Ntchisi	Central
MRFC	NTONDA				X	-13.76765	33.38006		X		Ntonda	Blantyre	Southern
MRFC	NYAMBI				X	-13.16887	33.51125		X		Nyambi	Machinga	Southern
MRFC	NYANJA				X	-13.01164	33.47863		X		Nyanja	Lilongwe	Central
MRFC	Phalombe			X		-14.37221	34.3291		X		Phalombe	Phalombe	Southern
MRFC	PHALULA				X	-12.57902	33.51938		X		Phalula	Balaka	Southern
MRFC	Rumphi			X		-14.81305	34.63487		X		Rumphi	Rumphi	Northern
MRFC	Salima		X			-15.91743	35.36011		X	PB 19	Salima	Salima	Central
MRFC	SANTHE				X	-12.81774	33.30641		X		Santhe	Kasungu	Central
MRFC	SHARPEVALE				X	-12.75206	33.45978		X		Sharpevale	Ntcheu	Central
MRFC	TAMANI				X	-12.92493	33.80248		X		Tamani	Phalombe	Southern
MRFC	TEMBE				X	-13.15091	33.84224		X		Tembe	Salima	Central
MRFC	THAWALI				X	-13.11853	33.67852		X		Thawali	Lilongwe	Central
MRFC	THONDWE				X	-13.45808	33.938		X		Thondwe	Zomba	Southern
MRFC	THUCHILA				X	-13.36986	33.92263		X		Thuchila	Mulanje	Southern
MRFC	THUCHILA				X	-13.43583	33.74234		X		Thuchila	Mulanje	Southern
MRFC	THUMBWE				X	-13.27634	33.68979		X		Thumbwe	Chiradzulu	Southern
MRFC	THYOLO				X	-13.37518	33.81352		X		Thyolo	Thyolo	Southern
MRFC	UKWE				X	-13.62351	33.46744		X		Ukwe	Lilongwe	Central
MRFC	ULONGWE				X	-13.59026	33.66794		X		Ulongwe	Balaka	Southern
MRFC	VINTHUKUTU				X	-13.76126	33.63698		X		Vinthukutu	Kasungu	Northern
MRFC	WALIRANJI				X	-13.82774	33.63172		X		Waliranji	Mchinji	Central
MRFC	WARUMA				X	-13.81929	33.75058		X		Waruma	Phalombe	Southern
MRFC	ZIDYANA				X	-13.82091	33.85209		X		Zidyana	Nkhotakota	Central
MRFC	Zomba			X		-14.9912	34.82139		X		Zomba	Zomba	Southern
MRFC	ZOMBWE				X	-13.7243	33.84811		X		Zombwe	Mzimba	Northern
M-SACCO	ADMARC Employees				X	35.0753	-15.8319	X			Limbe	Blantyre	Southern
M-SACCO	Auction Holdings				X	33.8006	-13.8936	X			Kanengo	Lilongwe	Central
M-SACCO	Blantyre ADD				X	35.0067	-15.7833	X			Blantyre	Blantyre	Southern
M-SACCO	Blantyre CityTeachers				X	35.1275	-15.8025	X			Blantyre	Blantyre	Southern
M-SACCO	Blantyre Water Board				X	35.0297	-15.7664	X			Blantyre	Blantyre	Southern
M-SACCO	Bvumbwe				X	35.08198	-15.92836		X		Bvumbwe	Thyolo	Southern
M-SACCO	Chikangawa				X	33.80172	-11.84111		X		Chikangawa	Mzimba	Northern
M-SACCO	Chiradzulu community				X	35.18503	-15.69447		X		Chilembwe	Chiradzulu	Southern
M-SACCO	Chithandizo				X	35.0314	-15.7922		X		Blantyre	Blantyre	Southern
M-SACCO	Chitipa Teachers				X	33.26484	-9.69955		X		Chitipa	Chitipa	Northern

NAME		TYPE OF OFFICE				GEO REFERENCE				LOCATION			
MFI	Institution's Name for the Office	Head Office	Reg. Office	Branch	Other	Latitude	Longitude	GPS	Est.	P.O. Box	City	District	Region
M-SACCO	Chitukuko				X	33.76732	-13.98546	X			Lilongwe	Lilongwe	Central
M-SACCO	Dedza Teachers				X	34.3291	-14.37221		X		Dedza	Dedza	Central
M-SACCO	Dwasco				X	34.12691	-12.53658		X		Dwangwa	Nkhotakota	Central
M-SACCO	Fosena				X	33.79097	-13.9614	X			Lilongwe	Lilongwe	Central
M-SACCO	Kandiya				X	33.7319	-13.9744	X			Lilongwe	Lilongwe	Central
M-SACCO	Kaning'ina				X	34.0236	-11.4622	X			Mzuzu	Mzimba	Northern
M-SACCO	Karonga Teachers				X	33.93646	-9.93228		X		Karonga	Karonga	Northern
M-SACCO	Kasinthula				X	34.8219	-16.07058		X		Kasinthula	Chikwawa	Southern
M-SACCO	Kasungu ADD				X	33.48014	-13.0354		X		Kasungu	Kasungu	Central
M-SACCO	Kasungu Community				X	33.48012	-13.0354		X		Kasungu	Kasungu	Central
M-SACCO	Kavuzi				X	34.14951	-11.52207		X		Kavuzi	Nkhata Bay	Kavuzi
M-SACCO	KFCTA				X	33.48013	-13.0354		X		Kasungu	Kasungu	Central
M-SACCO	Ladd				X	33.7708	-13.9944	X			Lilongwe	Lilongwe	Central
M-SACCO	Lilongwe Rural Teachers				X	33.7664	-13.9894	X			Lilongwe	Lilongwe	Central
M-SACCO	Lilongwe Urban Teachers				X	33.7708	-13.9944	X			Lilongwe	Lilongwe	Central
M-SACCO	Machinga ADD				X	35.22491	-15.06153		X		Liwonde	Machinga	Southern
M-SACCO	Machinga Teachers				X	35.29614	-15.17626		X		Machinga	Machinga	Southern
M-SACCO	Madzi				X	33.7569	-14.0017		X		Lilongwe	Lilongwe	Central
M-SACCO	Makhanga community				X	35.17624	-16.52092		X		Makhanga	Nsanje	Southern
M-SACCO	Malawi Broadcasting Corporation				X	35.0558	-15.8044	X			Blantyre	Blantyre	Southern
M-SACCO	Malawi Pharmacies Limited				X	35.0319	-15.8081	X			Limbe	Blantyre	Southern
M-SACCO	Mchinji Teachers				X	32.88779	-13.79701		X		Mchinji	Mchinji	Central
M-SACCO	Ministry of Transport				X	33.7919	-13.9494		X		Lilongwe	Lilongwe	Central
M-SACCO	Mponela				X	33.73584	-13.52796		X		Mponela	Dowa	Central
M-SACCO	Mudi				X	35.0558	-15.8044	X			Blantyre	Blantyre	Southern
M-SACCO	Mulanje Teachers				X	35.50794	-16.02381		X		Mulanje	Mulanje	Southern
M-SACCO	Mwanza Community				X	34.51988	-15.6022		X		Nkhamenya	Kasungu	Central
M-SACCO	Mzimba Teachers				X	33.59731	-11.8974		X		Nkhata Bay	Nkhata Bay	Northern
M-SACCO	Mzinda				X	33.7903	-13.9583		X		Lilongwe	Lilongwe	Central
M-SACCO	Mzuzu City				X	34.0236	-11.4622		X		Mzuzu	Mzimba	Northern
M-SACCO	Mzuzu Teachers				X	34.0253	-11.4636		X		Mzuzu	Mzimba	Northern
M-SACCO	Nalipiri				X	35.48578	-16.00646		X		Chitakale	Mulanje	Southern
M-SACCO	Namwera Masongola				X	35.50888	-14.35878		X		Namwera	Mangiochi	Southern
M-SACCO	Nkhamenya				X	33.50339	-12.56163		X		Nkhameya	Kasungu	Central
M-SACCO	Nkhata Bay Teachers				X	34.29659	-11.60529		X		Nkhata Bay	Nkhata Bay	Northern
M-SACCO	Ntcheu Community				X	34.63487	-14.81305		X		Ntcheu	Ntcheu	Central
M-SACCO	Ntchisi				X	33.92165	-13.34566		X		Ntchitsi	Ntchitsi	Central
M-SACCO	Oilcom				X	35.0033	-15.7881		X		Blantyre	Blantyre	Southern
M-SACCO	PEW				X	35.0347	-15.7889		X		Blantyre	Blantyre	Southern
M-SACCO	Polymed				X	35.0278	-15.8017		X		Blantyre	Blantyre	Southern
M-SACCO	Press Agriculture				X	33.48012	-13.0354		X		Blantyre	Blantyre	Southern
M-SACCO	PTC				X	35.0256	-15.7972	X			Lilongwe	Lilongwe	Central
M-SACCO	QM				X	33.7806	-13.78	X			Lumbadzi	Lilongwe	Central

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MFI	Institution's Name for the Office	Head Office	Reg. Office	Branch	Other	Latitude	Longitude	GPS	Est.	P.O. Box	City	District	Region
M-SACCO	RBM				X	33.7883	-13.9636	X			Lilongwe	Lilongwe	Central
M-SACCO	Regional Surveys				X	33.7711	-13.9936	X			Lilongwe	Lilongwe	Central
M-SACCO	Rumphi Community				X	33.9162	-11.06279		X		Bwengu	Mzimba	Northern
M-SACCO	Rumphi Teachers				X	33.85737	-11.01757		X		Rumphi	Rumphi	Northern
M-SACCO	Salima Community				X	34.46479	-13.77977		X		Salima	Salima	Central
M-SACCO	Salima Teachers				X	34.46479	-13.77977		X		Salima	Salima	Central
M-SACCO	Securicor				X	35.0692	-15.7631		X		Limbe	Blantyre	Southern
M-SACCO	SUCOMA				X	34.85114	-16.23686		X		Nchalo	Chikwawa	Southern
M-SACCO	Sunbird Tourism				X	35.0061	-15.7847		X		Blantyre	Blantyre	Southern
M-SACCO	Thondwe				X	35.23821	-15.48239		X		Thondwe	Zomba	Southern
M-SACCO	Thyolo Teachers				X	35.13645	-16.06612		X		Thyolo	Thyolo	Southern
M-SACCO	TPLL				X	33.7997	-13.8969		X		Kanengo	Lilongwe	Central
M-SACCO	Ulimi				X	33.6467	-13.9811		X		Chitedze	Lilongwe	Central
M-SACCO	Umoza Community				X	33.4767	-12.13507		X		Embangweni	Mzimba	Northern
M-SACCO	UNDP				X	33.7872	-13.9608	X			Lilongwe	Lilongwe	Central
M-SACCO	University				X	33.7844	-13.9789	X			Lilongwe	Lilongwe	Central
M-SACCO	Vetinerary				X	33.77	-13.9897		X		Lilongwe	Lilongwe	Central
M-SACCO	Yamba				X	33.30586	-9.68911		X		Chitipa	Chitipa	Northern
M-SACCO	Zomba Teachers				X	35.32005	-15.38495		X		Zomba	Zomba	Southern
MUSCCO	MUSCCO Head Office			X		33.76732	-13.98546	X		651	Lilongwe	Lilongwe	Central
MUSCCO	MUSCCO Reg Office			X		34.01767	-11.45474	X			Namwera	Mangochi	Southern
NABW	Head Office	X				35.03032	-15.79801	X		PB 56	Blantyre	Blantyre	Southern
NBM	Capital City			X		33.79157	-13.95724	X		30317	Lilongwe	Lilongwe	Central
NBM	Chichiri	X		X		35.02643	-15.79596	X		30365	Blantyre	Blantyre	Southern
NBM	Churchill Road			X		35.06095	-15.81591	X		5399	Blantyre	Blantyre	Southern
NBM	Customs Road			X		35.06101	-15.81328	X		5045	Blantyre	Blantyre	Southern
NBM	Head Office	X				35.0049	-15.78686	X		945	Blantyre	Blantyre	Southern
NBM	Henderson Street			X		35.00509	-15.78585	X		102	Blantyre	Blantyre	Southern
NBM	Karonga			X		33.93228	-9.93525		X	95	Karonga	Karonga	Northen
NBM	Kasungu			X		33.48942	-13.03107		X	228	Kasungu	Kasungu	Central
NBM	Lilongwe			X		33.76731	-13.98458	X		123	Lilongwe	Lilongwe	Central
NBM	Mangochi			X		35.25978	-14.47735		X	43	Mangochi	Mangochi	Southern
NBM	Mulanje			X		35.5212	-16.02604		X	19	Mulanje	Mulanje	Southern
NBM	Mzuzu			X		34.02278	-11.46034	X		20	Mzuzu	Mzimba	Northern
NBM	Victoria Avenue			X		35.0049	-15.78686	X		947	Blantyre	Blantyre	Southern
NBM	Zomba			X		35.32319	-15.37832		X	13	Zomba	Zomba	Southern
OIBM	OIBM Branch			X		33.76877	-13.98614	X		1794	Lilongwe	Lilongwe	Central
OIBM	OIBM Head Office	X				33.77342	-13.9702	X		A71	Lilongwe	Lilongwe	Central
PRIDE	Blantyre		X	X		35.01719	-15.79649	X			Blantyre		Southern
PRIDE	Karonga			X		33.93646	-9.93228		X		Karonga		Northern
PRIDE	Kasungu			X		33.48012	-13.0354		X		Kasungu		Central
PRIDE	Lilongwe		X	X		33.76627	-13.98774	X			Lilongwe		Central
PRIDE	Lilongwe Area 3		X	X		33.76627	-13.98774	X			Lilongwe Area 3		Central

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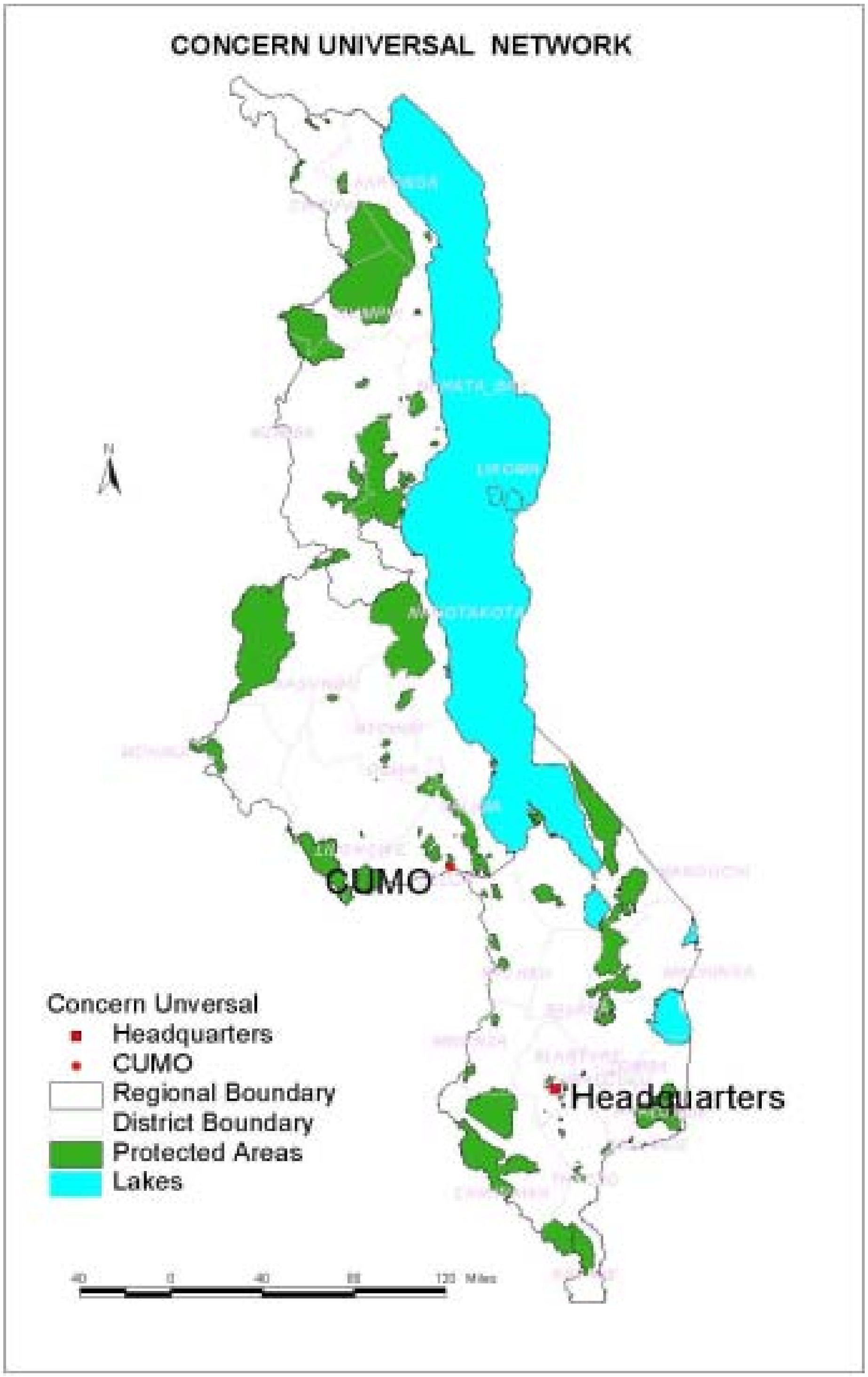
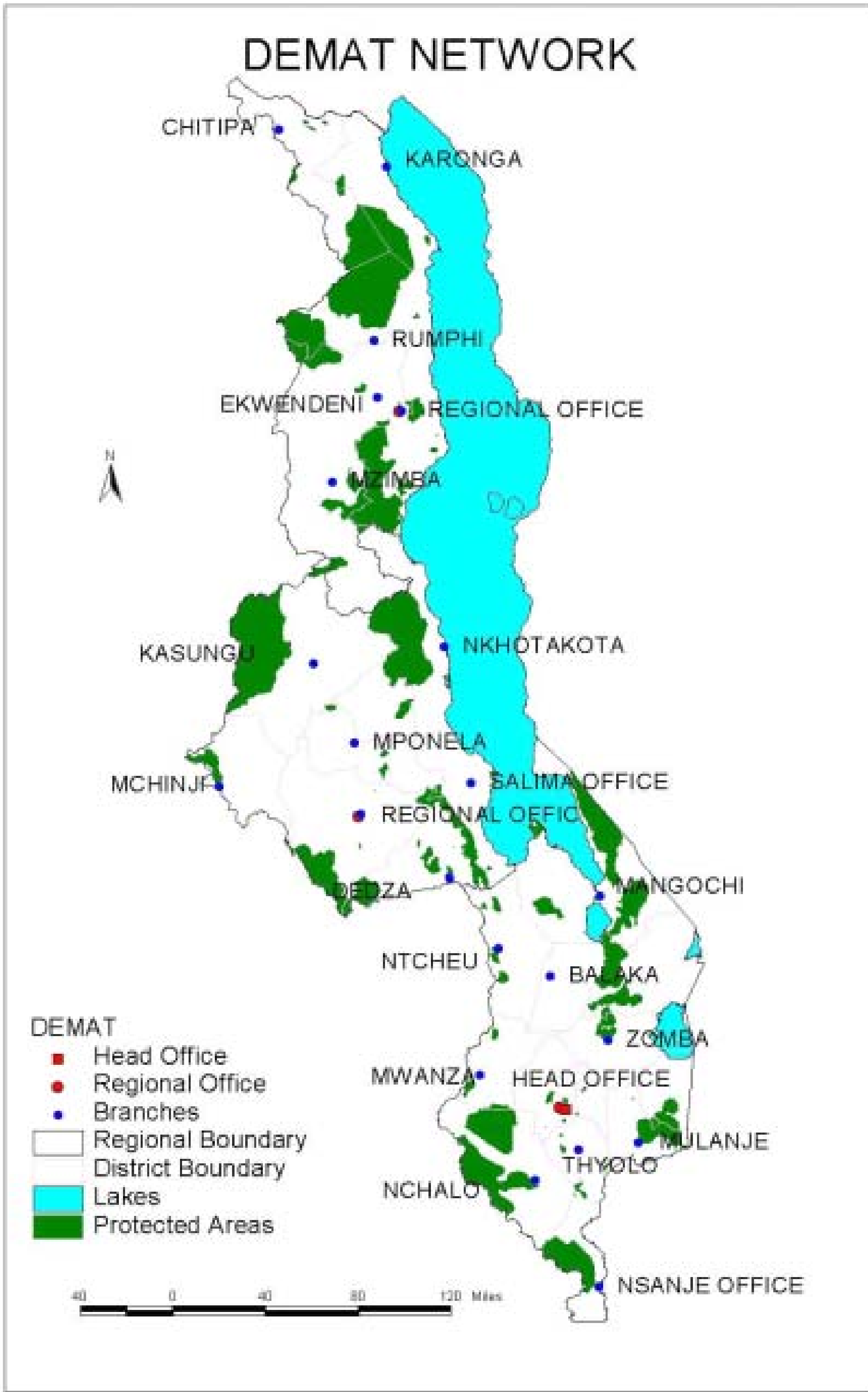
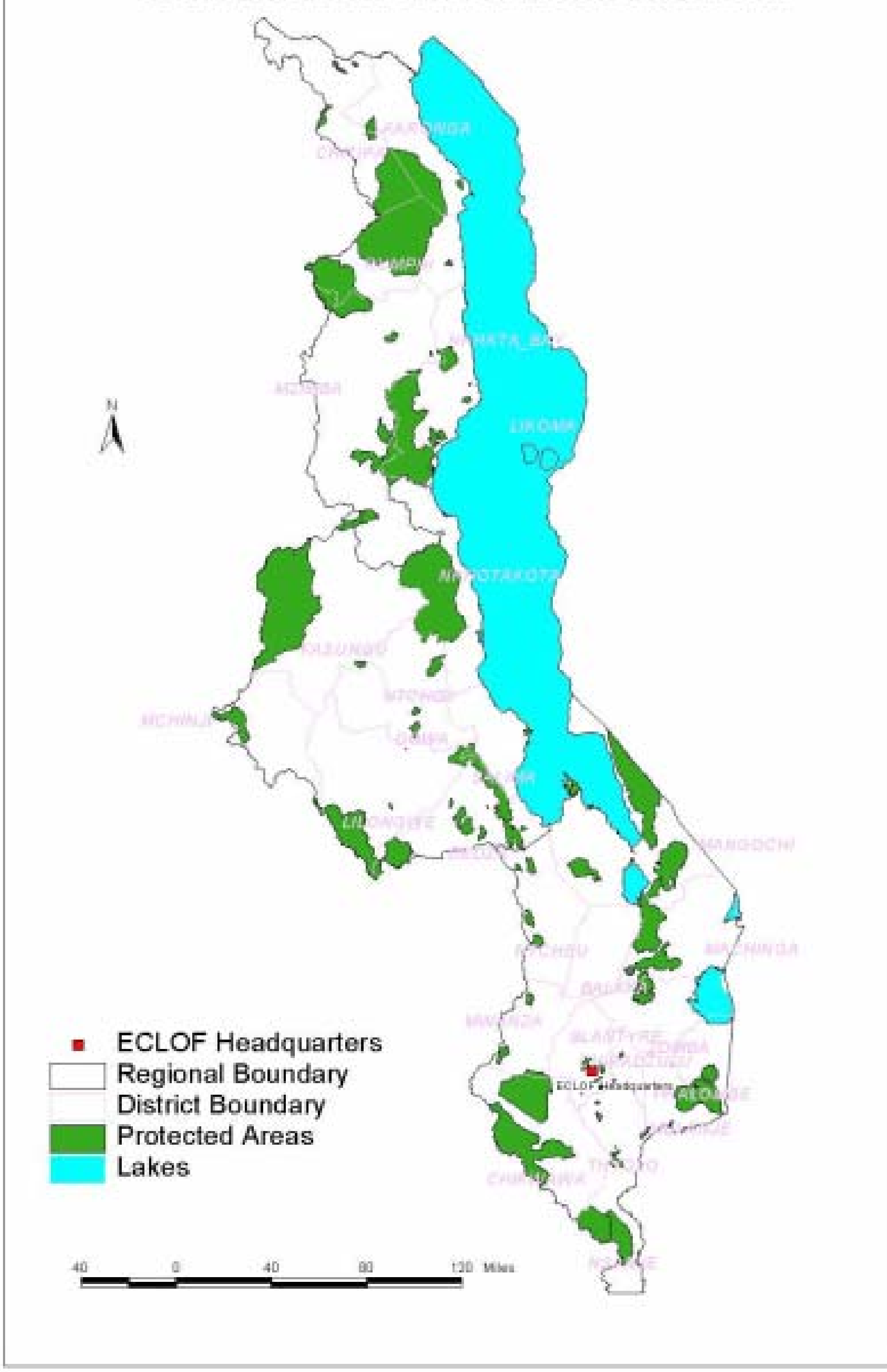
MFI	Institution's Name for the Office	Head Office	Reg. Office	Branch	Other	Latitude	Longitude	GPS	Est.	P.O. Box	City	District	Region
PRIDE	Limbe		X	X		35.06097	-15.80804	X			Limbe		Southern
PRIDE	Mangochi			X		35.27035	-14.48604		X		Mangochi		Southern
PRIDE	Mzimba			X		33.59731	-11.8974		X		Mzimba		Northern
PRIDE	Mzuzu		X	X		34.01677	-11.45554	X			Mzuzu		Northern
PRIDE	PRIDE Head office	X				35.00466	-15.79015	X		2131	Blantyre		Southern
PRIDE	Rumphi			X		33.85737	-11.01757		X		Rumphi		Northern
PRIDE	Salima			X		34.46479	-13.77977		X		Salima		Central
PRIDE	Thondwe				X	35.23821	-15.48239		X		Thondwe		Southern
PRIDE	Zomba			X		35.32005	-15.38495		X		Zomba		Southern
SEDOM	Head Office					35.00707	-15.78584	X			Blantyre	Blantyre	Southern
SEDOM	Regional Office					33.76927	-13.97754	X			Lilongwe	Lilongwe	Central
SEDOM	Regional Office					34.01847	-11.45804	X			Mzuzu	Mzimba	Northern
Stanbic	Balaka			X		34.96353	-14.98712		X	306	Balaka	Balaka	Southern
Stanbic	Blantyre Main			X		35.00547	-15.78304	X		1297	Blantyre	Blantyre	Southern
Stanbic	Capital City			X		33.79097	-13.96144	X		39386	Lilongwe	Lilongwe	Central
Stanbic	Dedza			X		34.33611	-14.37916		X	5	Dedza	Dedza	Central
Stanbic	Dwangwa			x		34.11033	-12.47719		X	62	Salima	Salima	Central
Stanbic	Ginnery			x		35.02371	-15.7991		X	30050	Blantyre	Blantyre	Southern
Stanbic	Kasungu			x		33.48446	-13.03062		X	100	Kasungu	Kasungu	Central
Stanbic	Lilongwe			x		33.76806	-13.98416	X		522	Lilongwe	Lilongwe	Central
Stanbic	Limbe			x		35.06084	-15.81149		X	5091	Limbe	Blantyre	Southern
Stanbic	Luchenza			x		35.31011	-16.00771		X	5091	Limbe	Blantyre	Southern
Stanbic	Lunzu			x		35.02574	-15.65235		X	30050	Blantyre	Blantyre	Southern
Stanbic	Mangochi			x		35.26201	-14.47733		X	106	Mangochi	Mangochi	Southern
Stanbic	Mwanza			x		34.52164	-15.60152		X	1297	Blantyre	Blantyre	Southern
Stanbic	Mzuzu			x		34.02324	-11.4604	X		104	Blantyre	Blantyre	Southern
Stanbic	Nkhotakota			x		34.2937	-12.92584		X	62	Salima	Salima	Central
Stanbic	Ntcheu			x		34.63683	-14.81186		X	312	Ntcheu	Ntcheu	Central
Stanbic	Salima			x		34.45483	-13.78381		X	62	Salima	Salima	Central
Stanbic	Stanbic Head Office	X				35.00502	-15.78491	X		1111	Blantyre	Blantyre	Southern
Stanbic	Zomba			X		35.32005	-15.38495		X	302	Zomba	Zomba	Southern
World VISION	Head Office	X				35.01627	-15.79274	X		2050	Blantyre	Blantyre	Southern
World VISION	Micro Finance Project				X	33.92558	-9.93251		X		Karonga	Karonga	Northern
World VISION	Regional Office		X			33.77487	-13.97694	X			Lilongwe	Lilongwe	Central
World VISION	Regional Office		X			34.01407	-11.46164	X			Mzuzu	Mzimba	Northern
World VISION	Regional Office		X			35.01627	-15.79274	X			Blantyre	Blantyre	Southern

ANNEX F

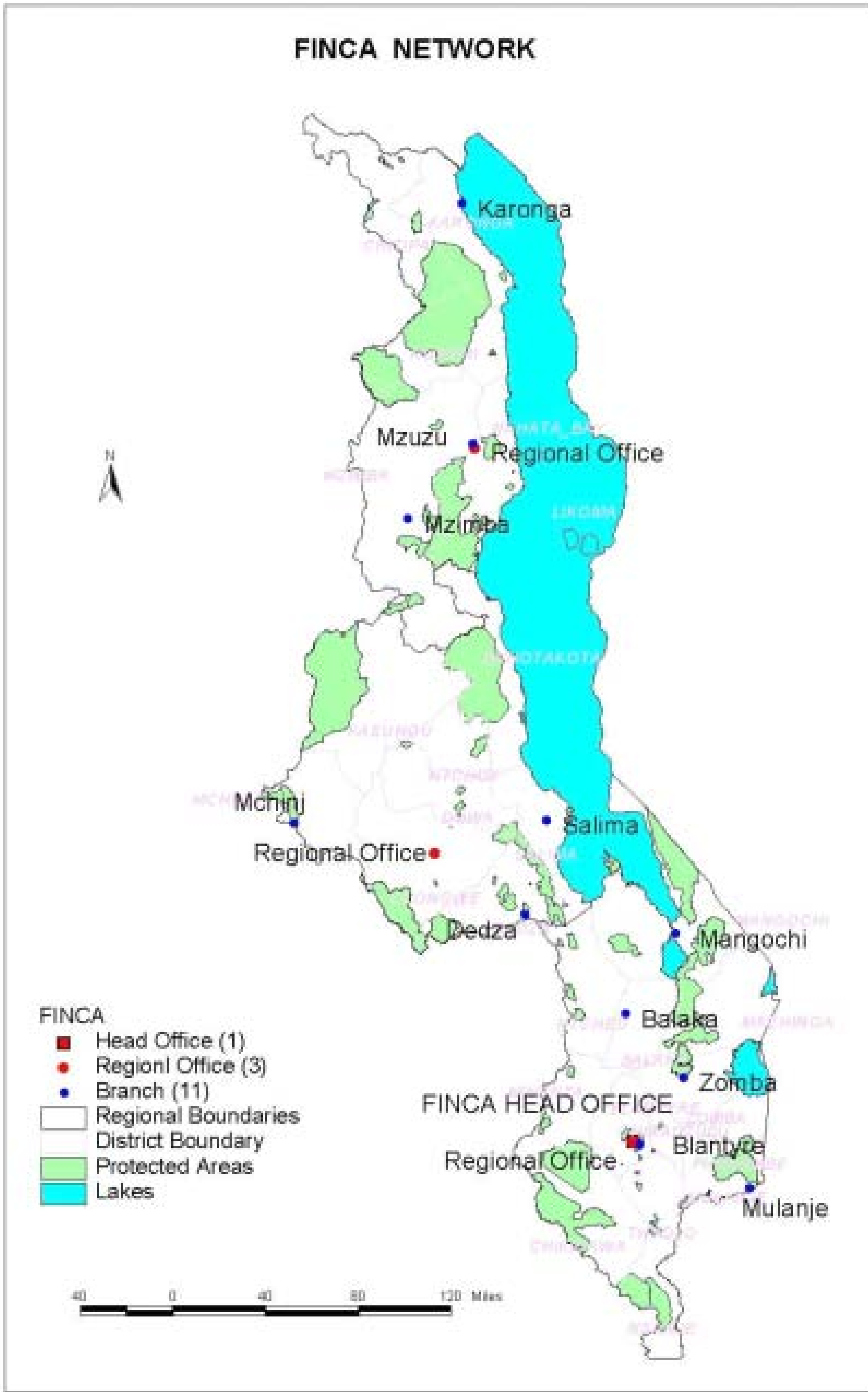
Microfinance Structures or Banks



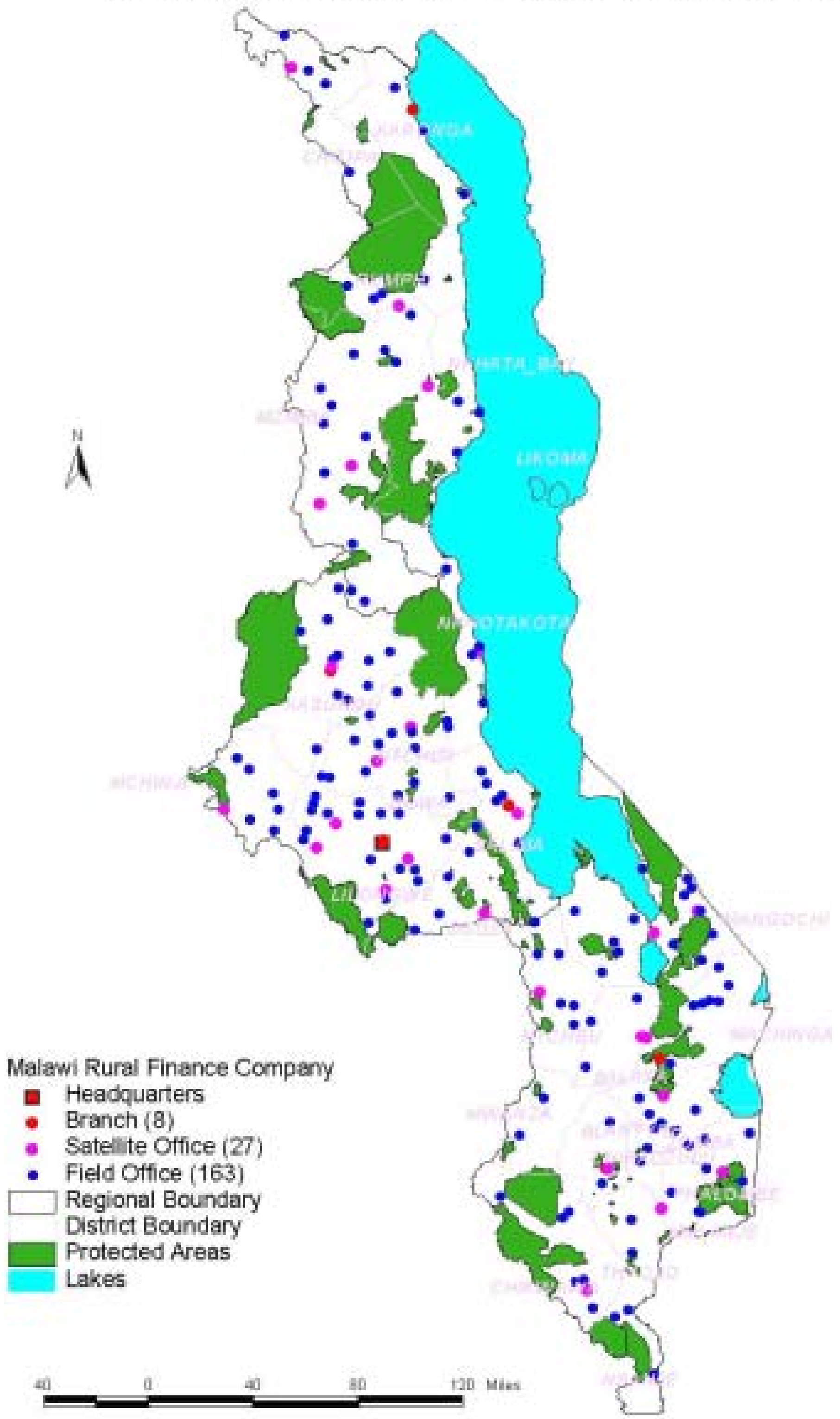

DEMAT NETWORK
CHITIPA
KARONGA
RUMPHI
EKWENDENI
REGIONAL OFFICE
MZIMBA
KASUNGU
NKHOTAKOTA
MPONELA
MCHINJI
SALIMA OFFICE
REGIONAL OFFIC
DEDZA
MANGOCHI
NTCHEU
BALAKA
ZOMBA
MWANZA
HEAD OFFICE
MULANJE
THYOLO
NCHALO
NSANJE OFFICE
N
DEMAT
Head Office
Regional Office
Branches
Regional Boundary
District Boundary
Lakes
Protected Areas
40
0
40
80
120 Miles

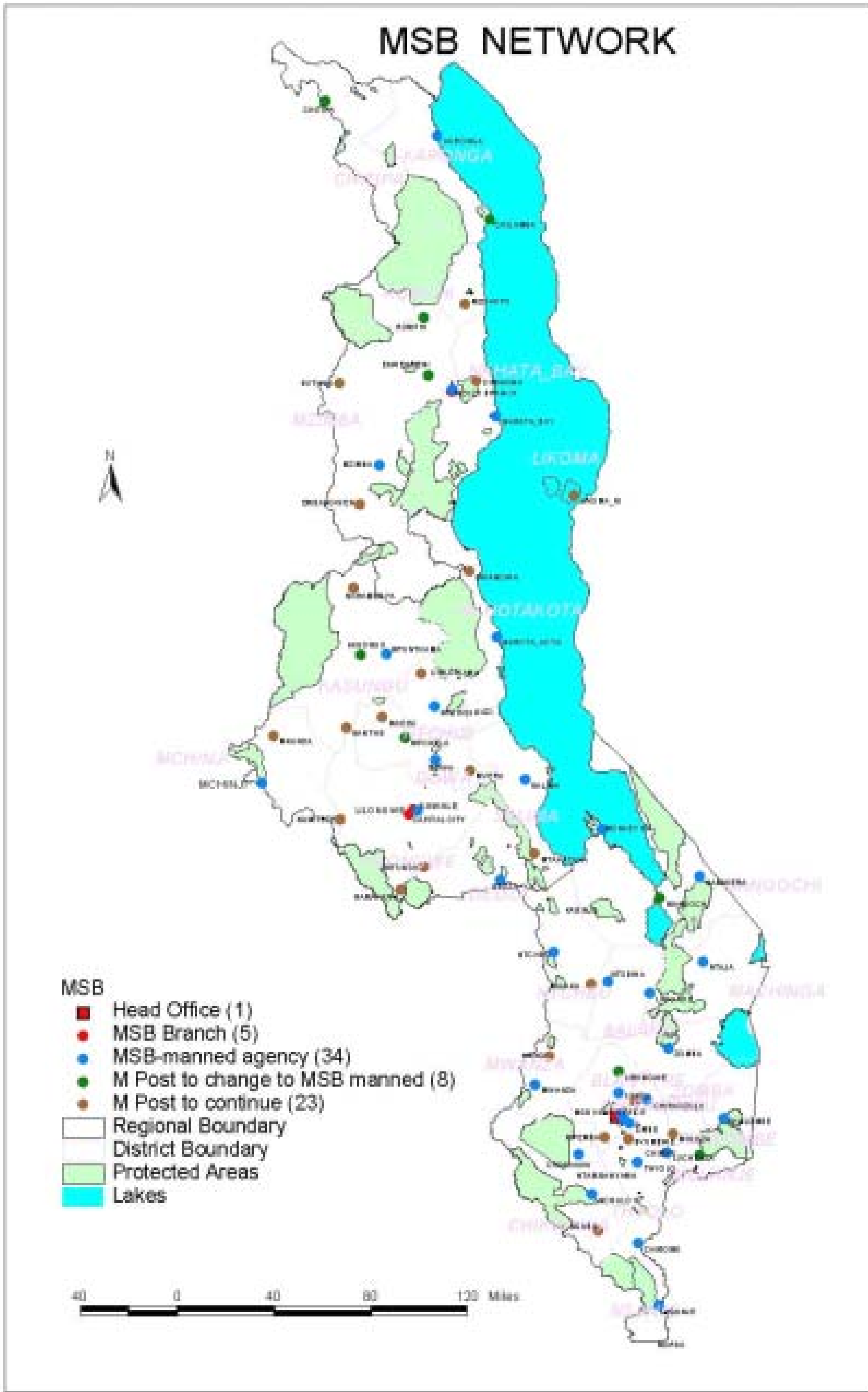


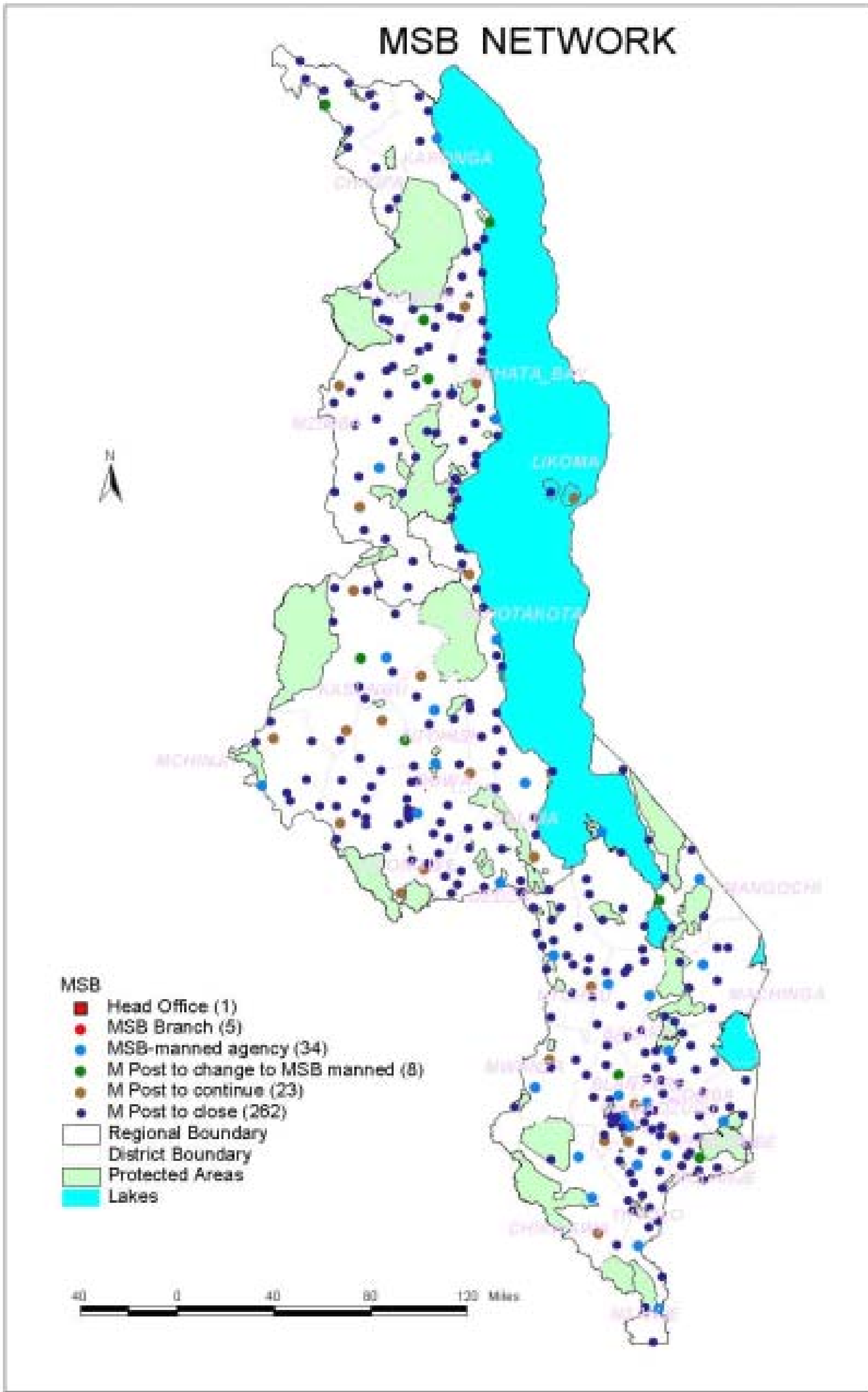
ECUMENICAL CHURCH LOAN FUND NETWORK

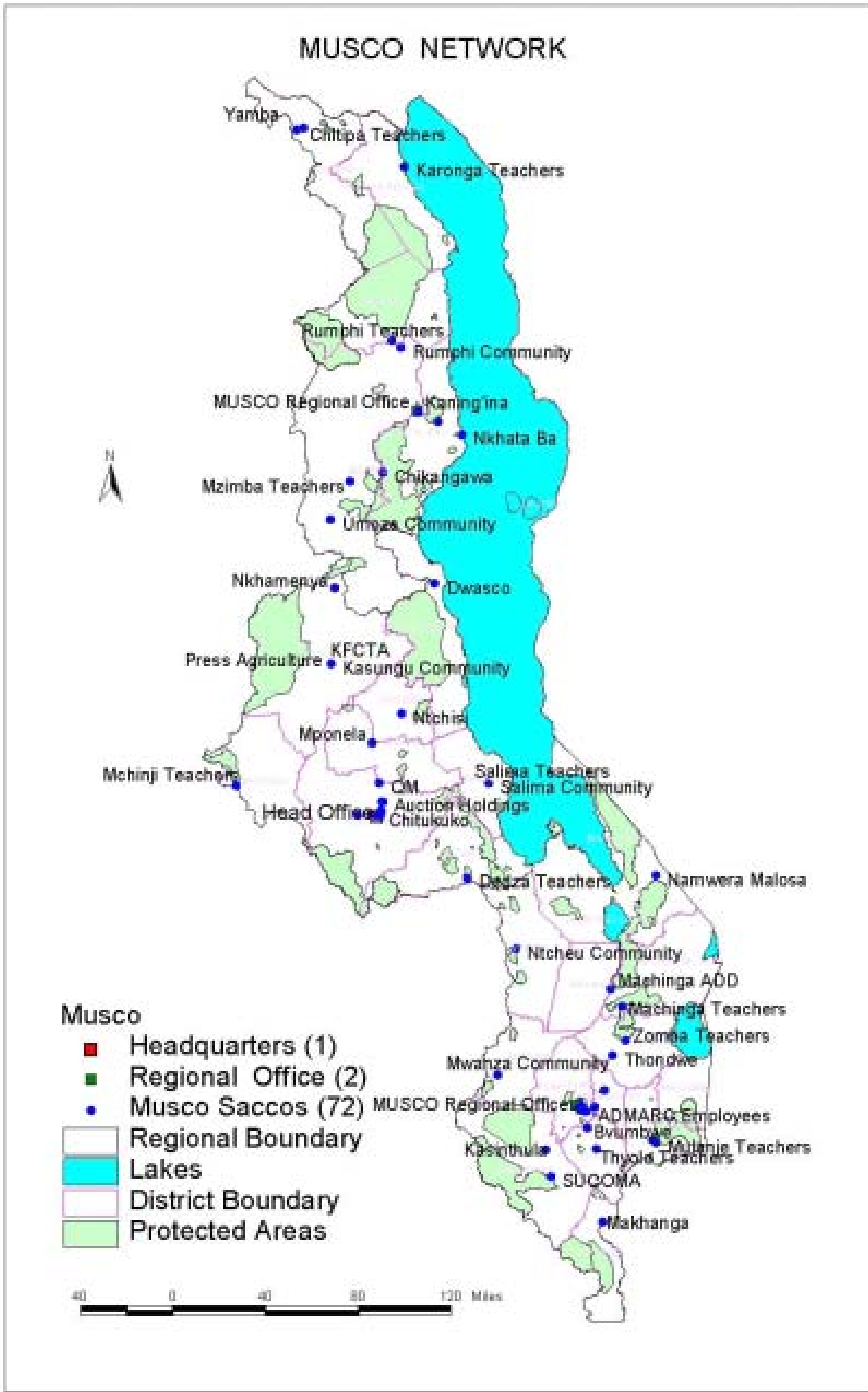

FINCA NETWORK
Karonga
Mzuzu
Regional Office
Mzimba
Mchinji
Salima
Regional Office
Dedza
Mangochi
Balaka
Zomba
FINCA HEAD OFFICE
Blantyre
Regional Office
Mulanje
N
FINCA
Head Office (1)
Regionl Office (3)
Branch (11)
Regional Boundaries
District Boundary
Protected Areas
Lakes
40
0
40
80
120 Miles

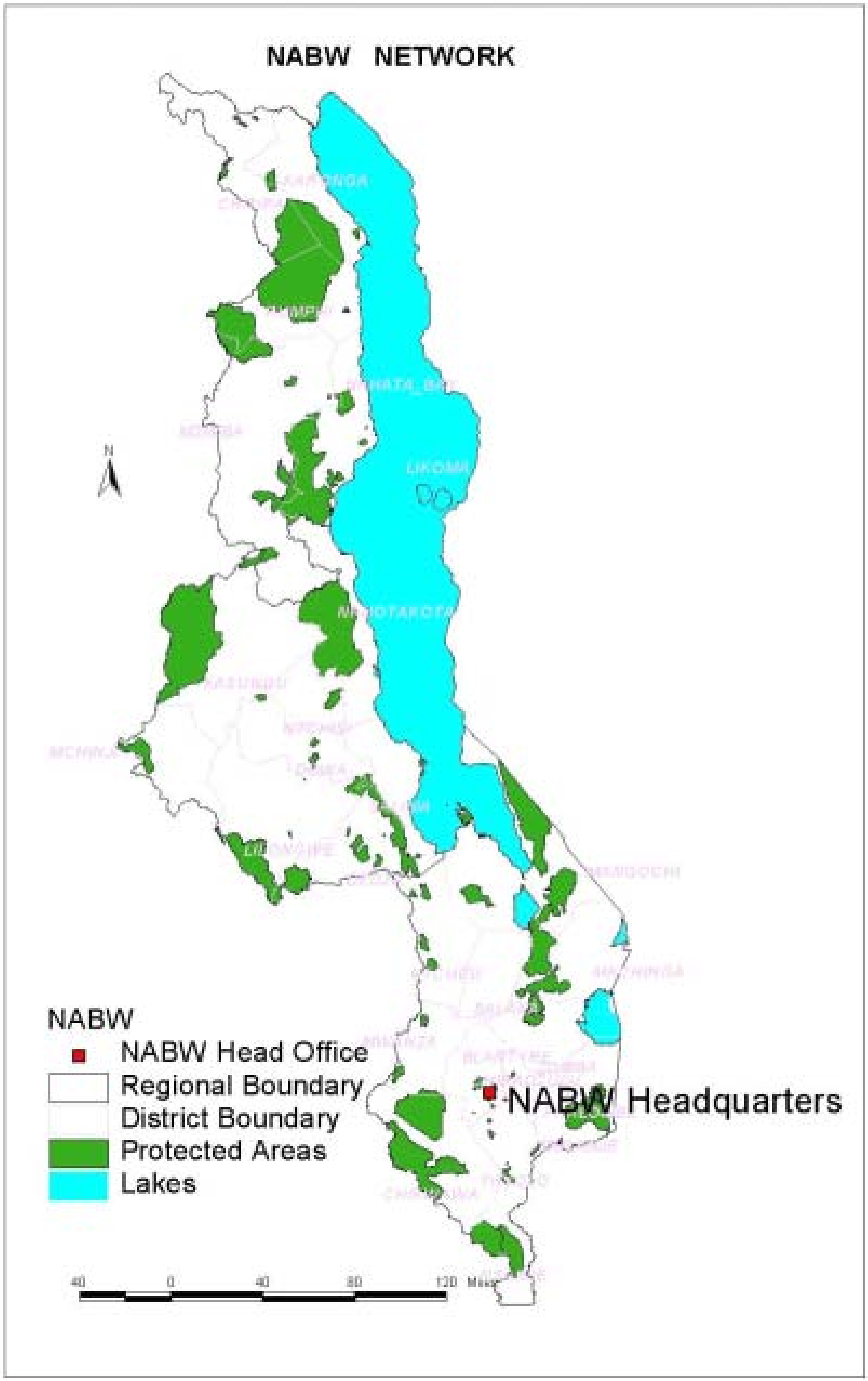
MALAWI RURAL FINANCE COMPANY NETWORK

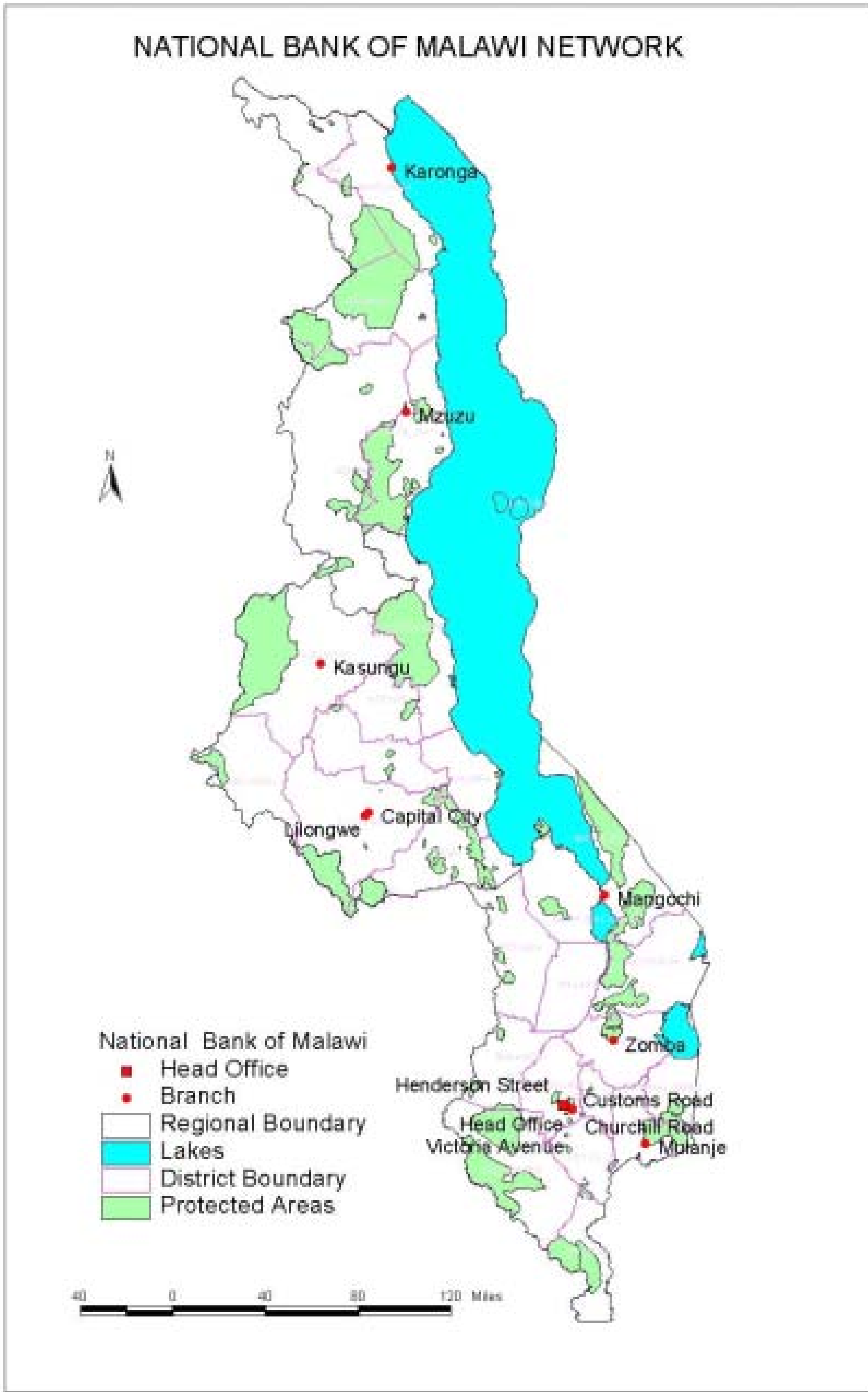


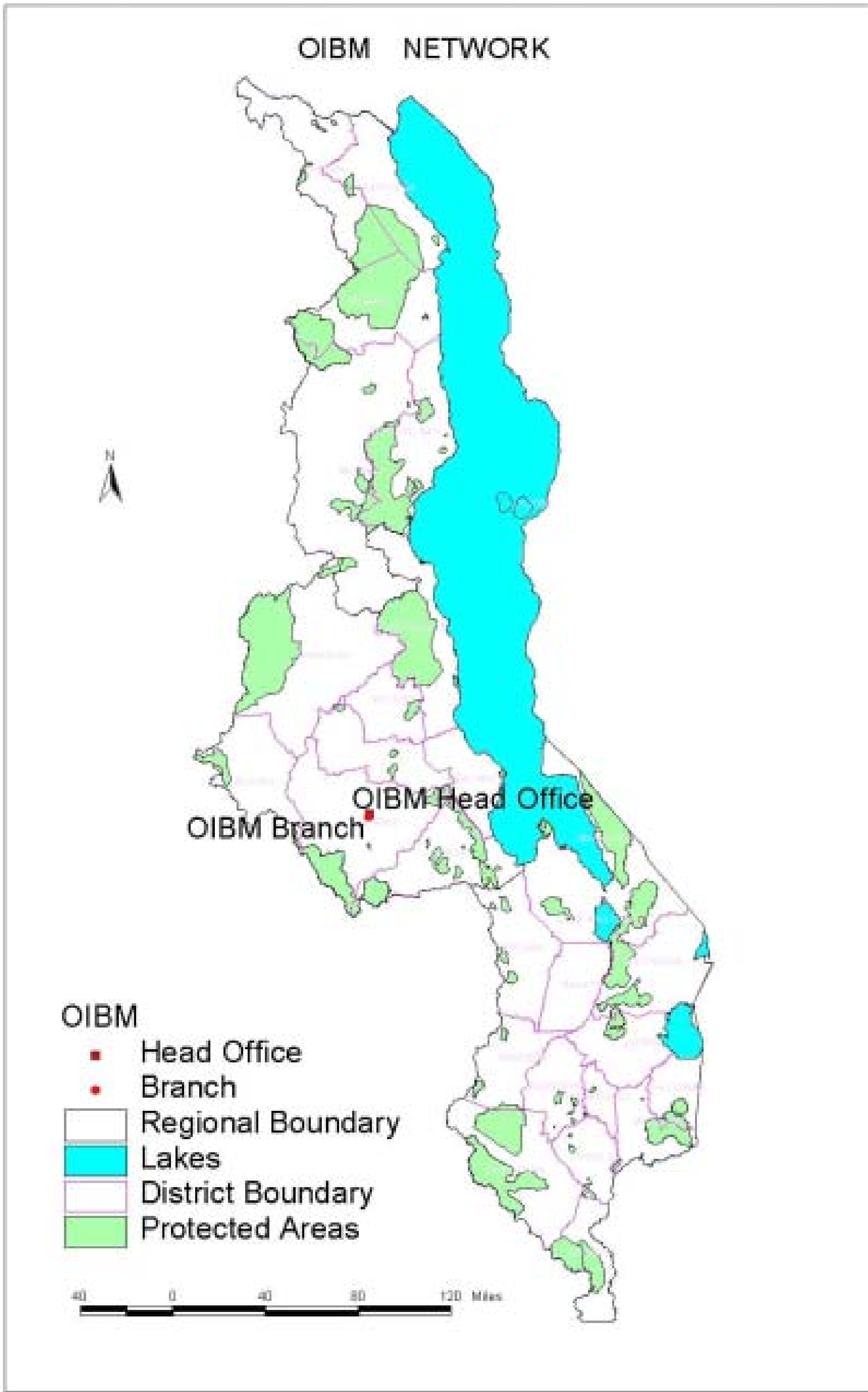

MSB NETWORK
N
MSB
Head Office (1)
MSB Branch (5)
MSB-manned agency (34)
M Post to change to MSB manned (8)
M Post to continue (23)
Regional Boundary
District Boundary
Protected Areas
Lakes
40 0 40 80 120 Miles

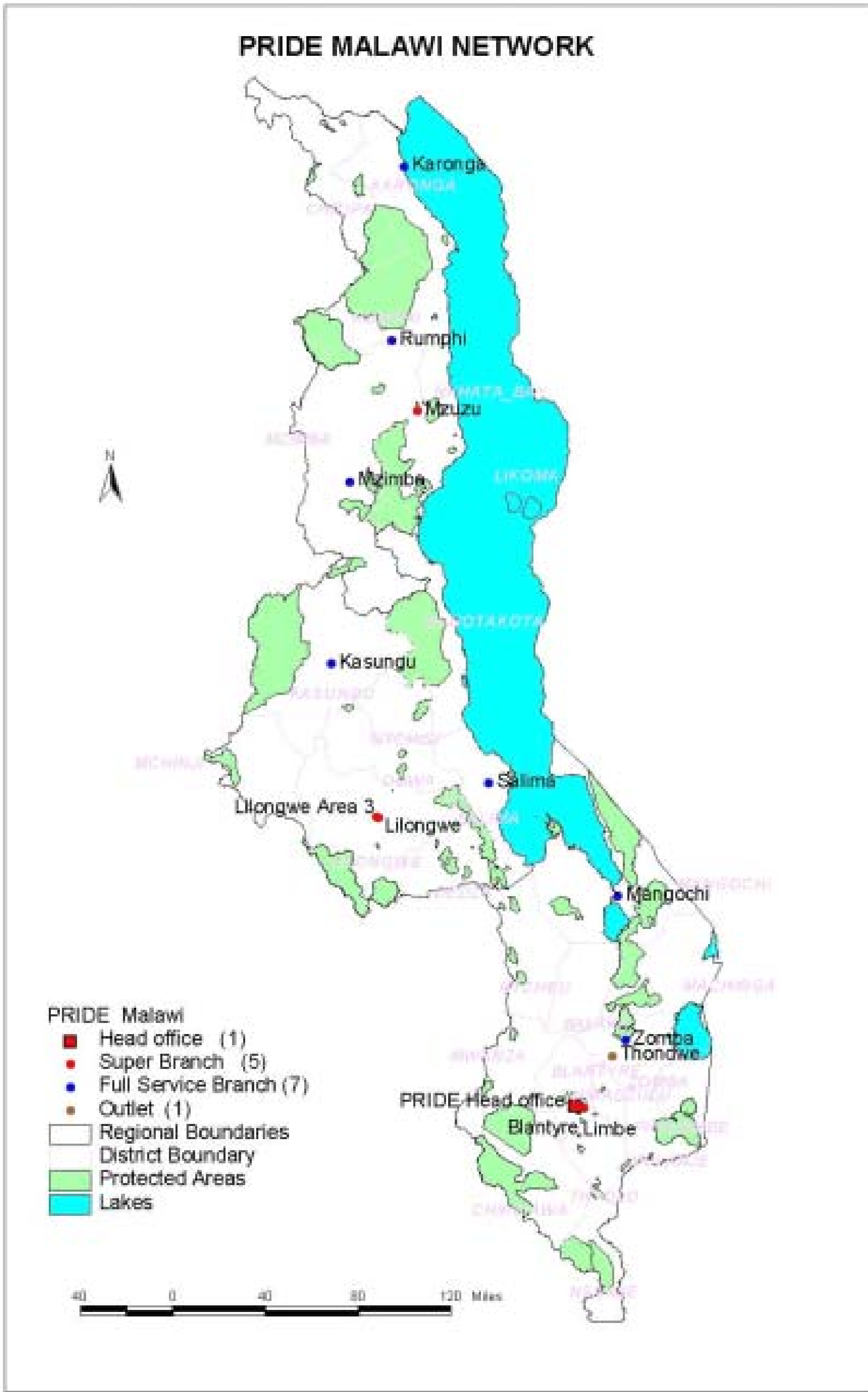

MSB NETWORK
LIKOMA
MSB
Head Office (1)
MSB Branch (5)
MSB-manned agency (34)
M Post to change to MSB manned (8)
M Post to continue (23)
M Post to close (262)
Regional Boundary
District Boundary
Protected Areas
Lakes
40
0
40
80
120 Miles

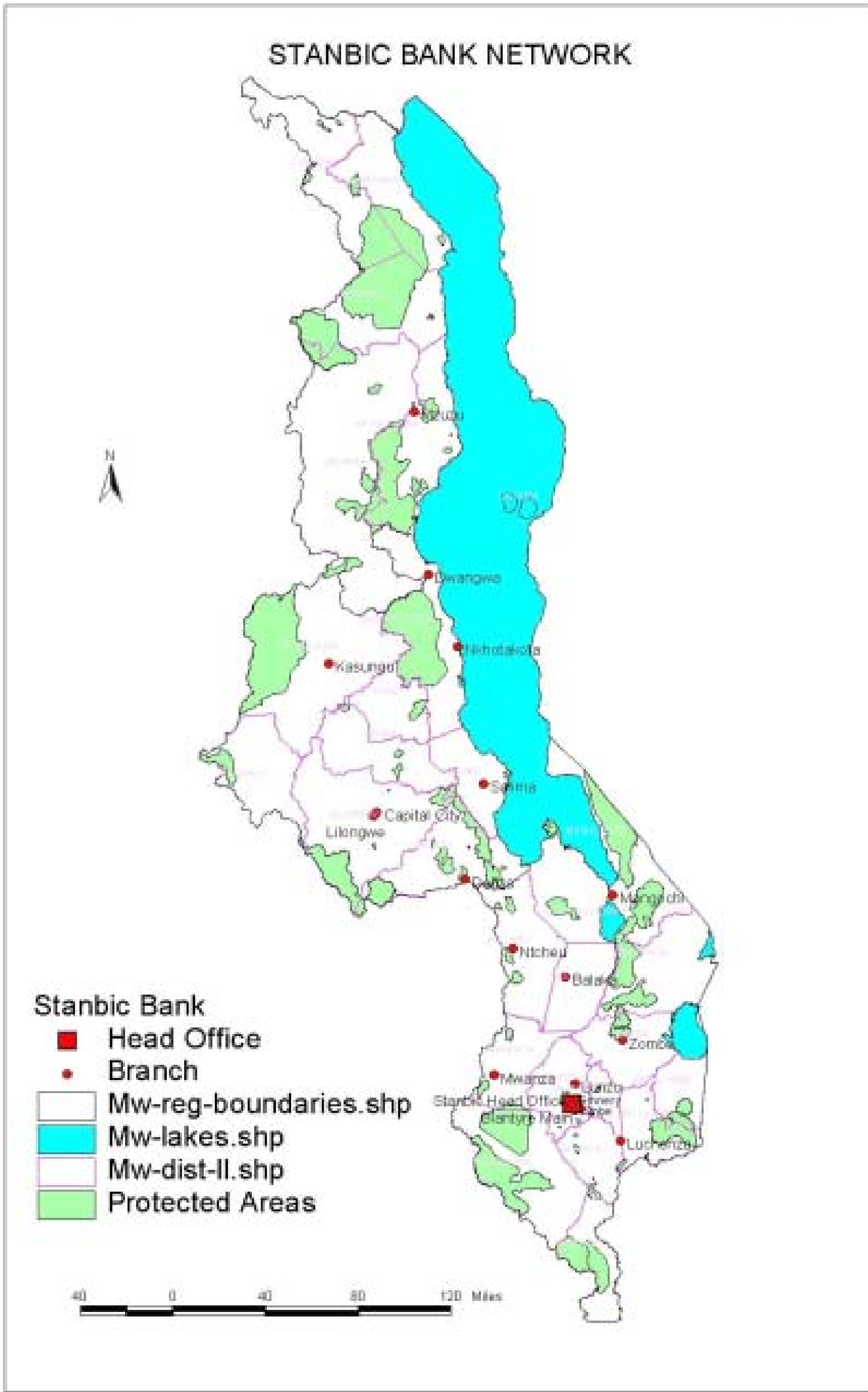

MUSCO NETWORK
Yamba
Chitipa Teachers
Karonga Teachers
Rumphi Teachers
Rumphi Community
MUSCO Regional Office
Kaning'ina
Nkhata Ba
Mzimba Teachers
Chikangawa
Umoza Community
Nkhamenya
Dwasco
Press Agriculture
KFCTA
Kasungu Community
Ntchisi
Mponela
Mchinji Teachers
CM
Salima Teachers
Salima Community
Head Office
Auction Holdings
Chitukuko
Dedza Teachers
Namwera Malosa
Ntcheu Community
Machinga ADD
Machinga Teachers
Zomba Teachers
Mwanza Community
Thondwe
MUSCO Regional Office
ADMARC Employees
Bvumbwe
Kasinthula
Thyolo Teachers
Mulanje Teachers
SUCOMA
Makhanga
Musco
Headquarters (1)
Regional Office (2)
Musco Saccos (72)
Regional Boundary
Lakes
District Boundary
Protected Areas
40
0
40
80
120 Miles


NABW NETWORK
NABW
NABW Head Office
Regional Boundary
District Boundary
Protected Areas
Lakes
NABW Headquarters
40
0
40
80
120


NATIONAL BANK OF MALAWI NETWORK
Karonga
Mzuzu
N
Kasungu
Capital City
Lilongwe
Mangochi
Zomba
Henderson Street
Customs Road
Head Office
Churchill Road
Victoria Avenue
Mulanje
National Bank of Malawi
Head Office
Branch
Regional Boundary
Lakes
District Boundary
Protected Areas
40
0
40
80
120 Miles


OIBM NETWORK
N
OIBM Head Office
OIBM Branch
OIBM
Head Office
Branch
Regional Boundary
Lakes
District Boundary
Protected Areas
40 0 40 80 120 Miles


PRIDE MALAWI NETWORK
Karonga
Rumphi
Mzuzu
Mzimba
Kasungu
Salima
Lilongwe Area 3
Lilongwe
Mangochi
Zomba
Thondwe
PRIDE Head office
Blantyre Limbe
PRIDE Malawi
Head office (1)
Super Branch (5)
Full Service Branch (7)
Outlet (1)
Regional Boundaries
District Boundary
Protected Areas
Lakes
40 0 40 80 120 Miles
N


STANBIC BANK NETWORK
N
Kasungu
Capital City
Lilongwe
Ntcheu
Mwanza
Blantyre Main
Stanbic Bank
Head Office
Branch
Mw-reg-boundaries.shp
Mw-lakes.shp
Mw-dist-II.shp
Protected Areas
40
0
40
80
120 Miles