



ASSESSING THE IMPACT OF INNOVATION GRANTS IN
FINANCIAL SERVICES

Malawi's Financial Landscape: Where Does Opportunity International Bank of Malawi Fit?

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MICROFINANCE OPPORTUNITIES
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ABOUT THE PROJECT

The *Assessing the Impact of Innovation Grants in Financial Services* project is designed to examine the impact of financial services on the lives of poor people across the developing world. This project is funded by the Bill & Melinda Gates Foundation, which is committed to building a deep base of knowledge in the microfinance field. The IRIS Center at the University of Maryland, College Park, together with its partner Microfinance Opportunities, will assess a diverse range of innovations in financial services. The results of this project will shed light on the design and delivery of appropriate financial products and services for the poor, and the potential to scale up successful innovations to reach larger numbers of low-income households.



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REPORT SERIES

This report is part of a series that will be generated by the *Assessing the Impact of Innovation Grants in Financial Services* project. The reports are disseminated to a broad audience including microfinance institutions and practitioners, donors, commercial and private-sector partners, policymakers, and researchers.

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ABSTRACT

The purpose of the Financial Landscape research is to understand access to financial services in areas of Malawi that will be served by the Opportunity International Bank of Malawi's (OIBM) rural service delivery innovation. In the first phase, this expansion will consist of a mobile bank branch that will serve six locations along two major routes. As in all of its operations, OIBM will provide a wide range of financial services including savings, loans, insurance, and payment services, and will target all client segments ranging from the economically-active poor to corporations. Research revealed that the rural locations that OIBM will expand into are not "unbanked". Formal savings are available, though the services are mostly accessed by the well-to-do. The market for loans is fragmented, with demand outstripping supply. Credit is less widely available than savings, but is provided by a wider range of institutions: MFIs, coops, NGOs, and parastatals. While uptake of financial services is relatively low, rural residents are aware of many of their financial choices. The value proposition of OIBM in this context includes the following elements: it will increase physical access to financial services in four locations that are currently unserved or underserved; it will provide a full range of products, most importantly savings and loans, bringing the potential for "one-stop shopping" to rural customers; and it will target all client segments particularly emphasizing serving the poor, based on the bank's considerable experience with impoverished clients.

NOTE ON EXCHANGE RATE

An exchange rate of 140 Malawian kwacha per \$1 US dollar was used in this report, except where otherwise indicated.

OTHER NOTES

Photographs taken by Elizabeth McGuinness, July 2007

In instances when the report refers to individuals, names and identifying information have been altered.

TABLE OF CONTENTS

TABLE OF CONTENTS	I
TABLE OF TABLES.....	III
TABLE OF FIGURES	III
ABBREVIATIONS	IV
EXECUTIVE SUMMARY	VI
I. INTRODUCTION.....	1
OIBM’S INNOVATION	2
ACCESS.....	2
OUTLINE OF REPORT	3
II. PURPOSE AND DESIGN OF THE RESEARCH	5
BACKGROUND: MALAWI.....	5
BACKGROUND: OPPORTUNITY INTERNATIONAL BANK OF MALAWI	6
RESEARCH DESIGN	9
KEY RESEARCH QUESTIONS.....	9
RESEARCH TEAM	9
LOCATION OF STUDY	9
DATA COLLECTION TOOLS	11
SAMPLING PROCEDURE.....	11
LIMITATIONS OF STUDY.....	13
FINDINGS: SOCIO-DEMOGRAPHIC PROFILE OF SAMPLE.....	14
RESPONDENTS PERCEPTIONS OF THE SOCIO-ECONOMIC STATUS OF THEIR COMMUNITY	16
III. THE SUPPLY SIDE.....	19
INTRODUCTION	19
RESEARCH QUESTIONS.....	19
BACKGROUND: REGULATION & OWNERSHIP.....	19
OIBM’S COMPETITION AND THEIR SERVICES.....	21
SAVINGS PRODUCTS: FORMAL FINANCIAL INSTITUTIONS	23
SAVINGS PRODUCTS: SEMI-FORMAL FINANCIAL INSTITUTIONS.....	26
SAVINGS PRODUCTS: INFORMAL SOURCES.....	26
SUMMARY OF SAVINGS SECTION	27
LOAN PRODUCTS: FORMAL FINANCIAL INSTITUTIONS.....	27
LOAN PRODUCTS: SEMI-FORMAL FINANCIAL INSTITUTIONS.....	28
OTHER: NASFAM (NATIONAL SMALLHOLDER FARMERS ASSOCIATION OF MALAWI).....	34
THE ROLE OF TOBACCO AS A SUB-MARKET FOR FINANCIAL SERVICE PROVIDERS	35
LOAN PRODUCTS: INFORMAL SECTOR.....	35
SUMMARY OF LOAN SECTION.....	36
INSURANCE PRODUCTS	37
OIBM: PRODUCTS AND SERVICES.....	37
SUMMARY	40
IV. THE DEMAND SIDE: ACCESS TO FINANCIAL SERVICES	41
ACCESS TO SAVINGS.....	41
ACCESS TO REMITTANCES AND PAYMENT SERVICES	46
ACCESS TO LOANS.....	47
ACCESS TO INSURANCE	55
TRANSACTION COSTS FOR CLIENTS.....	55
KNOWLEDGE AND ACCURACY OF RESPONDENTS’ PERCEPTIONS	59

SUMMARY	60
V. THE VALUE PROPOSITION OF OIBM.....	63
GAPS IN THE FINANCIAL LANDSCAPE	63
TOWARD THE VALUE PROPOSITION FOR CLIENTS OF OIBM’S INNOVATION	64
OIBM’S COMPETITIVE ADVANTAGE	65
THE FIRST PIECE OF A BROAD IMPACT PICTURE.....	65
REFERENCES	67
ANNEX 1 – ADDITIONAL INFORMATION ON THE PURPOSE AND DESIGN OF THE RESEARCH	1
A NOTE ON THE STUDY LOCATION.....	2
ANNEX 2 – ADDITIONAL INFORMATION ON THE SUPPLY SIDE.....	3
A NOTE ON CERTIFIED TOBACCO FARMERS	3

TABLE OF TABLES

TABLE 1: DESCRIPTION OF OIBM’S MOBILE BANK CATCHMENT AREAS	10
TABLE 2: LOCATIONS OF BANK STOPS AND RESPECTIVE TAS	11
TABLE 3: SAMPLE FOR PRA SESSIONS	12
TABLE 4: SAMPLE OF FINANCIAL SERVICE PROVIDERS	13
TABLE 5: PARTICIPANT SOCIO-DEMOGRAPHIC PROFILE AND COMPARISON TO NATIONAL STATISTICS	15
TABLE 6: SOCIO-ECONOMIC CATEGORIES AS DEFINED BY THE COMMUNITY	16
TABLE 7: POPULATION AND POVERTY STATISTICS FOR DISTRICTS WITHIN STUDY AREA.....	17
TABLE 8: FINANCIAL INSTITUTIONS IN THE STUDY AREA BY SECTOR, TYPE AND PRODUCT	22
TABLE 9: MICROFINANCE INSTITUTIONS PRESENT IN THE STUDY AREA (AS OF MARCH 31, 2007)	22
TABLE 10: FINANCIAL INSTITUTIONS BY LOCATION	23
TABLE 11: COMPARISON OF SELECTED SAVINGS PRODUCTS AT COMMERCIAL BANKS AND MALAWI SAVINGS BANK	25
TABLE 12: LIST OF CREDIT PROVIDERS FOUND IN THE STUDY AREA BY TYPE OF INSTITUTION	28
TABLE 13: SUMMARY OF SELECTED AGRICULTURAL LOAN PRODUCTS- MALAWI.....	29
TABLE 14: COMPARISON OF SELECTED MFI LOAN PRODUCTS TO OIBM LOAN PRODUCTS	32
TABLE 15: NGO PROJECTS.....	33
TABLE 16: RANKED PARTICIPANT PREFERENCES FOR SAVINGS PRODUCT ATTRIBUTES	42
TABLE 17: RANKED PARTICIPANT PREFERENCES FOR LOAN PRODUCT ATTRIBUTES	48
TABLE 18: FINANCIAL SERVICES TRANSACTIONS COSTS RESULTS FROM TA ZULU	57
TABLE 19: FINANCIAL SERVICES TRANSACTIONS COSTS RESULTS FROM TA KALOLO	57

TABLE OF FIGURES

FIGURE 1: PROJECT CAUSAL MODEL.....	2
FIGURE 2: MAP OF MALAWI WITH REGIONS & DISTRICTS	5
FIGURE 4: OIBM SAVINGS AND LOAN VOLUMES 2003-2007.....	7
FIGURE 3: OIBM OUTREACH 2003-2007	7
FIGURE 5: MAP OF OIBM MOBILE BANK STOPS AND STUDY LOCATIONS	8
FIGURE 6: PARTICIPANTS’ REPORTED USE OF FINANCIAL SERVICES.....	15
FIGURE 7: PERFORMANCE OF THE COMMERCIAL BANKS (12/31/06).....	24
FIGURE 8: AGRICULTURAL CREDIT THROUGH NASFAM.....	34
FIGURE 9: PERCENTAGE OF HOUSEHOLDS GROWING TOBACCO.....	35
FIGURE 10: OIBM SAVINGS PRODUCTS OUTREACH AND VALUE (AS OF MAY 2007).....	38
FIGURE 11: OIBM LOAN PRODUCTS OUTREACH AND VALUE (AS OF MAY 2007)	39
FIGURE 12: PERCEPTIONS OF TRENDS IN USE OF SAVINGS INSTITUTIONS MICHINJIROUTE	43
FIGURE 13: PERCEPTIONS OF TRENDS IN USE OF SAVINGS INSTITUTIONS - DEZDA ROUTE.....	43
FIGURE 14: ACCESS TO SAVINGS INSTITUTIONS BY MARKET SEGMENT	45
FIGURE 15: PERCEPTIONS OF TRENDS IN REMITTANCE PROVIDERS	47
FIGURE 16: LENDING INSTITUTIONS IDENTIFIED BY SURVEY PARTICIPANTS WITH FREQUENCY OF MENTION	47
FIGURE 17: PERCEPTION OF TRENDS IN USE OF LOAN PROVIDERS – MCHINJI ROUTE	49
FIGURE 18: PERCEPTION S OF TRENDS IN USE OF LOAN PROVIDERS - DEDZA ROUTE	49
FIGURE 19: ACCESS TO LENDERS BY SOCIO-ECONOMIC GROUP	52
FIGURE 20: INTEREST PAID ON DEPOSITS AND INFLATION RATES: 2001-2007	59

ABBREVIATIONS

ATM	Automated Teller Machine
BMGF	Bill and Melinda Gates Foundation
CADECOM	Catholic Development Commission in Malawi
CUMO	Concern Universal Microfinance Organization
DEMAT	Development of Malawian Enterprises Trust
FGD	Focus Group Discussion
FINCA	Finance for International Community Assistance
FINCOOP	Financial Cooperative Limited
FITSE	Finance Trust for the Self Employed
FSM	Financial Services Matrix
FSP	Financial Service Provider
FSTA	Financial Sector Trend Analysis
FSTC	Financial Services Transactions Costs Mapping
GDP	Gross Domestic Product
GoM	Government of Malawi
GVH	Group Village Headmen
IHS	Integrated Household Survey
MARDEF	Malawi Rural Development Fund
MAMN	Malawi Microfinance Network
MASAF: (COMSIP)	Malawi Social Action Fund: (Community Savings and Investment Promotion)
MFI	Microfinance Institution
MFO	Microfinance Opportunities
MoAI	Ministry of Agriculture, Irrigation, and Food Security
MoF	Ministry of Finance
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.
MWK	Malawi Kwacha
NABW	National Association of Business Women
NASFAM	National Smallholders Farmers' Association of Malawi
NBM	National Bank of Malawi
NBFI	Non-Bank Financial Institution
NGO	Non-Government Organization
OI	Opportunity International
OIBM	Opportunity International Bank of Malawi
PAR	Product Attribute Ranking
PoS	Point-of-Sale
PRA	Participatory Rapid Appraisal
RBM	Reserve Bank of Malawi
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperatives
SC	Sub-Chief

EXECUTIVE SUMMARY

The *Assessing the Impact of Innovation Grants in Financial Services* project (known as the *Financial Services Assessment* project; hereafter *FSA*), undertaken by the IRIS Center at the University of Maryland, College Park, together with its partner Microfinance Opportunities, is assessing the impact of grants provided by the Bill and Melinda Gates Foundation (BMGF) for the design and development of innovations in financial services. The *FSA* project will assess the impact of new financial products, services and delivery systems on poverty alleviation, sustainability and scalability. The approach taken by the *FSA* project gives new emphasis to issues such as access to financial services and the role of the regulatory environment.

The Financial Landscape study is one in a series of studies assessing the impact of Opportunity International Bank of Malawi's (OIBM) rural service delivery innovation. OIBM received a grant from the BMGF to pioneer a model of rural service delivery in Malawi, which they described as a "scalable, technology-driven, low cost approach to providing a full range of financial services to families living in remote rural areas."¹ The technological components of the innovation, which include satellite branches, mobile bank branches, ATMs, and Point of Sale (POS) devices, will be used to deliver a range of financial products including loans, savings, and insurance to the rural population. The mobile bank was the first of these delivery channels to be rolled out and is therefore the primary focus of the *FSA* research in Malawi.

The rationale for OIBM's innovation is that only 5 to 10 percent of the rural population in Africa is believed to be reached by microfinance services. For those rural microentrepreneurs who access services, the transaction costs are high, due to transportation costs and the opportunity costs of time. Success for OIBM will depend on how their innovation bears on these issues.

The other studies in the OIBM research series include a quantitative Impact Assessment study, a qualitative Financial Diaries study, and an Enabling Environment study. The findings of the Financial Landscape research will complement the results of the Impact Assessment study and the Financial Diaries particularly as they relate to the use of financial services. The Financial Landscape Baseline study is the subject of this report.

The Financial Landscape research employs qualitative methods to explore household *access* to financial services. The overall aim of the study is to understand changes in the available financial service options and preferences of financial service customers who are exposed to the financial innovation. The Financial Landscape research relates to impact assessment through the examination of how the innovation fits into the existing financial landscape and by asking: given the parameters of access in this financial landscape, what are the implications for the use of financial services generally and, in particular, the use of the innovation?

Through the use of baseline and endline surveys, the Financial Landscape research examines how the available financial service options change after the introduction of the innovation, and how these changes affect access and choice for different socio-economic groups. The Financial Landscape study places OIBM's innovation in the context of local competition to understand how competitive interactions dampen or multiply the impact of the innovation. In this way, the research helps reveal the value

¹ Opportunity International. *Extending Financial Services to the Rural Poor – A Sustainable Banking Model for Africa: OIBM Proposal to BMGF* (October 2005).

proposition of OIBM’s innovation—that is, *the unique added value that OIBM offers to its customers via these new services.*²

The Financial Landscape Baseline study employed focus groups and structured individual interviews to document the range of financial service options in the area and provide insight into the value proposition of the innovation. The research documented which financial institutions, products, and services were available, which ones were preferred by rural customers, and why. It also examined how these preferences have changed over time. The research further identified barriers to financial services access. The study considered the financial landscape – including formal and informal services - from the perspective of both clients and financial service providers, particularly emphasizing clients. The process will be repeated in two to three years to provide an endline – an indication of whether and how the landscape has changed relative to the introduction and operation of the service innovation.

Opportunity International Bank of Malawi (OIBM), headquartered in Lilongwe, is a commercial bank that started operations in 2003. It is a savings-led institution that focuses on serving the low-income market. It currently offers a range of financial products designed to appeal to all segments of the population. At the end of May 2007, OIBM had 70,033 depositors, \$7.1 million on deposit, 9,526 borrowers and \$5.1 million in portfolio outstanding.

The Baseline research was carried out around the six locations that OIBM intends to serve with the mobile bank. These were: Mchinji and Kamwendo in the Mchinji District, Nsundwe and Nkhoma in the Lilongwe District, and Chimbiya and Dedza in the Dedza District. The research consisted of 17 Participatory Rapid Appraisals (PRAs, a form of focus group discussion) with 145 rural residents and 23 key informant interviews with community members and financial service providers.

Supply-side research showed that the study area is not an empty marketplace nor is it unbanked. A relatively diverse financial landscape was already in place before OIBM entered the market. The supply-side landscape featured two major financial products: savings and loans. However, few of the existing institutions provide both kinds of products to the rural population. As OIBM enters this market, it is uniquely positioned to provide both formal savings and microcredit within a single institution – “one-stop shopping.”

Existing savings products that are dominant in this financial landscape include basic savings and fixed-deposit accounts. These products were offered through bank branches located in the larger towns, e.g. Lilongwe, Mchinji, and Dedza. In these areas OIBM will face competition from three commercial banks, as well as the parastatal Malawi Savings Bank, in terms of attracting rural deposits.

On the loan side, the product market was more complicated and divided between microenterprise and agricultural loans. Most of the available agricultural loans are in-kind. Micro-enterprise loans are usually in cash. Group loans predominated, but individual loans were also available. OIBM offers the full selection of loan products: micro-enterprise, agricultural, group and individual loans.

² Value proposition is defined as: The unique added value an organization offers customers through their operations. From www.balancedscorecard.org/basics/definitions.html.

The OIBM mobile bank will give OIBM a presence in more locations than any other lending or savings institutions. Rural penetration may be limited however, because the mobile bank cannot drive off the paved road.

With a range of savings products and financial institutions available to people in this area, a key question is: what do they actually access? The research found that access varies by socio-economic status. The Very Poor only accessed savings products at one parastatal. Whereas the Poor had a wider range of commercial bank and parastatals from which to choose, while the Well-to-Do had the best and most extensive access to the range of products and institutions available in this market.

The Very Poor could access loans from one parastatal and a few NGOs. The Poor were able to access loans from these same institutions, plus OIBM and a second parastatal. As with savings, the Well-to-Do market segment could choose from all available service options.

Access to savings institutions tended to be mediated by physical proximity and cost. Our findings showed that the most accessible and/or cheapest institutions to use at any given time tended to be the most popular. Trends in access to loans over the service area varied considerably. Each lending institution had a different target market and different conditions for eligibility, so there were many variables at work in determining villager access. The transaction costs of accessing financial products were also investigated and it was found that transportation costs and the time to access savings or loans were both very important.

Although only a minority of villagers interviewed had financial services, they appeared to be informed about the availability of different financial service institutions and product options. However, they were neither uniformly nor accurately knowledgeable about specific product features. Additionally, we found misinformation about the available financial options in some places, while in others we learned that information about existing financial services and products was not communicated evenly among community members.

The initial evidence from this baseline research suggests several areas where OIBM can add value to this market. The value proposition of OIBM in this context can be considered as follows:

- *Bringing the bank to the customers* – in at least 4 of the 6 mobile bank stops, there were no existing formal financial services with the exception of the Post Office. If OIBM can serve these locations consistently they can build customer trust. In turn, they will be able to attract and retain a loyal customer base by reducing transportation costs and increasing security for clients. This, above all, is what the BMGF-funded mobile bank enables.
- *OIBM offers a complete range of financial products* - loans, savings, payment services, and remittances, all of which were demanded in rural areas. OIBM uniquely offers the possibility of “one-stop” shopping.
- *OIBM can reach the full range of client market segments:* the Rich, the Poor and possibly the Very Poor. By diversifying the markets that it serves, OIBM is lowering its risk of lending while at the same time increasing financial inclusion.
- *OIBM knows how to work with the poor.* It was clear from research among villagers that most commercial banks did not provide the customer care for which rural people are looking. Impressions of OIBM tended to be positive in this regard. However, it was not yet clear if OIBM has a competitive advantage over some MFIs that reach Poor and Very Poor people in remote rural areas.

As noted earlier, this report presents the results of the Financial Landscape Baseline. Approximately three years after the completion of this research - around July 2010 - we will return to the same rural areas to carry out a similar study that will constitute the Endline. The intent will be to document changes in access and the makeup of the financial landscape – developments that may correlate with the introduction of the OIBM innovation. In this way, the financial landscape study will provide a window on questions of impact.

In addition, the Endline will provide an opportunity for follow-up on a number of questions raised by the Baseline results, including:

- Can OIBM succeed where others have failed? Commercial banks and MFIs had pulled back from some of the areas that OIBM proposes to serve. OIBM faces many of the same challenges that these others faced such as high transportation and communications costs. These challenges speak to the sustainability of the innovation. Additionally, because the OIBM mobile bank cannot leave the paved road, it will be challenged in reaching remote populations. This relates to the potential outreach of the innovation.
- Will OIBM’s rural expansion lead to “additionality” (i.e., will they bring the “unbanked” into financial services) or will it lead to “substitution” (i.e., will they take customers away from existing providers)? Anecdotal evidence suggests that the substitution had already started. This raises the question of how much of an effect the OIBM innovation will have on the net outreach of financial services in rural areas. Another question is what will happen to OIBM’s client base when there is another “new kid in town.”

The results of the Financial Landscape study will be paired with the panel Impact Assessment study, which began in early 2008. That study is a quantitative household survey focused on the scalability and impacts of OIBM’s innovations. It will address research questions linked to the breadth and depth of outreach, and the impact of microfinance innovations at the household level. It is conducted at two points in time—when the innovation was first launched and again several years later. In addition, the project will include an innovative Financial Diaries study that will be conducted from summer 2008 through 2009. This is the first application of the Financial Diaries methodology to an impact assessment. The Financial Diaries will establish a comprehensive picture of the financial inflows and outflows of poor households by gathering data on income, consumption, savings, lending, and investment. It will identify the causal pathways by which impact occurs within households. Finally, a study of the Enabling Environment will be undertaken to identify and explore the most salient factors in the overall environment (macroeconomic conditions, financial regulations, weather, etc.) that mediate the impact of financial services on household well-being.

These components of the *FSA* Project will combine different methods at different moments in time to deliver a singular composite portrait of impact—how and why conditions change. The expectation is that the results will contribute significantly to the learning agenda of BMGF and the field of microfinance in general.

I. Introduction

The *Assessing the Impact of Innovation Grants in Financial Services* project (known as the *Financial Services Assessment* project; hereafter *FSA*), undertaken by the IRIS Center at the University of Maryland, College Park, together with its partner Microfinance Opportunities, is assessing the impact of grants provided by the Bill and Melinda Gates Foundation (BMGF) for the design and development of innovations in financial services. The *FSA* project will assess the impact of new financial products, services and delivery systems on poverty alleviation, sustainability and scalability. The approach taken by the *FSA* project gives new emphasis to issues such as access to financial services and the role of the regulatory environment.

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The Financial Landscape research employs qualitative methods to explore household access to financial services. The overall aim of the research is to understand changes in the available financial service options and preferences of financial service customers who are exposed to the financial innovation. The Financial Landscape research relates to impact assessment through the examination of how the innovation fits into the existing financial landscape and by asking: given the parameters of access in this financial landscape, what are the implications for the use of financial services generally and, in particular, the use of the innovation?

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The Financial Landscape Baseline study employed focus groups and structured individual interviews to document the range of financial service options in the area, and provide insight into the value proposition of the innovation. The research documented which financial institutions, products, and services were available, which ones were preferred by rural customers, and why. It further explored how these preferences changed over time. The research also identified barriers to financial services access. The study considered the financial landscape – including formal and informal services – from the perspective of both clients and financial service providers, particularly emphasizing clients. The research will be repeated in two years to provide an endline – an indication of whether and how the landscape has changed relative to the introduction and operation of the service innovation.

³ Value proposition is defined as: The unique added value an organization offers customers through their operations. From www.balancedscorecard.org/basics/definitions.html.

OIBM'S INNOVATION

Opportunity International (OI), a grantee of the BMGF, is pioneering a model of rural service delivery in Malawi. This innovation is a “scalable, technology-driven, low cost approach to providing a full range of financial services to families living in remote rural areas.”⁴ The technological components of the rural innovation are satellite branches, mobile bank branches, ATMs, and Point of Sale (POS) devices. These are to be the delivery channels for a range of financial products including loans, savings, and insurance to the rural population.

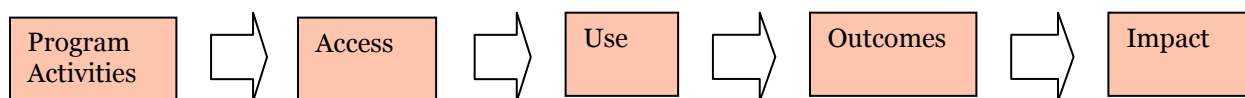
The rationale for OIBM’s innovation is that they believe only 5 to 10 percent of microfinance clients reside in rural areas, whereas 75-80% of the African population lives in rural areas. For those rural microentrepreneurs who access services, the transaction costs are high due to transportation costs and the opportunity costs of time. Success will depend on how the innovation bears on these issues.

ACCESS

Access is at the heart of this study, reflective of recent scholarship suggesting a strong connection between access to financial services for low-income populations and national development (e.g. World Bank 2008). The term access has been employed in the microfinance literature in myriad ways. Often it connotes use or uptake of financial services. In other contexts, access has referred to the availability of financial services. For its part, the *FSA project* has reverted to the more traditional lexical meaning of access: *freedom or ability to obtain or make use of something*.⁵ That is, we are interested in what financial services are available *and* whether potential clients, particularly those with low incomes, are able to obtain and make use of them. This model distinguishes access from use. The concept of use is interpreted here to include both the uptake of the product (outreach) and how the product is used.

The following diagram (figure 1) presents the causal model underlying the Impact Assessment project:

FIGURE 1: PROJECT CAUSAL MODEL



In sum, the significance of access in impact assessment research is that impact will vary according to what extent and how clients of different income levels can and do avail themselves of the financial services in their area.

As noted earlier, the issues surrounding access are the primary focus of this Financial Landscape research. Issues surrounding “use” of financial services will be explored more thoroughly in other components of the *FSA project*, such as the Financial Diaries and Enabling Environment studies. Collectively these studies will allow us to understand how mediating factors affect the “Outcomes” and “Impact” of financial service interventions. The outcomes and impacts themselves will be measured objectively via the quantitative Impact Assessment study.

4 Opportunity International. Extending Financial Services to the Rural Poor – A Sustainable Banking Model for Africa: OIBM Proposal to BMGF (October 2005).

5 Merriam-Webster online dictionary.

OUTLINE OF REPORT

This report is structured as follows: Chapter Two provides background on Malawi and introduces the reader to OIBM and its financial innovation. It provides information on the study location, the research methods, tools, and sampling approach. Demographic data for the sample and socio-economic data for the study region are included. Chapter Three reviews the supply of financial services, including formal, semi-formal and informal providers offering savings, loans, remittances, and insurance products. Chapter Four examines the same financial landscape from the demand perspective. The chapter includes an examination of transaction costs and information availability as mediating factors in access to financial services. Chapter Five, the conclusion, explores the value proposition of OIBM's innovation, given the existing financial landscape.

II. Purpose and Design of the Research

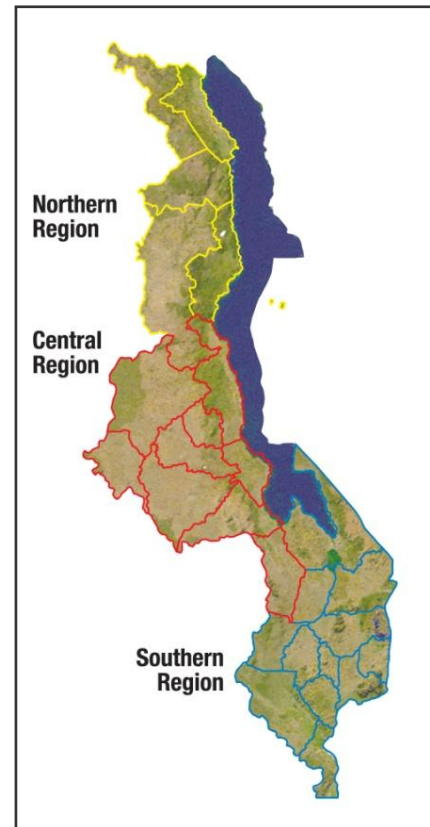
BACKGROUND: MALAWI

Malawi is a small country, located in southern Africa, with a land area of 98,080 square kilometers (see figure 2). The population is estimated to be 13.2 million, of which 46 percent are less than 14 years old.⁶ Malawi ranks 166 out of 177 on the Human Development Index and is one of the poorest countries in the world, with an estimated GDP per capita (PPP) of \$USD 600.⁷ Fifty-two percent of the population lives below the national poverty line, while 22.3 percent of the population is considered ultra-poor, with incomes below that necessary for adequate food consumption.⁸ In terms of the international poverty line, 28 percent of the population lives on less than \$USD 1 per day.⁹

The economy is dominated by the agricultural sector: 85 percent of the population lives in rural areas and 90 percent of the labor force derives its income from agriculture. Crop production provides 73 percent of rural household income, and the agricultural sector provides most of the raw materials for the manufacturing sector.¹⁰ Agriculture also provides four-fifths of all export revenues, of which tobacco accounts for 53 percent. Yet, agricultural activities only contribute 35 percent of national GDP because the agricultural sector is dominated by smallholder production.

Most Malawians depend on subsistence agriculture. Eighty-five percent of all households are smallholder households and more than three-quarters of these cultivate less than one hectare of land. The majority of land under cultivation (70 percent) is used to grow maize, the staple crop, and most agricultural production is for household consumption.

FIGURE 2: MAP OF MALAWI WITH REGIONS & DISTRICTS



6 National Statistical Office of Malawi. Population Projections. www.nso.malawi.net. (August 2007)

7 UNDP Human Development Report, 2006. www.undp.org.

8 The Integrated Household Survey 2004/2005 found that the share of population below the Poor poverty line was 52.4%. The Poor poverty line is defined as incomes or consumption below MWK 16,165 per person per year or 44.3 MWK per day. This was roughly equivalent to USD \$0.50 per person/day at the time of the survey. The share of the population considered Ultra Poor was 22.3%. The Ultra-Poor poverty line is also called the food poverty line. The Ultra-Poor group has incomes or consumption below MWK 10,029 per person per year or USD \$0.31 per person/day. The Ultra Poor poverty line is set at the income level which is required to supply a basic level of food consumption (based on a minimum number of calories per person) and nothing more (Integrated Household Survey 2004/2005, Volume I, Household Socio-Economic Characteristics. (October 2005) Lilongwe: National Statistical Office, Malawi).

9 "...in 2004, one US dollar was equivalent in terms of purchasing power to 28.13 Malawi Kwacha. This translates to a \$1 day poverty line of MK 11,051 per person per year. In 2005, the portion of the population living below this poverty line was 28%." Republic of Malawi and the World Bank. "Malawi Poverty and Vulnerability Assessment: Investing in our Future. Draft. June 2006. www.aec.msu.edu/fs2/mgt/caadp/malawi_pva_draft_052606_final_draft.pdf (June 2, 2008.)

10 Burritt, p. 53

BACKGROUND: OPPORTUNITY INTERNATIONAL BANK OF MALAWI

Opportunity International Bank of Malawi (OIBM), headquartered in Lilongwe, the capital of Malawi, is a commercial bank that started operations in 2003 as a savings-led institution. The mission of the bank is “to provide high value financial services to meet the needs of economically disadvantaged Malawians”.¹¹ OIBM has four permanent branches located in Lilongwe (2), Kasungu and Limbe. They offer a variety of financial products and services including loans, savings, payment services and foreign exchange products, to client market segments ranging from the economically-active poor to wealthy individuals and corporations. At the end of May 2007, before the mobile bank operations began, OIBM had 70,033 depositors, \$7.1 million on deposit, 9,526 borrowers, and \$5.1 million in a portfolio outstanding demonstrating strong growth since 2003 (see figures 3 and 4). The depositor to borrower ratio was 7.35 while the deposits to loans ratio was only 1.39. This ratio of deposits to loans demonstrates that OIBM is a savings-led institution that could fund its loan capital from customer savings.

OIBM’s Innovation: Rural Expansion Plan

OIBM’s operations were focused on urban centers until mid-2007, when they began expanding into rural areas. OIBM’s rural innovation consists of an expansion plan with three stages. The first stage is the phased roll-out of mobile banks along various routes radiating out from Lilongwe. These mobile banks are considered an interim strategy, to build up business that can support the last stage of the strategy. The second stage is the installation of POS devices at farm-input suppliers and other vendors in rural locations. The third and final stage is to create a network of ATM kiosks (staffed bank outlets) in the same locations as the current mobile bank stops. OIBM estimates that it will take three years for this expansion plan to be fully implemented.

PHOTOGRAPHS OF THE BMGF-FUNDED MOBILE BANK AT OIBM



¹¹ <http://www.oibm.mw/about/mission>. (June 17, 2008)

FIGURE 3: OIBM OUTREACH 2003-2007

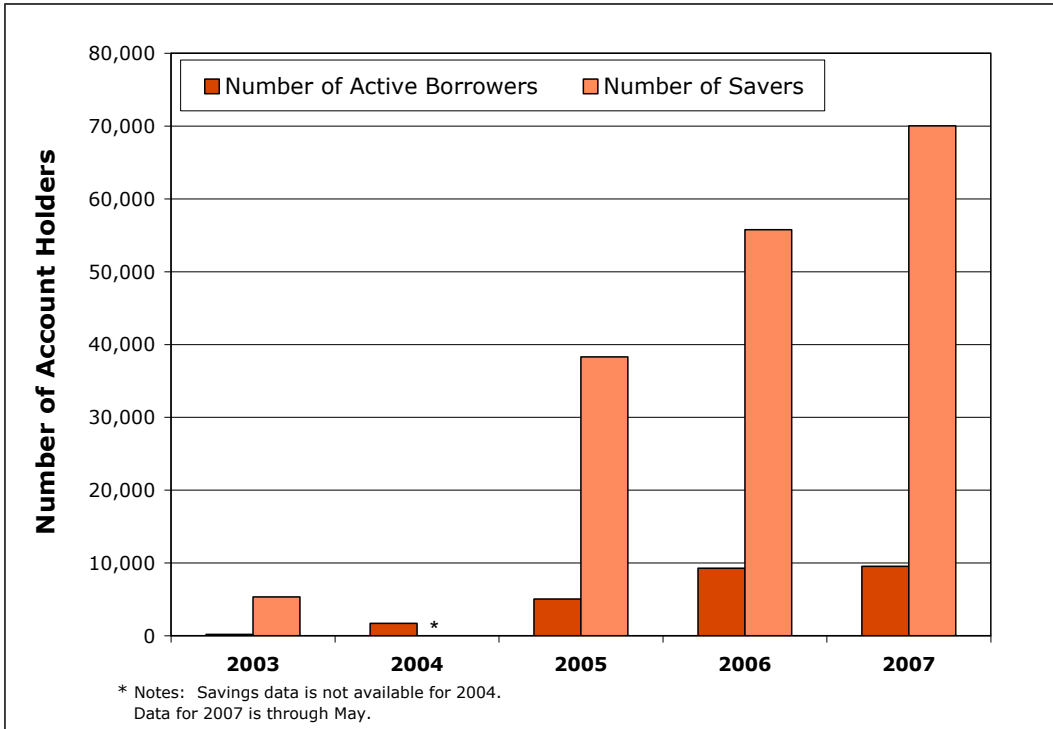
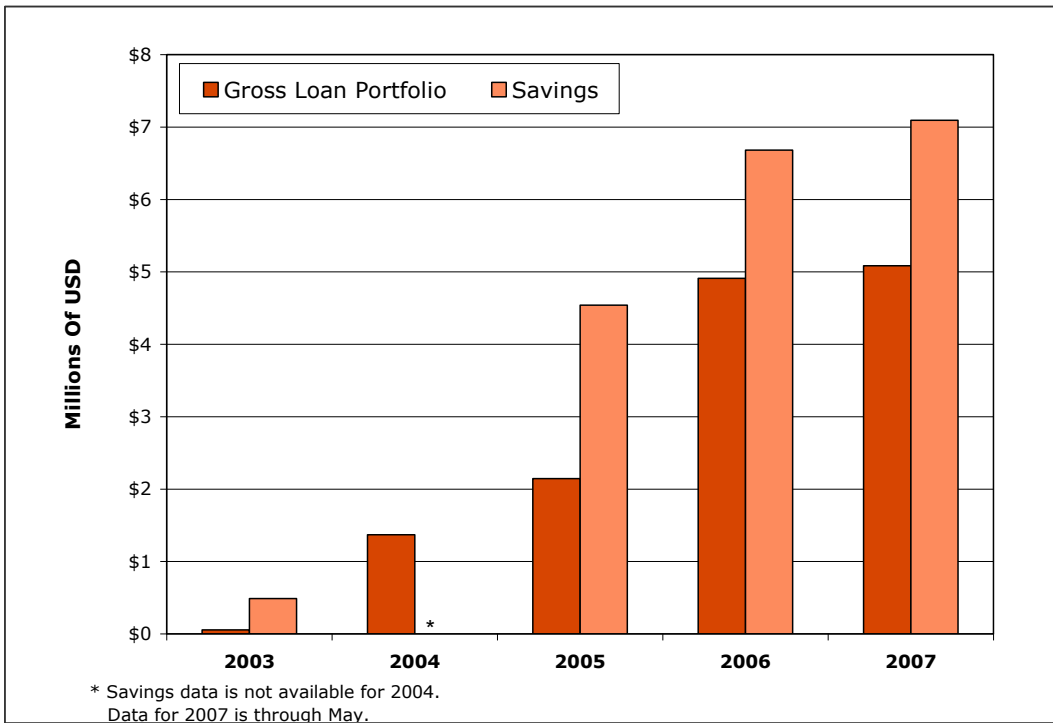


FIGURE 4: OIBM SAVINGS AND LOAN VOLUMES 2003-2007



Stage I: Mobile Bank

The Financial Landscape study was designed to assess the landscape within the areas of the first phase of the mobile bank roll-out, and specifically the areas served by the mobile bank funded by the BMGF. The mobile bank will make stops on two routes originating in Lilongwe: (1) Lilongwe to Mchinji; and (2) Lilongwe to Dedza. Mchinji is a border town located next to Zambia, while Dedza borders Mozambique. There will be two stops along each road, in addition to stops in the towns at the end of each route. The bank is expected to stop once or twice a week in each location. The bank, an armored vehicle, is not able to drive off the tarred road. This is significant because it means that the mobile bank is limited to operating on these two main routes and one side road which leads to a Mission settlement in Nkhoma. See Annexes-Chapter 2 for the proposed schedule of mobile bank stops. Figure 5 shows the locations of the mobile bank stops and research activities with villagers. Box 1 indicates the distances between the mobile bank stops.

The mobile bank will serve as a roving bank branch that can carry out transactions in real time through the use of technology. ATM transactions are available through a built-in ATM machine.¹² If for some reason the real-time link is down, daily transactions can be uploaded to the OIBM system back in Lilongwe at the end of the day. Loan products will be supported by loan officers who reside in the communities where the bank stops, while loan approvals will be done at headquarters, in Lilongwe.

FIGURE 5: MAP OF OIBM MOBILE BANK STOPS AND STUDY LOCATIONS



Key: The bank stops are indicated by the mobile bank icons, while the research sites are indicated by the blue dots.

BOX 1

Note that it takes just over one hour to drive from Lilongwe to Mchinji. From Lilongwe to Dedza takes a bit longer, about an hour and fifteen minutes. Nsundwe is about halfway between Lilongwe and Mchinji while Kamwendo is about 15 kilometers or 10 minutes from Mchinji. Nkhomo is a thirty to forty minute drive from Lilongwe. Although distant from the main Lilongwe to Dedza route, Nkhomo, a mission settlement, is distinguished by being accessible by a paved road. Chimbiya is about fifteen to twenty minutes outside of Dedza or about an hour from Lilongwe. OIBM has projected that they will attract customers for the mobile bank from areas within a 15 kilometer radius of each bank stop.

12 “Extending Financial Services to the Rural Poor-A Sustainable Banking Model for Africa” OIBM Proposal to the Bill and Melinda Gates Foundation, October 3, 2005 states that ATMs will allow for deposits and withdrawals.

RESEARCH DESIGN

The Financial Landscape study is designed to address the question of household access to financial services within the market targeted by OIBM. Through the use of Baseline and Endline studies conducted with a two-year interval, the study can assess changes in access after the innovation is introduced. This Baseline study was undertaken before the implementation of the OIBM innovation in early August 2007. The Endline survey will be at the same time as the Endline Impact Assessment in approximately 2-3 years.

KEY RESEARCH QUESTIONS

The study was guided by several key research questions that explored available financial services, and clients' knowledge, use, experience, and perceptions of those services. Emphasis was placed on access for poor households. The ultimate aim was to understand any competitive advantage OIBM has and provide insight into the potential value proposition of the OIBM mobile bank service. The key research questions are shown in Box 2.

RESEARCH TEAM

A team comprised of two MFO staff and local researchers from Kadale Consultants (a Malawian firm based in Blantyre) carried out the research.

LOCATION OF STUDY

The Financial Landscape study was carried out in sites expected to experience impact from the OIBM mobile bank. Research focused on the Lilongwe, Dedza and Mchinji Districts in the Central Region (see figure 2), where the bank will conduct business. Collectively, these three Districts encompass approximately 31 Traditional Authorities (TAs).¹³

OIBM's mobile bank route will include six catchment areas with epicenters consisting of trading centers where the mobile bank will stop. All are located along the main road, the tarred road in Nkoma, or in the towns of Mchinji and Dedza. The catchment areas radiate out an estimated 15 km in all directions from the stops (an estimation made by OIBM in planning the routes). Table 1 shows the Districts and TAs (or sub-chiefs (S.C.s)) that are included in each of the catchment areas.

BOX 2: KEY RESEARCH QUESTIONS

1. What financial service providers (both formal and informal) offer credit, savings, insurance, or remittance products to clients targeted by OIBM? What client segments are targeted by these providers?
2. How have these financial service options changed over the last 3-5 years?
3. What do clients know and understand about these financial service providers and the availability/accessibility of these products and services? Are they correct?
4. What product attributes (e.g. proximity, security, service, fees) are most and least important to the target client base? How does this vary across different client market segments?
5. What market segments are most and least served by existing services? Why?
6. What factors govern norms of access (e.g. gender, ethnicity, income level, education level, occupation, cooperative membership)?
7. What are the transaction costs (in terms of both time and money) involved in accessing financial services currently available?

¹³ A TA is an administrative unit, generally smaller than a district, which is overseen by a traditional chief, who may also be referred to as a TA.

TABLE 1: DESCRIPTION OF OIBM’S MOBILE BANK CATCHMENT AREAS¹⁴

Lilongwe to Mchinji Route			Lilongwe to Dedza Route:		
Bank Stops	District	TAs within 15 km of stop	Bank Stops	District	TAs within 15 km of stop
Nsundwe (TC)	Lilongwe	Kalolo, Malili, Kabudula, Chiseka	Nkhoma (TC)	Lilongwe	Mazengera, Tambala, Kalumbu, Kaphuka
Kamwendo (TC)	Mchinji	Mlonyeni, Zulu, Mavwere (SC), Mkanda	Chimbiya (TC)	Dedza	Kaphuka, Tambala, Kalumbu, Mazengera, Pemba, Chilikumwend o (SC)
Mchinji Boma*	Mchinji	Mlonyeni, Zulu, Mduwa (SC)	Dedza Boma	Dedza	Kasumbu, Kamenya Gwaza (SC), Pemba, Masasa, Kaphuka

Source: Kadale Consultants Research; *Boma is the name for a Government administrative centre; S.C.s are Sub-Chiefs; TC is Trading Center. Data also comes from maps of the mobile bank catchment areas produced by Geospatial Information Systems and Management, Lilongwe, Malawi.

¹⁴ The TAs are of an irregular shape and size. They can overlap into two catchment areas or not. There is no set relationship between the TAs and the catchment areas. We selected the TAs that covered the sites of the actual bank stops. This does not mean that these TAs covered the entire or even the majority of the catchment area for that stop.

DATA COLLECTION TOOLS

The researchers used qualitative tools including Participatory Rapid Appraisal (PRA) exercises (a specialized form of Focus Group Discussion or FGD) and in-depth individual interviews with clients representing the geographic markets targeted by OIBM. Four PRA tools adapted from MicroSave's Market Research for Microfinance Toolkit were used (see box 3).

Further information on the financial landscape was collected through individual interviews with key financial services providers in the study area, as well as key informants including political leaders, local administrators, and/or informal financial services providers. Structured interview guides were used for these interviews. The team also reviewed secondary sources on the financial sector and the impact of microcredit in Malawi.

BOX 3: RESEARCH TOOLS

Financial Services Matrix (FSM): This tool assesses the use of financial services by different market segments in areas targeted by the grantee innovations.

Financial Sector Trend Analysis (FSTA): This tool determines how and why financial institutions, products, and services have been used over time in specific areas targeted for innovation.

Product Attribute Ranking (PAR): This tool assesses respondent perceptions of the key attributes or features of a financial service, documenting the relative importance of those components.

Financial Services Transactions Costs Mapping (FSTC): Using a mapping exercise, this tool assesses the costs in terms of time and transportation when rural people access financial services.

SAMPLING PROCEDURE

The research aimed to have as diverse a sample as possible from each bank stop's catchment area. The sample of PRA participants was selected on a volunteer basis at the village level with the assistance of TA chiefs. The sampling procedure was conducted as follows. The research team identified the 6 TAs that have jurisdiction over each of mobile bank stops. For example, the Kamwendo T.C. falls within the TA Mlonyeni (see table 2). A team representative met with each selected TA Chief and asked them to select eight Group Village Headmen (GVH) at random and have each of these GVH select four villages, one each from the north, east, south and west sides of their cluster. The GVH were then to request each selected village to send one volunteer to a PRA session. The TA Chief was asked to only invite participants from within the 15 kilometer radius area of the bank stop. In this way, 32 volunteers were recruited to attend 4 PRA sessions with 8 participants per session, in each TA. Six TAs were included in the study resulting in a total of 192 invitations extended to villagers to attend a PRA session. This sampling method was intended to obtain a geographic and gender diversified sample from within each TA.

TABLE 2: LOCATIONS OF BANK STOPS AND RESPECTIVE TAS

Trading Centre/Bank Stop	TA
KAMWENDO	TA Mlonyeni
MCHINJI	TA Zulu
MSUNDWE	TA Kalolo
NKHOMA	TA Mazengera
CHIMBIYA	TA Kaphuka
DEDZA	TA Kasumbu

Source: Kadale Consultants Research

Sample: PRA Respondents

The PRA sessions, which examined the demand side of the financial landscape, reached a total of 145 respondents from the six TAs (see table 3). The shortfall between the number of invitees and participants resulted from both scheduling difficulties and poor organization in one TA. The shortfall was greater on the Dedza route than on the Mchinji one. The research team requested that separate groups of men and women be invited for the sessions involving the Financial Sector Matrix tool to see if there were gender differences in perceptions. However, in some cases single gender groups could not be organized. Beyond gender, no other conditions were placed on the composition of the groups. PRA respondents within each TA came from a number of different villages; however, there was no way to ascertain if the team’s request for participants to be selected from the four cardinal directions within each selected GVH had been honored. The study was constrained in some respects by the limited number of experienced users of financial services in some PRA sessions.¹⁵ This reflects the low level of outreach of financial services in rural areas.

TABLE 3: SAMPLE FOR PRA SESSIONS

Trading Centre:	KAMWENDO	MCHINJI	NSUNDWE	NKHOMA	CHIMBIYA	DEDZA
Tool	Sample Groups					
FSM	(2) Mixed	(1) Mixed	(1) Women	(1) Women	(1) Mixed	(1) Mixed
FSTA		(1) Mixed	(1) Men	(1) Men	(1) Mixed	(1) Mixed
PAR		(1) Mixed	(1) Men	(1) Mixed		NA
FSTC		(1) Mixed	(1) Mixed	NA	NA	NA
Number of PRAs	2	4	4	3	2	2
Numbers of Respondents	13	29	40	29	17	18

Sample: Individual Interview Respondents

In addition to the PRA sessions, key informants, knowledgeable about their community’s financial landscape, were interviewed. Interviewees, who were selected purposively using convenience sampling methods, included a moneylender, a TA chief, two clerks to TA chiefs, the wife of a TA chief, a store owner, an agricultural trader, and a ROSCA member. These respondents also shed light on the demand side of the financial landscape.

To explore the supply side of the financial landscape, the team interviewed key informants at financial service providers active in the study locations. The list of these interviews is provided in Table 4. In addition to these interviews, the researchers observed branches of NBS Bank, National Bank, and the Malawi Savings Bank in Mchinji, and visited branches of NBS Bank, National Bank and Malawi Savings Bank in Lilongwe. These visits gave the team an opportunity to observe customers who were using the banks, how long the lines were the condition of the

¹⁵ The research design called for carrying out *Financial Landscape PRAs*. This PRA has participants compare the product attributes of one MFI to those of a similar product at competing MFIs. It provides detailed information about client preferences on one product. It was determined that the *Financial Landscape PRA* was not suitable for the OIBM study because (1) participants were not experienced enough with financial products to make the comparisons and (2) OIBM will offer a range of products in the study area.

facilities, how busy they were and whether ATM machines were available. In the Lilongwe branches, interviews were held with bank staff.

TABLE 4: SAMPLE OF FINANCIAL SERVICE PROVIDERS

Commercial Banks	Government Programs	MFIs	SACCOs	Other
NBS Bank	MARDEF	FINCA	MUSCCO	NASFAM
National Bank	MRFC	FITSE	FINCOOP	MAMN (Malawi Microfinance Network)
	MASAF (COMSIP)	CUMO		DMS Project
	DEMAT			
	SEDOM			

LIMITATIONS OF STUDY

The PRA sessions reached a total of 145 respondents (one person participated in two sessions), which was less than the planned 192 participants. Achievement of the planned number of PRAs was limited primarily by a delay in organizing the sample. One limitation of the sampling method was that no single TA covers the entire 15 kilometer radius catchment area of a bank stop. This means that the sample was selected through sub-sets of all villages within the 15 kilometer catchment areas. In addition, the sample design proved too complicated to implement as planned due to the necessity of working through TA Chiefs to sample the rural population. The plan called for purposively selecting PRA participants to obtain representatives of different occupational groups from geographically diverse locations within the study area to ensure that more remote areas were represented.

The actual sampling method used, and described under Sampling Procedure above, focused solely on selecting people from diverse geographic areas within the selected TAs. As the research team could not observe the selection process used by the TA Chiefs or the Group Village Headmen, we reviewed the list of villages represented by the PRA participants instead. Nonetheless, the resulting sample was geographically spread, with almost every participant representing a different village.

Another deviation from the planned sample design was the use of mixed gender groups in the Financial Sector Matrix PRA sessions. The research team requested that separate groups of men and women be organized for these sessions so that the discussions on access to financial institutions could be analyzed by gender. Often, however, participants arrived at the meetings in mixed groups and it was impossible to obtain the preferred single gender groups as planned.

This study relied on purposive sampling for the selection of financial service providers. The plan was to sample all the financial service providers that offer services in the study area. While the team found that most financial service providers were open to sharing information about their institution and its products and services, two of financial service providers refused to be interviewed as they believed the research team was working for OIBM. This limitation may be unavoidable in a competitive business environment.

FINDINGS: SOCIO-DEMOGRAPHIC PROFILE OF SAMPLE

Characteristics of the Sample

Altogether 145 people participated in the PRA sessions: 59 percent were men and 41 percent women. Socio-economic data were collected from each participant in the PRA sessions (see table 5). The data indicate a low level of use of formal financial services:

- 27 percent of participants had used a formal financial institution within the past year;
- 6 percent had an outstanding loan;
- 22 percent reported having savings at a formal financial institution, while 75 percent had savings of some type;
- 7 percent of participants were members of a ROSCA; and,
- 1 percent had a formal insurance policy.

Characteristics of the Population in the Study Area

To put our sample into some context, we compared the sample socio-demographic data to national level socio-economic statistics. In contrast to the socio-demographic profile survey data, the Integrated Household Survey of 2004/2005 (IHS) found that at the national level, 13 percent of households had received loans in the period 2003-2004. For the study area, the statistics were: Lilongwe Rural 15.8 percent, Mchinji 5.2 percent and Dedza 18.7 percent. These percentages are significantly higher than the share of study participants who reported having a loan outstanding (6 percent) (see figure 6).¹⁶ Other authors have noted that access to credit in rural areas has declined in recent years.¹⁷

The same national survey found average household size to be 4.5 people.¹⁸ Among the 20 percent poorest households it was 5.9 people compared to 3.2 people in the richest 20 percent. The average household size of survey participants (5.5 people) corresponds to those of one of the lowest income quintiles of the population.

While the socio-demographic profile did not specifically ask participants about farming activities, focus group participants reported that most people in their communities earn their income from agricultural activities. National statistics show that for 81.4 percent of the population of Malawi, farming is the main economic activity.

¹⁶ This data resulted from the question: Do you have any outstanding loans? As a result, participants may have interpreted that as: Do you have a loan at this time? The low level of positive responses could reflect an issue of seasonality, i.e. the time of the year when the question was asked, which was between the harvest and the next planting season. Loans are often taken out at planting time or during the dry season and paid back at harvest time.

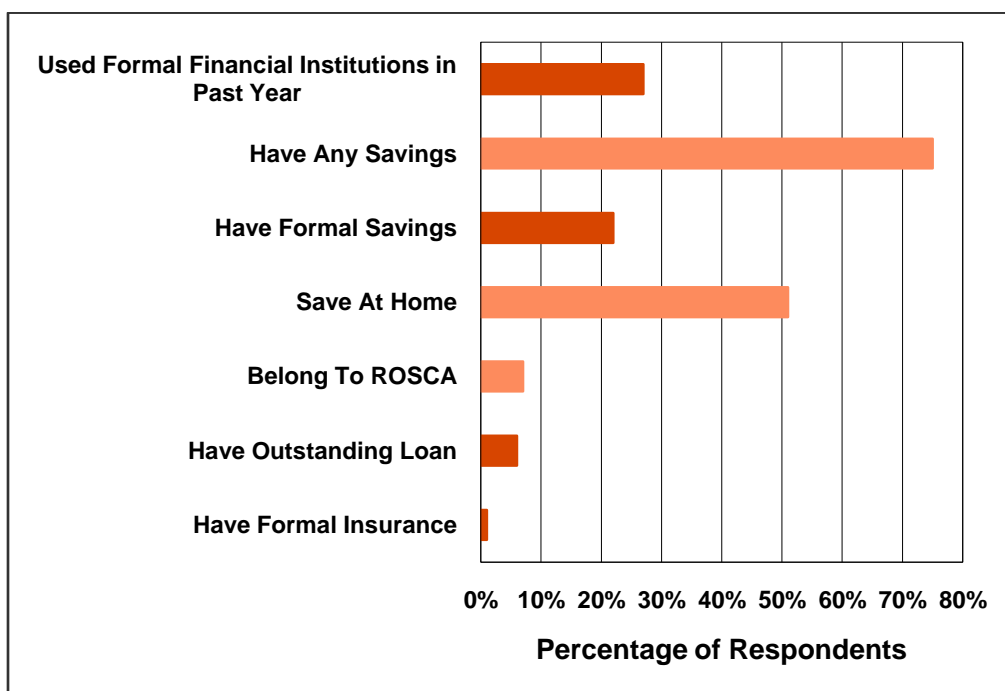
¹⁷ Burritt, p. 58

¹⁸ The Integrated Household Survey of 2004/2005 (IHS)

TABLE 5: PARTICIPANT SOCIO-DEMOGRAPHIC PROFILE AND COMPARISION TO NATIONAL STATISTICS

Indicator	Survey Participants	National Statistics
Total Participants	145	NA
Gender	41 percent Women 59 percent Men	51 percent Women 49 percent Men
Age (Average)	36	NA
Education Level (Average)	Primary School Incomplete	56 percent completed primary school
Size Of Household (Average)	5.5 persons	4.5 persons (5.9-3.2 in region)
Number In Household Earning Income (Average)	Less than 2	NA
Dependency Ratio	3.39	1.1
Participants Engaged In Wage Employment	26 percent	8.8 percent
Participants Engaged In Self-Employment (Not Including Farming)	37 percent	9.8 percent
Participants Using Formal Financial Institutions In Past Year	27 percent	NA

FIGURE 6: PARTICIPANTS' REPORTED USE OF FINANCIAL SERVICES



RESPONDENTS PERCEPTIONS OF THE SOCIO-ECONOMIC STATUS OF THEIR COMMUNITY

Participants were asked to describe the people living in their communities and to identify different socio-economic groups by their level of wealth. Most participants described their communities as consisting of three socio-economic groups: *Osaukitsitsa* (Very Poor), *Osauka* (Poor) and *Ochita Bwino* (Rich or Well-to-Do). *Osaukitsitsa* people find it very hard to provide for their basic needs. This group includes the elderly, the disabled and orphans. *Osauka*, the poor, means those who are lacking. These people find it difficult to get basics such as salt and soap, but are able to work at casual labor to earn some income. Some participants noted that the *Ochita Bwino* can be recognized by their cars, which are in good running condition. Between the Poor and Well-to-Do, some participants described another group, the *Opezako*. This group is able to meet their basic needs by selling produce or engaging in trade. For our purposes they are combined with the *Osauka* (see table 6).

TABLE 6: SOCIO-ECONOMIC CATEGORIES AS DEFINED BY THE COMMUNITY

	<i>Osaukitsitsa</i> Very Poor	<i>Osauka</i> Poor	<i>Ochita Bwino</i> Well-to-Do/Rich
Food	Cannot grow enough food. Work as <i>ganyu</i> in order to earn cash or maize. Some receive food aid during the hungry season. Have no granary	Grow just enough food for the whole year. Some may run short for one or two months. Have a granary	Grow surplus food. Can sell it for cash or use it to pay for <i>ganyu</i> labor. Have a granary
Agricultural Activities	Grow maize	Grow different crops like maize, tobacco and groundnuts Cannot harvest more than 5 bales of tobacco	Able to harvest more than 5 bales of tobacco Rely on money from tobacco sales
Diet	Not able to buy chicken or meat.	Eat the same type of vegetable relish. Not able to buy chicken or meat.	Eat high quality food such as eggs, chicken and meat.
Assets	No assets	May have goats or chickens Some have bicycles.	Have goats, chickens, some cows. Have ox carts and bicycles.
Housing	Poor quality; no extra rooms, no windows; grass thatch roof.	Better quality, with windows and grass thatch roofs.	Have corrugated iron roofs
Financial Services	Cannot afford bank accounts	Very few have bank accounts.	Some have bank accounts
Basic Necessities	Have trouble affording basics such as soap No clothes	Can more easily afford soap	Able to buy soap Have lots of clothes
Businesses	Do <i>ganyu</i> for the Rich	Run small businesses like selling tomatoes.	NA
Other	In Dedza, these households send their children away to earn money.		

Notes: The staple food in Malawi is Nsima, a maize meal porridge, making maize the most important food crop. *Ganyu* is the term for casual labor.

Respondents described the characteristics of the three groups along several axes: access to food (maize), agricultural activities, diet, ability to acquire basic household items, assets, quality of housing, access to financial services, and businesses. There were some marginal differences in the descriptions of the groups between PRA sessions and particularly between those on the Mchinji and Dedza routes. These may reflect actual differences in wealth levels in different communities or may just reflect variations in perception between survey participants.

The PRA research did not provide any information on the relative shares of the communities represented by each socio-economic group. National level data (from the IHS) however, shows the proportions of households in the three districts that fell under the official poverty lines in 2004. The data indicate that the Lilongwe Rural district has lower than average poverty rates, while Mchinji and Dedza have higher than average rates. Mchinji, surprisingly, also has a much higher proportion of Ultra-Poor than the other two districts (see table 7).¹⁹

TABLE 7: POPULATION AND POVERTY STATISTICS FOR DISTRICTS WITHIN STUDY AREA

District	Number of Households	Poverty Rate	Ultra-Poverty Rate
Lilongwe Rural	251,640	37.5 percent	11.7 percent
Mchinji	86,092	59.6 percent	30.4 percent
Dedza	135,849	54.6 percent	20.9 percent
Malawi Total	2,731,346	52.4 percent	22.4 percent

Source: IHSS 2004/2005

Economic Activities in the Study Area

PRA participants reported that most households in the study area earn their living from farming. The main staple crop is maize, while tobacco is the most significant cash crop. Other crops include groundnuts (peanuts) and vegetables. A much smaller number of households have businesses. These mostly operate during the non-agricultural season. They include trading in produce or groceries, brewing and selling beer, collecting and selling firewood, knitting, and baking donuts. Very few people in the communities were reported to have full time salaried employment, and most that did worked for the local government, schools, or hospitals.

Agricultural Cycle in Study Area

The agricultural cycle provides the foundation for the economic cycle in the study area. Planting season starts when the rains come in either November or December.

Harvest for the main crops such as maize, tobacco, and peanuts are in April, May, or June. Minor crops are grown at other times. In some locations, maize can have multiple plantings. This cycle results in people needing cash for agricultural inputs in the months leading up to November. From April through June, people have cash that they can

“After selling crops, we use the money for running small businesses so that it can keep us until the next harvest season when we will be able to sell more produce.”

PRA participant in TA Kalolo

¹⁹ Ultra-Poor is an official category used by the government to define those under the Food Poverty Line. Very Poor is the English translation of the term that villagers gave to the lowest socio-economic group in their communities.

save or invest. Some people save their cash by investing it in small enterprises. Before planting season, these entrepreneurs will take their money out of the business to buy seeds and fertilizer. This suggests that many microenterprises are not carried out for the entire year and that the main purpose of microenterprise may be to save cash rather than to earn income. One of the arguments in support of microfinance is that microentrepreneurs want to grow their businesses, but are unable to due to a lack of capital. The findings in Malawi suggests that many rural microentrepreneurs are not interested in growing their business, but are more interested in keeping their cash relatively safe and working for them until planting season.

There were slight differences between the economic profiles of the Lilongwe-Mchinji route and the Lilongwe-Dedza route. The locations that fell in the Mchinji and Lilongwe Rural Districts were tobacco-growing areas. As one moves further south toward Dedza, tobacco becomes less important, while other crops including potatoes (referred to as Irish potatoes), cassava, and vegetables become more important. Additionally, while the Lilongwe-to-Mchinji area is very seasonal, in the Dedza area farmers are able to grow crops year-round through the use of irrigation and *dambo* farming.²⁰

20 Dambo farming occurs along the sides of rivers and streams. The damp soil and easy access to water allow year round farming on these plots.

III. The Supply Side

INTRODUCTION

This chapter presents findings on the availability of financial services in the study areas. After a brief introduction to the legal and ownership regulations that shape the landscape of financial services in Malawi, we discuss the supply of financial services in rural areas organized by product. Then, OIBM's products and services are presented. The material for this chapter was obtained from both primary and secondary sources including interviews with microfinance industry key informants, financial service providers, focus group discussions with villagers and a literature review.

RESEARCH QUESTIONS

The interviews with financial service providers were designed to inform us about the products and services that are available to the rural market and to give an indication of the existing level of outreach. The research sought to answer the following key research questions for the available financial service providers:

- What products and services does the institution offer?
- What are the target client markets for these products and services?
- Where does the institution offer these products and services and through which delivery channels?
- What is the institution's outreach overall and in the study area?
- What is the institution's competition?
- What is the institution's advantage or disadvantage in relation to the competition?

One of the purposes behind these questions was to develop an initial understanding of the factors that influence accessibility to these institutions' products and services.

BACKGROUND: REGULATION & OWNERSHIP²¹

The financial landscape of the study area comprises formal, semi-formal, and informal financial institutions.²² For each institution type, Malawi's regulatory framework determines the types of products that can be offered to the market. At the same time, the structure and governance within the institution is determined by its ownership. The combination of the regulatory framework and ownership options results in the range of players available in the Malawian financial services market.

²¹ This section draws substantially upon two reviews of the Malawi microfinance sector: Luboyeski, Victor, Debjani Bagchi and Muwuso Chawinga. (2004) Microfinance Sector Assessment in the Republic of Malawi. Washington, DC: USAID. Burritt Kiendel, (2005) Expanding Access to Financial Services in Malawi. (New York City: UNCDF).

²² This follows the typology of financial institutions presented in Luboyeski (2004) p. 13-14. Formal institutions are those that are prudentially regulated by the Reserve Bank of Malawi.

Formal financial institutions are regulated and licensed by the Reserve Bank of Malawi (RBM) and are subject to the 1989 Banking Act. Formal financial institutions are categorized by the RBM into commercial banks and non-bank financial institutions.²³ There are 9 commercial banks in Malawi, only a handful of which, including OIBM, were found to be active in the study area.²⁴ Commercial banks can intermediate savings deposits mobilized from the public. Non-bank financial institutions are not active in the microfinance market so were less relevant to this study.²⁵

The semi-formal financial institutions active in Malawi include NGOs, parastatals, SACCOs, private companies and development projects. With the exception of SACCOs, these institutions are neither prudentially regulated nor permitted to intermediate savings. As a result, most of them focus on microcredit. Informal finance in Malawi includes moneylenders (called Katapila), ROSCAs and family and friends.

The ownership forms available to institutions in the financial services arena include: NGOs, trusts, for-profit companies limited by guarantee, for-profit companies limited by shares, cooperatives and parastatals.²⁶ (See box4).

Regulatory status and ownership status intersect and overlap to create several different configurations. Parastatals, for example, are wholly-owned government institutions that do not fit neatly into the available categories; they can adopt different forms through registration. One parastatal, Malawi Rural Finance Company (MRFC), is wholly owned by the Government of Malawi and registered under the Companies Act. MRFC has been given a special exemption by the RBM to accept deposits from the public, but it is prohibited from using the deposits to fund its lending activities. Another parastatal, Malawi Savings Bank (MSB), is also wholly-owned by the government, but regulated under the Banking Act as a commercial bank. Other government institutions have taken NGO form and are structured under the Trustees Incorporation Act in order to facilitate access to donor funds.²⁷ For example, SEDOM (Small Enterprise Development Organization of Malawi) and DEMAT (Development of Malawian Enterprises Trust) are registered as Trusts.

In the next sections we review the supply side of financial services from the perspective of the providers. The discussion is organized by the formal, semi-formal and informal sectors, beginning with formal sector institutions.

23 Non-banks include finance companies, leasing companies, discount houses, building societies, development finance institutions, savings institutions and insurance companies and pension funds.

24 First Merchant Bank, Indebank Limited, Loita Investment Bank, Malawi Savings Bank, National Bank Of Malawi, NBS Bank, Nedbank Malawi, Opportunity International Bank Of Malawi, and Standard Bank. (See www.rbm.mw.)

25 Burritt, p. 117.

26 Luboyeski, Victor, Debjani Bagchi and Muwuso Chawinga. (2004) *Microfinance Sector Assessment in the Republic of Malawi*. Washington, DC: USAID. P. 16 and 17.

27 Luboyeski.

BOX 4: OWNERSHIP AND REGISTRATION OPTIONS FOR REGULATED AND NON-REGULATED MFIS

Banking Act: Banks are licensed to provide demand savings and time deposits. They are also subject to various qualifying requirements and prudential regulations. The Reserve Bank of Malawi regulates and supervises licensed banks and non-bank financial institutions (NBFI).

Cooperative Societies Act: Cooperatives are member-based organizations in which people are linked by their work or community of residence. The Act permits Savings and Credit Cooperatives (SACCOs) to mobilize savings and on-lend them to its members. The Malawi Union of Savings and Credit Cooperatives (MUSCCO) is a cooperative owned by 72 of the registered SACCOs, and acts as a national apex for member cooperatives. There are another 69 cooperatives that are not affiliated with MUSCCO.

The Registrar of Cooperatives in the Ministry of Trade and Private Sector Development (formerly Ministry of Industry and Commerce) has oversight responsibility for SACCOs and MUSCCO.

Companies Act: Companies can be limited by guarantee or shares. In companies limited by guarantee there are no shareholder owners and members' liability is limited by a nominal amount. These are private companies.

Companies limited by shares include OIBM, MRFC and MSB (government owned). Institutions that want to be licensed under the Banking Act must be shareholding companies.

The Reserve Bank of Malawi (RBM) provides regulatory and supervisory oversight over companies that have bank licenses. The Ministry of Trade and Private Sector Development (formerly Ministry of Industry and Commerce) has oversight responsibility for companies that are not regulated by the RBM.

Trustees Incorporation Act: Local NGOs, some government sponsored projects and international NGO projects operate under this act. These institutions fall under the supervision of the Ministry of Women, Gender and Youth.

Source: Luboyeski, p. 17-19, and Burritt, p. 117.

OIBM'S COMPETITION AND THEIR SERVICES

The financial landscape in rural Malawi and OIBM's competition can be divided into two groups: providers of formal savings services and providers of loans, particularly microcredit. Other products, such as insurance, remittances and payment services, are largely insignificant in this landscape.

The significant providers of savings accounts in the study area are commercial banks and one parastatal, MSB. On the loan side, the significant suppliers include MFI companies, NGOs, SACCOs and parastatals. Only a few institutions straddle the divide between savings and loans, including MRFC and SACCOs such as FINCOOP. As we will show, OIBM is uniquely positioned as they enter this rural market by virtue of the fact that they provide both savings and loan products.

Table 8 shows the most important formal, semi-formal, and informal financial services providers in the study area by institutional type and product. The outreach

and volume of activity for all microfinance institutions found in the study area are shown in table 9 below.

TABLE 8: FINANCIAL INSTITUTIONS IN THE STUDY AREA BY SECTOR, TYPE AND PRODUCT

Sector	Type of Institution	Type of Products Offered		
		Savings	Savings & Micro Loans	Micro Loans
Formal	Commercial Banks	NBS Bank, National Bank, Standard Bank	OIBM	
Semi-Formal	Parastatals	MSB	MRFC	
	Co-ops		MUSCCO, FINCOOP, Ulimi	
	MFIs			FINCA, CUMO, PRIDE
	NGOs	CARE VSL		Several
Informal		ROSCAs		Moneylenders, Family & Friends

TABLE 9: MICROFINANCE INSTITUTIONS PRESENT IN THE STUDY AREA (AS OF MARCH 31, 2007)

Type of Institution	Institution	Loans			Deposits*		
		No. of Loans Outstanding	Value of Loans Outstanding (USD)	As percent of Sector Value	No. of Depositors	Value of Deposits (USD)	As percent of Sector Value
Commercial Banks	OIBM	8,276	\$5,541,121	18.3%	61,546	\$6,766,414	38.4%
	MSB	61	\$108,762	0.4%	71	\$19,101	0.1%
Parastatals	MARDEF	103,000	\$4,497,336	14.8%	NA	NA	NA
	MRFC	21,940	\$6,737,267	22.2%	198,373	\$2,560,522	14.5%
Co-ops	MUSCCO	237,445	\$5,651,784	18.6%	64,847	\$6,508,335	37.0%
MFIs	CUMO	15,800	\$432,325	1.4%	1,309	\$56,021	0.3%
	FINCA	20,823	\$1,703,081	5.6%	20,823	\$923,338	5.2%
	PRIDE MALAWI	7,825	\$1,125,938	3.7%	11,607	\$313,778	1.8%
NGOs	FITSE	9,171	\$492,244	1.6%	10,460	\$159,523	0.9%
	NABW	310	\$20,171	0.1%	600	\$17,366	0.1%
Sub-Total		424,651	\$26,310,029	86.8%	369,636	\$17,324,398	98.4%
Total Sector		443,614	\$30,321,183	100.0%	373,903	\$17,604,925	100.0%

Source: Deepening Malawi's Microfinance Sector Project.
 MARDEF data were obtained from MARDEF and is current as of July 2007. Sector totals were adjusted to reflect addition of MARDEF activity. Data were converted at the rate of 140 MWK: USD \$1.00.
 * *Deposits* at MFIs and NGOs refer to security deposits or mandatory savings only.
 Exchange Rate as of 3/31/07 was 144.53.
 See Annexes – Chapter III, Table A3-1. for data on the entire microfinance sector.

Geographically, the market is fragmented. The formal financial sector, represented by the commercial banks, is only present in the large towns in the study area: Mchinji and Dedza. Even then, the three commercial banks are not all present in both towns. Parastatals, including MSB and MRFC, have a large outreach in the rural areas, based on many years of experience in rural finance and access to large networks. The outreach of the semi-formal financial sector is more dispersed than the formal sector or the parastatals. MFIs, co-ops, and especially NGOs often have limited operational areas. Many NGOs operate at the village level (see table 10).

TABLE 10: FINANCIAL INSTITUTIONS BY LOCATION

	Mchinji Town	Trading Centers on Mchinji Route	Lilongwe City	Trading Centers on Dedza Route	Dedza Town
OIBM	new	new	✓	new	new
Institutions Providing Formal Savings*					
MSB	✓		✓		✓
MRFC	✓	✓	✓	✓	✓
NBS Bank	✓		✓		✓
National Bank	✓		✓		
Standard Bank			✓		✓
Post Office	✓	✓	✓		✓
MUSCCO	✓	✓	✓		✓
FINCOOP		✓	✓		
Institutions Primarily Providing Microcredit					
CUMO				✓	✓
FINCA	✓	✓	✓		✓
FITSE		✓	✓		
MARDEF	✓	✓	✓	✓	✓
MRFC	✓	✓	✓	✓	✓
PRIDE Malawi		✓	✓		

Notes:

* These are institutions which are legally permitted to intermediate savings.

MFIs may have a presence in a location without having a branch. Agencies of banks are included as well as branches.

"new" means that OIBM will serve these locations with the mobile bank starting in August 2007.

SAVINGS PRODUCTS: FORMAL FINANCIAL INSTITUTIONS

Within the study area, five formal financial institutions offering savings products were identified. These were three commercial banks (National Bank of Malawi, Standard Bank [formerly Stanbic Bank], and NBS Bank) and two government-owned institutions (MSB and MRFC).²⁸ Of these, MSB was the most frequently identified source of savings in the rural areas.²⁹

²⁸ Stanbic Bank changed its name to Standard Bank in June 2007.

²⁹ During the demand side research, the Malawi Savings Bank (MSB) was cited in 6 PRA sessions, the banks were cited in 3 sessions and MRFC was only mentioned in one session.

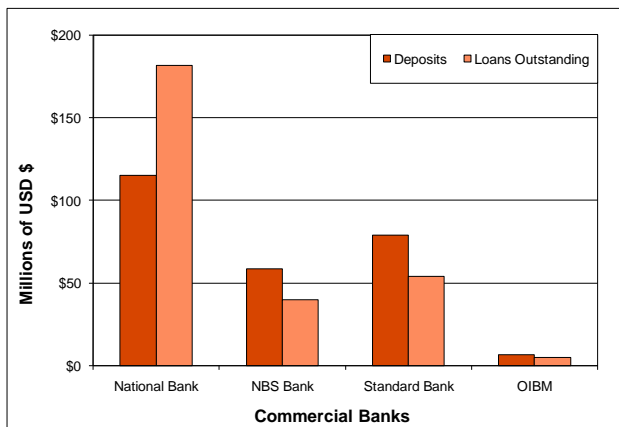
Commercial Banks

The three commercial banks each have a presence in some portion of the study area. Only in Lilongwe town do they all co-exist. Standard Bank has a branch in Dedza. NBS Bank has a new branch in Mchinji (formerly it was an agency) and an agency in Dedza. National Bank has an agency in Mchinji. All three banks provide savings, loans, and payment services, with savings and payment services being the most important products in these areas. (See figure 7.)

The savings products of interest are basic savings and fixed deposit accounts. All three institutions provide at least two kinds of basic savings accounts and one fixed-deposit account. There is some evidence to suggest that the newest basic savings products have been developed as the banks try to reach down market. For example, National Bank found that many people could not afford their Ordinary Savings account so they developed the Special Saver account with a lower minimum opening balance. It is targeted at the “working class.” NBS Bank has a similar product. (See table 11 for a comparison of the basic savings accounts available in rural areas.)

Fixed deposit accounts require larger minimum balances and pay higher interest rates. These accounts are popular with tobacco farmers, an important market segment for the commercial banks (see Annexes-Chapter Three).

FIGURE 7: PERFORMANCE OF THE COMMERCIAL BANKS (12/31/06)



All three banks provide savings accounts for individuals or by groups (i.e., clubs), which eases access for the poor. All three provide ATM cards and machines, usually placed just outside the branch. These networks are closed (e.g., a customer of Standard Bank cannot use NBS Banks’ ATM machines).

Perhaps the most significant barrier to accessing commercial banks is the requirement for formal identification. This presents a difficulty for many rural and low-income people since Malawi does not have a national identification card. At Standard Bank, potential clients also need two letters of

recommendation from well-known Standard Bank customers.

TABLE 11: COMPARISON OF SELECTED SAVINGS PRODUCTS AT COMMERCIAL BANKS AND MALAWI SAVINGS BANK

Institution	OIBM	National Bank of Malawi	NBS Bank	Standard Bank	Malawi Savings Bank
Savings Product	Kasupe	Special Saver	EasySave Account	Savings Account	Passbook Savings
Minimum Opening Deposit	\$3.57	\$7.14	\$3.57	\$7.14	\$3.57
Interest Rate Paid	2.5% if monthly balance >\$7.14	2.5%	6% on balances over \$7.14	3%	5.5% (based on min. monthly balance) payable annually
Fees (per month)	no fees	\$0.68	0.29-0.36	\$0.25	NA
Debit Fees	\$0.36 or \$0.12 w/card	No fee to use ATM	\$0.21 for every transaction w/card	\$0.18 for ATM	\$0.12 when using card, \$0.36 when using other ATMs
Cost of ATM Card	\$7.14 MalSwitch	\$5.71 ATM w/Pin	ATM card is free but requires monthly income of \$143 & good credit	\$3.57	Malswitch; Card is free but requires a minimum \$5 balance to maintain

See Annex 2 for complete table.

Parastatals

Malawi Savings Bank (MSB) and Malawi Rural Finance Corporation (MRFC) offer savings accounts in the study area. With the tagline, “Today’s People’s Bank,” Malawi Savings Bank (MSB) has the largest bank network in Malawi and remains the most significant savings institution in the study area. Although it started operations in 1995, as the successor to the Post Office Savings Bank, MSB’s roots go back to 1910. With five MSB branches, including one in Lilongwe (Old Town), and 35 agencies, MSB has a presence in all but two remote districts. Some of MSB’s products are supported through Malawi Post Corporation outlets (i.e., Post Offices) thus extending its’ network.³⁰ MSB caters to all market segments and offers a variety of products including savings, loans, transfer payments, foreign exchange services, bill payment services (for utilities and rent), and salary payment services. They provide both savings and fixed deposit accounts. The savings accounts consist of Passbook and Premium Savings products. The Passbook account can be opened at MSB branches, outlets or selected Post Offices. Deposits and withdrawals can be made at all branches, outlets and any Post Office, making the account widely accessible.

Malawi Rural Finance Corporation (MRFC) is primarily a lending institution (see page 23), consequently much of the savings on deposit serve as security for loans (15 percent of the loan amount is required). Nevertheless, at the end of July 2007, MRFC had 43,280 voluntary savings accounts with MWK 101,271,432 (USD\$ 723,367) on

³⁰ As a result of this and the history of MSB, some rural residents tend to confuse the MSB and the Post Office in discussing financial services.

deposit. In contrast, there are more than three times as many security deposit accounts (159,769) worth more than twice (MWK 242,946,655 (USD\$ 1,735,333) the value of the voluntary savings deposits.³¹

SAVINGS PRODUCTS: SEMI-FORMAL FINANCIAL INSTITUTIONS

Savings and credit cooperatives (SACCOs) are the only semi-formal institutions offering voluntary savings products in the study area; two are relevant to this research: Ulimi SACCO and FINCOOP.³² Most SACCOs offer savings (shares, demand deposits and term deposits), loans (short term, agricultural, and emergency loans), and insurance (life/savings insurance and credit life) products to their membership. Individuals become members through the purchase of shares in the SACCO.

FINCOOP, established in 2004, has three branches including one in Lilongwe. It serves rural locations with a mobile bank staff that travels by car to 10 centers in Mchinji District and nine in Lilongwe District. The outreach of FINCOOP is fairly limited with about 8,000 members nationwide including 2,000 (mostly farmers) in Mchinji District and 1,000 in Lilongwe District.³³

SAVINGS PRODUCTS: INFORMAL SOURCES

ROSCAs

The survey found limited evidence of traditional ROSCAs. In one community, a few ROSCA groups were reported to be active. In the example given, 15 women contribute about MWK 100 (\$ USD 0.71) to the fund every 2 weeks. In two locations, ROSCAs were described, but they had been introduced by external technical advisors. We believe that both these programs are CARE Village Savings and Lending (VSL) programs rather than traditional ROSCAs.

CARE Village Savings and Lending Program (VSL)

CARE directly implements VSL groups in Lilongwe District. They also support the implementation of VSLs through consortium partners such as, CADECOM in Mchinji District and Save the Children in Dedza District. The two VSL programs that the research team came across were in the Lilongwe District and probably CARE programs. CARE estimates that there are about 23,000 VSL members throughout Malawi.

³¹ Although not a commercial bank, MRFC is authorized to take deposits from the public but it cannot intermediate those savings. MRFC is able to pay interest on the voluntary savings deposits because they have been able to invest them in Treasury Bills to earn income.

³² Ulimi SACCO is very limited geographically and was not mentioned by any survey participants outside of MUSCCO. Their membership includes employees of the agricultural extension office in Nsundwe as well as smallholder farmers.

We visited the Malawi Union of Savings and Credit Cooperatives (MUSCCO) to learn more about the SACCOs in the study area. MUSCCO is an apex organization that provides services to member Savings and Credit Cooperatives (SACCOs). They have four SACCO members in the study location: Teacher's cooperatives in Dedza and Mchinji, the Ulimi Savings and Credit Cooperative and FINCOOP. MUSCCO functions as a financial intermediary for the member SACCOs through the Central Finance Facility. Member institutions can deposit savings or borrow from the Facility. MUSCCO provides guidance on financial products as well as a number of other services. See Luboyeski, 2004, for more information on MUSCCO.

³³ As of June 2007.

Saving at Home

Saving at home is the most common method of saving money. However, people don't feel secure saving at home. As one woman put it: *“Saving at home is risky. Children or husbands can take the money or it can be stolen. If the money is in the bank, you cannot access it so easily.”*

SUMMARY OF SAVINGS SECTION

The review of the supply of savings institutions and products has hinted at some of the dimensions of access that are important to rural populations. These are identification (which impacts eligibility for savings accounts), physical accessibility or location of the savings institution, price (in terms of the minimum opening balance for savings accounts), and security. We will explore each of these aspects of access in more detail in Chapter IV.

OIBM will be entering a market where the only significant suppliers of savings products are Malawi Savings Bank and to a lesser extent, three commercial banks. As a savings-led institution, the rural savings market will be of the most interest to OIBM. They have two obvious advantages in this marketplace. First, they have experience in serving low-income clients with their Trust Bank methodology and their basic savings account.³⁴ Second, they can bring their bank closer to the rural population and therefore reach a wider geographic market through the mobile bank. We will provide more details about OIBM's products and services at the end of this chapter. Next we discuss the supply of lending institutions in the study area.

LOAN PRODUCTS: FORMAL FINANCIAL INSTITUTIONS

The supply of loans in the rural study area is both more diverse and more fragmented than the savings market. Suppliers of loans include MFIs, NGOs, cooperatives, parastatals, commercial banks, and informal sources such as moneylenders (see table 12). Currently, the most important loan sources in rural areas, in terms of numbers of borrowers reached, are parastatals and MFIs.

With the exception of OIBM, commercial banks do not provide loans to the low-income market in the study area; they provide salary-backed loans and agricultural loans only. Neither is targeted at the low-income market. Agricultural loans are primarily for tobacco farmers. National Bank has reduced the volume of its agricultural loan business and ended its collaboration with NASFAM to lend to tobacco farmers, while NBS Bank stated that it does not provide agricultural loans.

³⁴ OIBM defines Trust Banks as a group of 7-10 economically active poor (primarily women) who receive small business loans to help their businesses grow. Source: www.oibm.mw/products.

TABLE 12: LIST OF CREDIT PROVIDERS FOUND IN THE STUDY AREA BY TYPE OF INSTITUTION

Formal		Semi-Formal				Informal
Commercial Banks	Parastatals	MFIs	Co-ops	NGOs	Other	
OIBM	MARDEF MRFC	CUMO FINCA PRIDE- MALAWI	FINCOOP Self-Help Co-op	NABW Sasakawa 2000 World Vision CADECOM Care	NASFAM TAMA FARMERS WORLD	Moneylenders Relatives

LOAN PRODUCTS: SEMI-FORMAL FINANCIAL INSTITUTIONS

Parastatals

Parastatals are the predominant lending institutions in the country.³⁵ MRFC and MARDEF account for a large share of the loans provided to the rural population. Both institutions have access to large networks allowing them significant outreach throughout Malawi. They rely on other government institutions or parastatals to support their activities. MARDEF works with MSB, which facilitates the operations of the MARDEF credit program. MSB disburses MARDEF loan funds, holds the savings deposits and does the accounting. MRFC works closely with Agricultural Extension offices. In addition, the two organizations work with each other. MARDEF relies on MRFC to review all loan applications and make funding recommendations for them.

Malawi Rural Finance Company (MRFC)

The Malawi Rural Finance Company (MRFC), established in 1993, has a wide outreach in Malawi with six branches, 20 supervisory satellite offices (co-located with the Ministry of Agriculture and Irrigation offices) and 120 field offices. In the study area, they have one branch in Lilongwe, two supervisory satellite offices in Mchinji and Dedza, as well as several field offices.

Malawi Rural Finance Company had 127,449 loan accounts with a portfolio outstanding of MWK 1,198,354,332 (\$USD 8,152,070), at the end of July 2007.³⁶ Products include agricultural and commercial loans. Agricultural products, mostly to tobacco farmers, accounted for 42 percent of loans outstanding (\$USD 3,410,123) and 72 percent of loan accounts (see table 13). Commercial loans, including microfinance group based credit, salary-backed, and partnership loans, are a smaller portion of the accounts, but have a larger portfolio outstanding (\$USD 4,741,947).

Malawi Rural Development Fund (MARDEF)

Malawi Rural Development Fund (MARDEF) is a government-funded program set up as a special initiative of the President in 2005, to provide microcredit to the economically active rural poor. To date the program has received MWK 1 billion (\$

³⁵ Burritt, p. 90.

³⁶ Data provided by MRFC, August 2007.

USD 7,142,857) from the government, which has been allocated proportionately to each of the 193 Constituent Areas of Malawi according to their population.

MARDEF provides loans to groups of 10 to 20 people for microenterprise activities. Emphasis is placed on disadvantaged groups such as women, youth and the disabled. The loans start small (MWK 10,000 (\$ USD 71.43)) and the interest rate is capped at 15%, which is lower than other programs. This is also lower than the RBM bank rate which was 20% at the time of this research.³⁷ Loans are accessible to villagers who form self-selected groups and deposit MWK 500 (\$ USD 3.57) each in a group savings account at MSB. Once the savings account is open, the group qualifies for a loan application, which they also obtain from MSB. The application process is managed through MSB. Access to MARDEF loans is mediated through TA Chiefs who can help facilitate loan applications. If applications are accepted, loans are disbursed to the group in the presence of the TA chief and repayments are verified at group meetings in the presence of the chief.

TABLE 13: SUMMARY OF SELECTED AGRICULTURAL LOAN PRODUCTS- MALAWI

Institution	OIBM	OIBM	MRFC
Product Type	Individual	Group	Group
Target group; purpose	Big farmers favored by agribusiness organizations	Farmers clubs under agribusiness organizations	Smallholder certified tobacco farmers; inputs for farming
Group size (No. of people)	NA	NA	10-20
Min/Max Loan Size	\$714	\$35.70 per farmer	Unknown
Max Loan Term	12 months	12 months	3 years
Collateral/ Security Deposit	10% of Loan as Security Savings	10% of Loan as Security Savings	15% cash security deposit before disbursement. After disbursement, the loan balance is reduced by deposit amount. [1] Must open a savings account of \$1.43
Interest Rate per year	29% flat	29% flat	New Client: 33% flat Prime Client: 30% flat; Repeat Client: 32% flat
Processing Fee	2.5% of loan	2.5% of loan	Unknown
Repayment Frequency	Bullet (Once) and Balloon (Monthly interest payment)	Bullet (Once) and Balloon (Monthly interest payment)	Bullet payment (all at once) due Sept. 30

This is a new system this year.
See Annex 3 for more details.

MARDEF loans are hugely popular in rural areas. They had 103,000 borrowers in 7,000 groups nationwide and MWK 650 million (\$USD 4,642,857) in portfolio

³⁷ The Daily Times. August 2, 2007 p. 5. The newspaper reported that the RBM reduced the bank rate from 20 percent to 17.5 percent as of that date. The bank rate is the rate at which commercial banks can borrow from the central bank.

outstanding, as of July 2007.³⁸ The demand for MARDEF loans far outstrips the supply. Since the beginning of the program, 80,000 group applications were received representing about 800,000 borrowers. Detractors claim that MARDEF practices subsidized lending. MARDEF claims that operational costs are covered by earned revenues therefore the lending is not subsidized. That said, by relying on MSB and MRFC to carry out some of the lending operations, MARDEF has streamlined their own activities and kept costs down.

As noted above, these parastatals have wide networks and a national presence. After the parastatals, all the other groups providing loans within the study area were geographically limited and/or fragmented in their outreach. As a result, they are not as accessible.

Savings and Credit Cooperatives

Most SACCOs in Malawi offer short term, agricultural, and emergency loans to their membership. FINCOOP, a SACCO active in the study area, provides agricultural and business group loans, and business and personal individual loans. The importance of SACCOs in the loan landscape in general appears to be limited due to their small size.

MUSCCO, the apex organization for SACCOs, can provide loans directly in locations where other credit unions do not exist. In addition, MUSCCO collaborates with NASFAM to provide agricultural loans (see NASFAM section).

MFIs

There are three MFIs active within the study area: FINCA, CUMO, and PRIDE Malawi. MFIs are important in this loan landscape to the extent that they effectively target and reach poorer rural residents.

FINCA started operations in Malawi in 1994 and is now present in 24 of 26 districts. It currently has 16 physical branches and several clusters (areas that are served by mobile loan officers who work from their homes). Within the study area, FINCA has a cluster in Mchinji that they plan to upgrade to a “cash point” (an office outlet) in the near future. FINCA offers two loan products: group and individual loans. The latter is new and available in limited locations. Of 23,000 clients, 1,000 are individual borrowers (See table 14).³⁹ Mandatory savings are held in group savings accounts at MSB or another nearby commercial bank. Loan repayments are made at the same institution. FINCA initially served only the very poor and women. They later relaxed their eligibility criteria and now target everyone in rural areas. Women still make up the majority of their clients, however.

CUMO, which started operations in 2000, is a microfinance institution located in seven districts around Malawi including Lilongwe Rural and Dedza. It offers group loans to a client base that is 80 percent female. The “Masika” loan is their most popular product and targets the poorest segment of the rural market. The “Kasupe” loan is offered to smaller groups and is intended for clients who graduate from the Masika loan. The MFI appears to be growing rapidly, as they had 15,000 clients at the end of 2006 and 21,000 in August 2007.⁴⁰

³⁸ Interview with official at MARDEF, July 2007.

³⁹ Interview with official at FINCA, August 2007.

⁴⁰ www.mixmarket.org

Pride Malawi, which was established in 2000 to target the very insecure poor, now has 12 branches throughout Malawi.⁴¹ Clients are predominantly urban women. It offers three types of loans: group, consumer and premium. Client numbers have not grown much from 2004 through 2006.⁴²

Each of these MFI programs is registered under the Companies Act and operates as a for-profit institution. As a result, they cannot intermediate savings. FINCA and CUMO reach 23,000 and 21,000 borrowers respectively (as of July 2007). PRIDE Malawi is smaller with about 8,000 borrowers (as of December 2006). FINCA is operating along both mobile bank routes while CUMO is operating along the Dedza route only. Institutions that mobilize public deposits, such as commercial banks, usually rely on advertizing and promotions to bring customers to them. In contrast, MFIs that focus on microcredit provision, and specifically, in this case—FINCA and CUMO, send loan officers in to communities to promote their programs and recruit potential customers. As a result, we found that awareness and presumably the outreach of existing microfinance programs was not consistent or uniform within their operational areas.

⁴¹ Pride Malawi declined to be interviewed for this study.

⁴² www.mixmarket.org

TABLE 14: COMPARISON OF SELECTED MFI LOAN PRODUCTS TO OIBM LOAN PRODUCTS

Type of Loan	FINCA		CUMO		OIBM		
	Group	Individual	Group – “Masika”	Group – “Kasupe”	Group - Premium Trust Bank/ Maziko	Individual “Mthunzi”	Individual (IMC) “Mzati”
Loan Size (Min.- Max.)	MWK 3,000 - 400,000 (USD\$ 21- 2,857)	MWK 50,000 -1.2 million (USD\$ 357 - 8,571)	MWK 5,000 and up (USD\$ 36 and up)	MWK 30,000 and up (USD\$ 210 and up)	1 st loan: MWK 5,000-20,000 (\$35-\$142.9) In rural areas: MWK 2,800 (\$20) Min: MWK 5,000-40,000(\$35.71-\$285)	MWK 15,000 to MWK 70,000 (\$107-\$500)	IMC I: MWK 30,000- MWK 150,000 (\$214-\$1,071) IMC II: MWK 151,000- MWK 300,000 (\$1,079-\$2,143)
Loan Term (months)	3-6	3-12	4	NA	4 months	3-24 months	3-12 months
Collateral/Security Deposit	10% of loan amount	125% of loan amount - collateral	No	No	Group Guarantee	Personal Guarantor; 10% of loan amount	25% cash security deposit; Movable and Immovable properties; Personal guarantors
	FINCA	CUMO	OIBM		FINCA	CUMO	OIBM
Interest Rate (per year)	48% flat	48% flat	72% flat	72% flat	Maziko I: 49.2% per year Maziko II: 36% per year	4.3% per month, flat 52.2% per year	IMC I: 47.9% per year flat IMC II: 28.2% per year flat
Insurance	Credit-life: 0.05% of the loan amount	Credit-life: 0.05% of the loan amount				Credit Life Insurance premium: 2.25%	Credit Life Insurance premium: 2.25%
Mandatory Savings	20% of the loan amount, during the loan cycle	20% of the loan amount, during the loan cycle	No	No			

NGOs Offering Microfinance Services

There are two types of NGOs providing microfinance services in the study area: 1) those that offer microfinance services only, and 2) those that offer a range of services and programs. Most NGOs offer in-kind rather than cash loans. In general, the NGOs that offer microfinance services work on a project basis. That is, the programs tend to be temporary and small-scale, operating in a limited number of selected villages. Awareness of the existence of these programs was also limited and often specific to certain locations. Thus, the importance of NGOs in the loan landscape appears to be limited. (See table 15 below.)

TABLE 15: NGO PROJECTS⁴³

Project	Description
CARE (VSL Project)	A CARE project that organizes savings groups is active in the Nkhoma area. The groups lend their savings to each other at interest. At the end of the year, surplus funds are distributed among the members as dividends. This project is less than one year old.
CADECOM	CADECOM is a project working in the Dedza area that provides livestock to poor women. The beneficiaries are expected to pay back two livestock at the end of one year. The project is small-scale, but popular.
European Union Project	This project was mentioned, but no details were provided.
FITSE	Originally a World Vision project, FITSE was registered as an independent trust in 1999. It operates mostly in rural areas including the Mchinji and Lilongwe Districts, but not the Dedza District. FITSE offers three loan products: farm input, group business and individual business loans. Savings are mandatory. By June 2007, FITSE had about 2,000 clients in the Lilongwe area.
Sasakawa Global 2000	This is a project that aimed to increase agricultural productivity, particularly of maize. They provided in-kind loans until fertilizer subsidies began and then provided cash loans. Loan sizes were around MWK 6,000 (\$USD 42.85) and the interest rate was reportedly low. The project was active in the Mchinji-Lilongwe area. Locals refer to the project as “Chinese,” though it is Japanese in origin. The website for Sasakawa Global 2000 reports that the project ended operations in 2006. ⁴⁴
Self-Help Cooperatives	Started two years ago, the project makes cash loans that must be paid back over nine months with a three-month grace period. Installments are flexible within the nine month loan term. This was only mentioned in Dedza.
World Vision	World Vision started a project this year that makes in-kind loans of agricultural inputs and requires in-kind repayments. They are active in the Dedza-Lilongwe area.

⁴³ Most of the information in this section comes from the PRA sessions with villagers.

⁴⁴ www.saa-tokyo.org

OTHER: NASFAM (NATIONAL SMALLHOLDER FARMERS ASSOCIATION OF MALAWI)

BOX 5

Smallholders - farmers who grow crops on customary land.

Estate Farmers - farmers who own title to the land that they farm.

BOX 6

NASFAM criteria for membership is based on farm size. This varies by region:

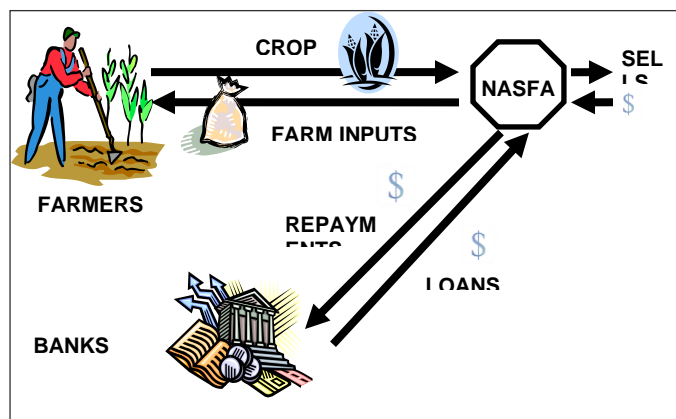
- South Region – Below 0.4 Ha
- Central Region – Up to 4 Ha
- North Region – Up to 10 Ha

The mission of NASFAM is to improve the lives of smallholder farmers (see box 5) by developing their commercial capacity and providing programs to enhance their productivity.⁴⁵ NASFAM is of interest to this discussion because it is sometimes incorrectly identified by villagers as a provider of credit. In fact, NASFAM partners with financial service providers in order to link their farmer members with credit (See box 6). NASFAM currently has 100,000 member households and is active in 16 of the 28 districts in Malawi. In the study area, NASFAM is active in the Mchinji and Lilongwe Districts, but not in the Dedza District. It provides a number of services to its members including building the capacity of farmer clubs, providing training and technical assistance, and selling farm inputs to farmers.

NASFAM does not make loans directly to their members. Commercial banks will not finance farmers directly because of the risk involved. They find it ideal to partner with NASFAM because this can lower the risk of lending for the banks. The process works by lenders providing loans to farmers' clubs. NASFAM then provides technical support to the clubs to ensure that the crops are grown properly. Farmers are

required to sell their produce to NASFAM, which allows NASFAM to obtain better prices through bulk marketing. NASFAM then pays the loans back to the bank (See figure 8).

FIGURE 8: AGRICULTURAL CREDIT THROUGH NASFAM



NASFAM's biggest financial partners include MRFC, MUSCCO, National Bank, and recently NBS Bank, which all finance tobacco cultivation. In the study area, MRFC is their main partner. NASFAM has also worked with OIBM on the rainfall index insurance pilot with groundnut farmers in the Mchinji area.

⁴⁵ It is important to point out that NASFAM is not the only organization which assists farmers. Similar organizations to NASFAM include: Farmers Union of Malawi, Tobacco Growers Association of Malawi and TAMA (Tobacco Association of Malawi). Some of these organizations focus solely on tobacco.

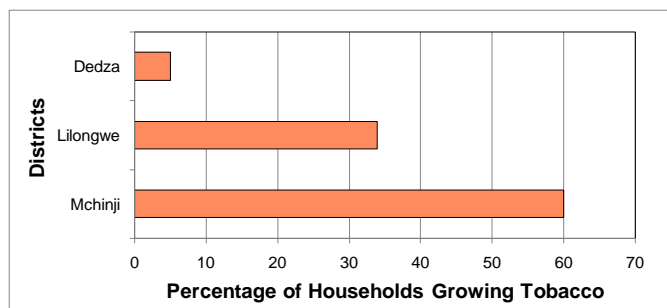
THE ROLE OF TOBACCO AS A SUB-MARKET FOR FINANCIAL SERVICE PROVIDERS

Tobacco is the most important export crop for Malawi, comprising more than 50 percent of the value of commodity exports in both 2005 and 2006 (despite poor prices in 2006).⁴⁶ It is therefore an important source of foreign exchange for the country. For all farmers and especially for smallholders, it is a key cash crop. Twenty percent of agricultural households in Malawi are estimated to depend on tobacco cultivation for income (See figure 9).⁴⁷

Tobacco is also a significant cash crop in parts of the study area. The largest tobacco growing region - a roughly triangular area bordered by Lilongwe, Mchinji and Kasungu - overlaps the study area.

Tobacco farming has a number of implications for the financial landscape of the study area. Villagers report that several financial institutions lend to tobacco farmers so that they can purchase inputs. The IHS found that in 2004 almost 21 percent of all borrowing households in Malawi had borrowed for tobacco cultivation.⁴⁸ Tobacco farming also intersects with the financial sector when the harvest is sold. Any farmer wishing to sell tobacco at the Tobacco Auction must have a bank account, usually a savings account, to receive payment for their crop.

FIGURE 9: PERCENTAGE OF HOUSEHOLDS GROWING TOBACCO



Tobacco farmers are a significant and valuable business for commercial banks because they bring in foreign exchange, specifically US dollars, when they sell their tobacco (see Annexes-Chapter Three for a special note on certified tobacco farmers). Banks such as OIBM and NBS Bank have targeted the tobacco farmer market, particularly for savings accounts. NBS is catering to the market in a number of ways, including having a separate banking hall for farmers at their Lilongwe Branch. Both OIBM and NBS Bank encourage individual tobacco farmers to keep their money on deposit in fixed-deposit accounts by using promotions such as prizes for those who have the most money on deposit.

LOAN PRODUCTS: INFORMAL SECTOR

Moneylenders

Moneylenders, called *Katapila*, are available in almost every part of the study area. They commonly lend both in cash and in-kind (usually maize). Respondents reported that rates for borrowing range from 50 to 100 percent per month, with the rates for borrowing maize lower than those for cash. People borrow to get through the hungry

⁴⁶ Reserve Bank of Malawi. (2007) "Report and Accounts for the Year Ended 31st December 2006." (Lilongwe: Reserve Bank of Malawi)

⁴⁷ Integrated Household Survey 2004/2005, Table 9.1, page 111.

⁴⁸ Ibid. p. 110-111.

BOX 7: CASE OF A FORMER MONEYLENDER

Mr. X is a former moneylender who got into the business by saving his money from working in a trade. He specialized in lending to tobacco farmers. Although he did not advertise he was well known in his area for lending money. When a farmer approached him for a loan, he would evaluate the request by visiting the farmer's fields and assessing the size and productivity of the land. He estimates that he only funded 50 percent of all loan requests. Loan sizes varied widely, but were determined by his evaluation of the farm. Loans were provided without any documentation or collateral. He made mostly in-kind loans, for which he provided the farm inputs himself. Repayment was also in-kind and was due all at once. Cash loans could be paid in installments. He reports that cash loans were charged 50 percent interest while in-kind loans were much more profitable. Before three years ago, repayment had been 100 percent. With the downturn of the tobacco market over the past three years, about half of his borrowers defaulted. This led him to leave the money-lending business.

season (generally January and February), although loan terms can be up to one year. Tobacco farmers are reported to operate as moneylenders after harvest. Money lending is illegal and looked down upon; most moneylenders therefore operate in secret. Participants noted that due to the bumper harvest in 2007, there will be fewer people going to moneylenders during the next hungry season (See box 7).

Family and Friends

Most villagers report that their family and friends are also poor and are unable to lend money. During times of emergencies such as funerals or illness, family and friends will, however, make contributions to help each other's households. These are not expected to be repaid. Family does play a limited role in savings, as some villagers reported giving their savings to trusted family members for safe-keeping.

Store Credit

There is limited store credit available for villagers. No survey respondents mentioned this as a loan source. One trader told us that he only

offers goods on credit to family or friends. Even then, they need to settle the credit in two days. No interest is charged.

SUMMARY OF LOAN SECTION

The market for loans consists of demand for agricultural and microenterprise loans. In the agricultural loan market, which may represent the largest source of demand, the largest supplier is MRFC. Suppliers of microenterprise loans include MFIs and MARDEF. Although MRFC also makes commercial loans, survey respondents did not mention microenterprise loans from MRFC, so it is unclear if these loans are targeted at, or reaching, the average villager. MARDEF and some MFIs have national outreach although MARDEF serves the most clients. MFIs have several years of experience in rural areas, CUMO, in particular, is successfully targeting low-income clients. All lending institutions report being unable to meet the demand for their loans.

OIBM focuses on microenterprise loans and will therefore be in competition with the MFIs and MARDEF. They cannot compete with MARDEF on price, but OIBM may have an advantage in the areas of service and reliability, as we shall see in the next chapter. It is unclear if OIBM can reach as deeply into rural areas as the MFIs since the mobile bank will not be leaving the paved road. In the agricultural loan market, OIBM will compete with MRFC, although it is unclear how much emphasis OIBM will place on marketing agricultural loans in the mobile bank operational areas.

Access to loans depends very much on physical availability. For the reasons mentioned above, the availability of loan programs – particularly microenterprise loans – is fragmented. Even when there is ready availability of loan programs, there are further barriers to access, the most important of which is eligibility. Many of the

available loan products are for agricultural purposes. Most of these are for certified tobacco farmers. There are fewer agricultural loans targeted to farmers who grow other cash crops. For subsistence farmers – the majority of the population - access to loans, especially cash loans, is very limited due to eligibility constraints.

INSURANCE PRODUCTS

Investigation into the supply of savings and loan products in the study area revealed that several financial institutions are providing insurance products for their customers. The types of insurance available include credit life, deposit, rainfall index, and asset insurance.⁴⁹ The incidence of such insurance varies by institution. Villagers who participated in this research were completely unaware of these products.

1. **Credit Life Insurance.** Credit life is the most commonly found insurance product on the market. These policies provide for the repayment of outstanding loan balances in the event of the borrowers death. OIBM, for example, requires credit life insurance on all trust bank, individual, and consumer loans (included in the fees associated with the loans). MUSCCO requires its member coops to provide credit life policies for all borrowers. MARDEF also has mandatory credit life policies on its loans, while FINCA requires credit-life-plus insurance on all loans.
2. **Deposit Insurance.** Life insurance on savings accounts is also found, but is less common than credit life insurance. MUSCCO members also require insurance on members' savings accounts. The policy provides an amount equivalent to the value of members' savings in the event of death.
3. **Crop Insurance.** A rainfall index insurance, tied to agricultural loans, has been undergoing a pilot test in Malawi for about two years. OIBM and MRFC participated in the pilot. In the study area, OIBM partnered with NASFAM to provide loans and voluntary crop insurance to farmers.

OIBM: PRODUCTS AND SERVICES

Opportunity International Bank of Malawi (OIBM), headquartered in Lilongwe, is a commercial bank that started operations in 2003. It is a savings-led institution that focuses on serving the low-income market. It currently offers a range of products including savings, loans, payment services and foreign exchange products, designed to appeal to all segments of the population including the economically-active poor, wealthy individuals and corporations. At the end of May 2007, OIBM had 70,033 depositors, \$7.1 million on deposit, 9,526 borrowers and \$5.1 million in portfolio outstanding.

OIBM intends to enter the study area in August 2007 to provide savings, loans and other financial products to the rural market. By means of a mobile bank, they will serve six locations including: Mchinji and Kamwendo in Mchinji District, Nsundwe and Nkhoma in the Lilongwe District, and Chimbiya and Dedza in the Dedza District. They expect to find a high demand for their group and individual microcredit loans, and for the “Kasupe” and fixed deposit savings accounts.

⁴⁹ The asset insurance is not relevant to the microfinance market as it is targeted at OIBM's corporate clients who borrow to purchase assets with a value greater than \$7,000.

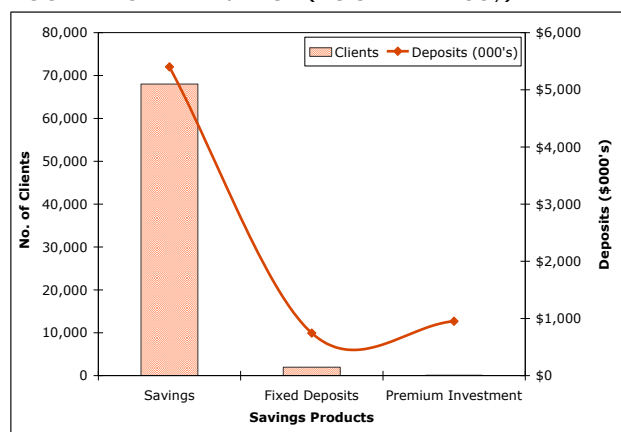
In contrast to most microfinance institutions, OIBM has intentionally set out to target all segments of the customer market. This is integral to their business strategy which aims to position OIBM as a savings-led institution. As shown in figures 10 and 11, the number of depositors at OIBM is almost 8 times the number of borrowers, while the volume of deposits exceeds the outstanding loan portfolio. In order to reach all segments of the market, OIBM offers a wide range of products in each product category.

Savings Products

Savings and investment products are the most significant in OIBM’s portfolio. These include:

- **Savings Account.** This account is targeted at the low-income market. The minimum opening deposit is low. Accounts are available for individuals, groups, and businesses. A special form of this product, the “Kasupe” (meaning spring and implying “never runs dry”) account, which was developed for the rural market has a different fee structure to accommodate for the fact that rural depositors tend to have fewer transactions than urban ones. Instead of a monthly charge of MWK 50 (\$USD 0.35) to maintain the account (as with the Personal Savings Account) the Kasupe account charges MWK 50 (\$USD 0.35) for each debit transaction.

FIGURE 10: OIBM SAVINGS PRODUCTS OUTREACH AND VALUE (AS OF MAY 2007)



- **Fixed Deposit Account.** Fixed-deposit accounts are available to those who already have a savings account and can meet the higher opening balance requirements of this product. OIBM is promoting this to farmers, particularly tobacco growers, by giving out prizes to those with the largest deposit amounts.

- **Premium Investment Account.** This account is targeted at wealthy businessmen or corporations. The minimum required deposit is MWK 500,000 (USD \$3,571). Interest paid on this account is significantly higher than on other deposit accounts.

Differences in the markets for each savings product are clear. As shown in figure 10, the outreach of the savings product is much greater than for the other two deposit products. The premium investment product has an imperceptibly low level of outreach on the graph. The savings account product has many depositors with low average savings amounts, while the premium investment account has few depositors, but a much larger average deposit amount. Selected details of the OIBM Kasupe savings account are provided in table 11. The details of all OIBM savings products can be found in annex 2, table A2-6.

Loan Products

OIBM offers several kinds of loan products that, like the savings ones, are designed to attract all segments of the market. The outreach and value of OIBM’s loans are shown in figure 11. Those that are targeted at the low-income market include:

- **Group Micro Credit Loan Product (or Premium Trust Bank Loan),** designed for micro- and small-business owners;

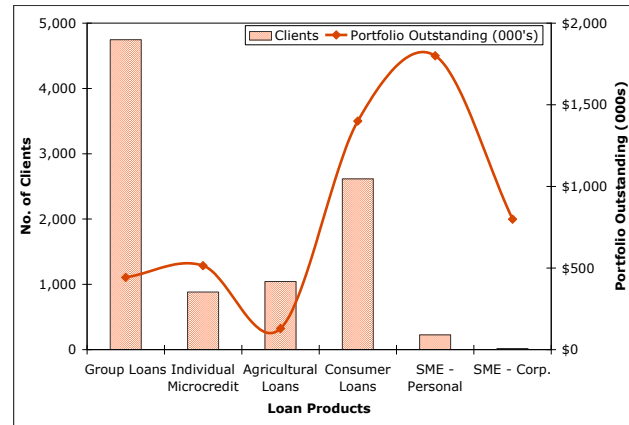
- Mthunzi Loan, which targets small business people not willing to join a group and without adequate collateral for an individual loan.
- Individual Micro Credit Loan, a slightly larger loan product, designed for experienced business owners with access to collateral or a personal guarantor.

For the middle-income market, OIBM offers a consumer credit or (“Mphamvu”) loan, secured by an OIBM deposit, and a consumer

payroll loan, guaranteed by the borrower’s employer. Additionally, OIBM offers a small and medium-enterprise (SME) loan targeted at entrepreneurs, individual loans for middle and upper-class business owners, and corporate loans that are tailored to large business organizations. Selected details of the loan products tailored to the microfinance market are provided in table 14. The specifics of all loan products are provided in annex 2, table A2-7.

The graph above (figure 11) shows that the outreach of the low-income products greatly exceeds those of the middle and upper-income groups. The value of loans outstanding, however, is much greater for the middle and upper-income targeted products, reflecting the larger average balances outstanding on these loans.

FIGURE 11: OIBM LOAN PRODUCTS OUTREACH AND VALUE (AS OF MAY 2007)



Other Products

OIBM also provides credit life and index insurance and is planning to offer funeral insurance in the near future. In addition, OIBM offers foreign exchange products, such as drafts and foreign currency notes, travelers’ checks, foreign currency accounts, and payment services.

OIBM Products and Rural Expansion

As OIBM rolls out its products to the rural market, they expect to find a high demand for the group and individual microcredit loans, and for the Kasupe and Fixed Deposit savings accounts. OIBM will also offer smart card technology to rural customers by means of the Malswitch card. This card holds personal biometric information such as the customers photograph and fingerprints. Use of the Malswitch card makes OIBM’s products and services more accessible to the rural poor, as it does away with the need for an official identification card.

SUMMARY

This research shows that the study area is not an empty marketplace nor is it unbanked. A relatively complicated financial landscape was already in place before OIBM entered the market. Although OIBM had not started the mobile bank service at the time of this study, it should be noted that they were already serving rural customers—borrowers and depositors—in selected locations within the study area.

On the supply side, the financial landscape consists of two major components: savings and loans. OIBM is one of the few institutions that provides both of these. As a commercial bank, it will be uniquely positioned in the rural market to respond to demand for both savings and loans within the low-income market.

Significant savings products include basic savings and fixed-deposit accounts. These products are offered through bank branches located in the larger towns, e.g. Lilongwe, Mchinji, and Dedza. Some MSB savings products are also available through post offices in certain trading centers. OIBM will face competition from three commercial banks as well as MSB in terms of attracting rural deposits.

On the loan side, the market is more complicated, divided mostly between microenterprise and agricultural loans. The agricultural loan market is the larger of the two. Demand is reported to exceed supply for both types of loans. On the microenterprise side, there are a few institutions serving the market, including MFIs and MARDEF. MFI delivery channels include mobile loan officers and MFI branches. MARDEF relies on MSB, TA chiefs, local extension workers, and mobile loan officers.

The OIBM mobile bank will give OIBM a presence in more locations than any of the other lending or savings institutions. The mobile bank is expected to reduce barriers to physical access for borrowers and depositors. However, the mobile bank is unable to drive off of the paved road. As such, it is hard to say the extent to which the mobile

bank will make OIBM's services more accessible to the rural poor. It is clear, however, that OIBM's mobile bank will increase the supply of both savings and loans in the rural areas for those willing to travel to the nearest stop on the paved road.

As we noted in Chapter 2, the uptake of financial services in rural areas, particularly for loans, is very low. Yet, we heard from several loan providers that they cannot meet the demand for loans. It is clear that the success of OIBM, particularly in the loan market, will depend on both its resources and its ability to reduce barriers to access. We turn to the demand side and the clients' perspective on access in the next chapter.

PHOTOGRAPH: THE ROAD TO KASUMBU



IV. THE DEMAND SIDE: ACCESS TO FINANCIAL SERVICES

We now turn our attention to the client side of financial services. The key question here is whether OIBM’s innovation will attract the unbanked to financial services or cause the “already banked” to add to, or switch from, their existing provider to the new mobile bank service. To better understand the underlying dynamics that will affect the uptake of OIBM’s innovation, we held focus groups with individuals from villages representing the geographic areas to be covered. We asked participants the following questions:

- Who is accessing financial services and why?
- What have been the trends in access to financial services over the past few years?
- What product attributes do villagers look for in the financial services that are important to them? ⁵⁰

The discussion that follows is organized by product, as the financial landscape in Malawi is shaped by the products on offer. The PRA participants discussed the relative use of financial service providers for savings, loans, and remittances over the past three years. The picture painted by respondents is one of a very dynamic financial landscape.

ACCESS TO SAVINGS

Savings Institutions in the Study Area

Within the study area, respondents identified several financial institutions where they and their neighbors access savings products. These institutions included four commercial banks: National Bank of Malawi (NBM), Standard Bank, NBS Bank, and OIBM; and three government-owned institutions, including the Malawi Savings Bank (MSB), the Post Office and the Malawi Rural Finance Company (MRFC). Two kinds of focus groups asked respondents to identify where people in their community access savings products. These were the Financial Sector Trends Analysis and the Financial Sector Matrix. In total, 12 sessions were held using these tools. In these sessions, MSB was the most frequently mentioned savings institution (11 out of 12 sessions). Standard Bank was the next most frequently identified (8 sessions), followed by NBM and NBS Bank (6 sessions each). The Post Office was mentioned two times while MRFC and OIBM were each mentioned just once. While MSB and Standard Bank appeared to be equally well known along both the Mchinji and Dedza routes, informants along the Mchinji route seemed to be more aware of NBM and NBS Bank. It was surprising that the level of awareness of MRFC as a provider of

⁵⁰ Product attributes are defined as: The characteristics by which products are identified and differentiated. Usually comprises features, functions (uses), and benefits. Source: www.faculty.stonehill.edu/glantos/Lantos1/PDF_Folder/BA347_PDF/Glossary%20F%2007.htm. 07/10/08.

savings was low considering the high value of savings on deposit there. ROSCAs and saving at home were the only informal forms of savings mentioned by participants.

Savings Product Preferences

We asked participants to rank the attributes of savings products that are most important to them when they decide where to save. They consider price (i.e., the direct costs of obtaining the product), proximity, service, safety, and convenience. Interest paid on deposits, proximity, and customer care were the top-ranked and most frequently-mentioned attributes (see table 16). These findings were a surprise to some. For example, OIBM staff generally believed that the rural population is price insensitive when it comes to choosing financial services and is primarily concerned with location.⁵¹

TABLE 16: RANKED PARTICIPANT PREFERENCES FOR SAVINGS PRODUCT ATTRIBUTES

Product Attribute	Explanation
Interest Paid	Participants prefer to save at an institution that pays higher interest.
Proximity	The distance to the bank is important because of transportation costs .
Customer Care	Participants want to be treated with respect when they go to the bank. They also want fast service.
Security of Bank and Self	The security of the bank is important because if it is robbed, depositors may face delays in accessing their money. Security of the depositor is at risk when the bank is far from home.
Bank Stability	If the bank is not stable, there is a fear that one day the bank may move away.
Withdrawal Limit	Participants want to be able to withdraw any amount at any time without limits.
Minimum Opening Deposit	Participants need to know what the minimum opening deposit is.
Identification	Participants want the bank to be able to identify who is accessing the accounts to prohibit unauthorized access.

Trends in Use of Savings Institutions

Trends in the use of savings institutions were investigated with the Financial Sector Trend Analysis PRA tool.⁵² It assesses the relative popularity of different financial service providers at three different points in time.⁵³ The results give us insight into the dynamics of the financial services market from the demand side.

As we looked at the reported trends in use of savings institutions in the study area over the past three years, customer preferences come more sharply into focus. Although it is difficult to discern one overall pattern in financial services trends

(see figures 12 and 13), given the diverse results along the two routes, the FGDs

⁵¹ Senior OIBM staff member during a meeting with OIBM staff and the MFO researchers, August 2007.

⁵² http://www.microsave.org/relateddownloads.asp?id=14&cat_id=2&title=Market+Research+for+MicroFinance

⁵³ The Financial Trends Analysis PRA tool asks villagers to list the places that they and their neighbors go to borrow, save and receive or send money. Then they are asked to indicate for each product, which of these institutions do most people use right now. Then they are asked to indicate which institutions were popular at different times in the past for example, last year and three years ago.

clearly indicated the drivers of demand for savings from the villager's perspective. These were primarily price and proximity, while convenience, customer service, and market awareness were also important.

The dynamics of the market for savings reflect the interaction of these demand variables. For example, Standard Bank has declined in popularity on the Mchinji route because they have raised the minimum opening balance (or price) required to open a savings account, from MWK 1,000 to MWK 5,000 (\$USD 7.14 to \$ USD 35.71) and started to charge MWK 50 (\$USD 0.35) for each transaction. Yet, Standard Bank has become more popular on the Dedza route because it is believed (incorrectly) to be the only commercial bank in the area since NBM closed its Dedza branch. On the Mchinji route, customers have to travel to Lilongwe to access Standard Bank.

Similarly FGD respondents noted that the popularity of NBM declined dramatically over the past three years since they increased the minimum opening balance for savings accounts. The bank then changed its mind and lowered the required minimum amount, but by less than the original increase. The overall result is confusion among villagers about the true amount needed to open an account at NBM.

The price factor can include more than the minimum amount to open an account. For tobacco farmers, price also means the exchange rate they receive when their tobacco sales proceeds are converted to Malawian Kwacha. Villagers reported that farmers were not satisfied with the exchange rates they received at Standard Bank. This is important, as it was mainly tobacco farmers in this area who accessed Standard Bank.

The trends in use of savings institutions show that real preferences may differ from the stated preferences (i.e., the product attribute ranking exercise). For example, proximity appears to be as important as price, and it is hard to disentangle price from proximity in the trends data given the high cost of transportation. The trends data suggests that the proximity of savings institutions is as significant for rural people, if not more so, than the cost of using these institutions. The decrease in popularity of NBM along the Dedza route reflects the fact that they closed their branch in Dedza

FIGURE 12: PERCEPTIONS OF TRENDS IN USE OF SAVINGS INSTITUTIONS MICHINJIROUTE

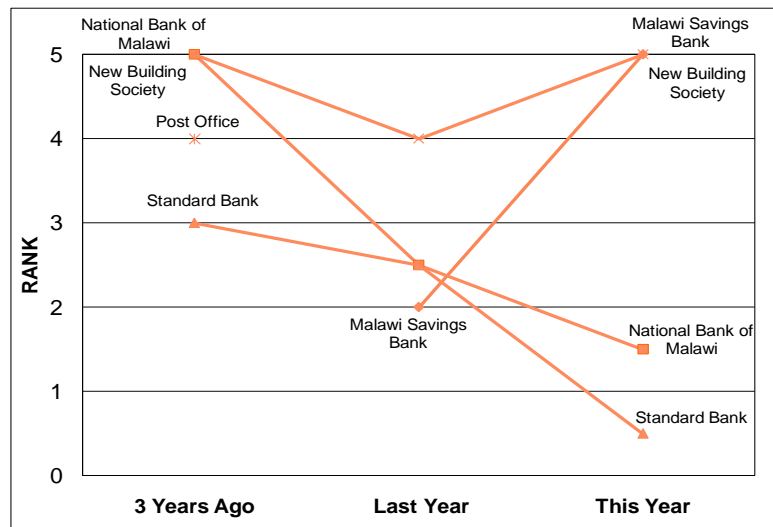
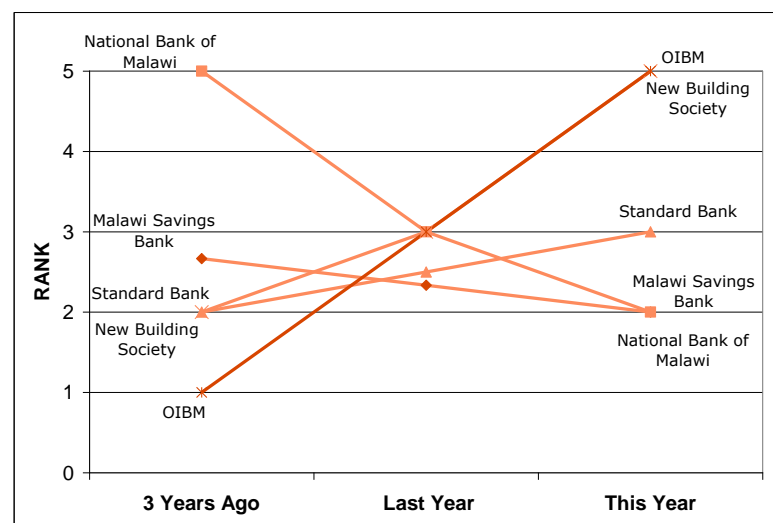


FIGURE 13: PERCEPTIONS OF TRENDS IN USE OF SAVINGS INSTITUTIONS - DEZDA ROUTE



and discontinued the mobile bank that used to serve Nkhoma, not the cost of its products. It is difficult to know, however, if people stopped using NBM because they preferred something closer to home, or whether the cost of getting to Lilongwe was too much for them to afford. We will return to the subject of transportation costs in the section on transaction costs.

Proximity also interacts with the issue of safety in influencing access to particular institutions. Traveling to Lilongwe to carry out bank business is considered by villagers to be very risky. Rural people stand out like a sore thumb in the crowds in Lilongwe and present an easy target for thieves. As one respondent explained: “It is risky for one every time he wants to save money to travel to Lilongwe. Thieves in town know that this person is coming from a village and has money. They follow you everywhere you go. The moment they get a chance, they grab your money and run away.”

The clearest example of the importance of proximity is illustrated by the trends in popularity of the Post Office and MSB. Three years ago, the precursor to MSB was a part of the Post Office and was available wherever the Post Office had an outlet. Many people saved at the Post Office because it was closer and more convenient. After MSB became an independent financial institution, they moved to separate premises in selected locations, which resulted in a much smaller network than the Post Office’s. For example, within the study area, MSB stopped serving Nkhoma. Now, those who wish to continue banking with MSB – such as pensioners who must use MSB to obtain their payments – have to travel to Lilongwe. Consequently, some have chosen to close their accounts. In contrast, on the Mchinji route, some Post Office branches continue to support MSB accounts, and MSB’s popularity has increased there.

NBS has bucked the trend followed by the other commercial banks and has risen in popularity along both routes. More than one focus group stated that this year people flocked to NBS. One respondent said “*I was in Lilongwe last week. I saw many people in NBS; there were more than at any other bank.*” Part of the reason for this is price. NBS has a relatively low minimum opening balance (MWK 1,000 or \$ USD 7.14). They have made an effort to attract tobacco farmers by competing on price, through better interest rates on fixed deposits and application of better exchange rates to tobacco proceeds. NBS is also competing on service through better customer care. Among other steps, NBS has created a designated banking hall for farmers in the Lilongwe branch. They also hold promotions and award prizes to the customers with the largest fixed deposit accounts.

The research revealed one significant, but unusual factor behind the trends in the demand for savings institutions: the desire to access loans from MARDEF. Despite the downsizing of the MSB network and dissatisfaction with certain aspects of service (such as limits on withdrawal amounts), the popularity of MSB has increased dramatically over the past two to three years with the entrance of MARDEF into rural microfinance. Applications for MARDEF loans have greatly outpaced the number of loans disbursed, indicating that many people have opened group savings accounts to become eligible for MARDEF loans. However, it is difficult to characterize these deposits as real savings. People are not adding to these deposits to build up their assets and the descriptions suggest that these are dormant accounts.

We were surprised to find that in one location some community members had already started to save with OIBM. People are very attracted to the OIBM savings product, even though the OIBM mobile bank service had not yet started. This was due to the low minimum opening balance as well as the ability to open an account without presentation of an official identity card.

The research demonstrated that villagers had a high level of general knowledge about savings providers and products, but often lacked accurate product specific information.

Access To Savings By Market Segment

Who is accessing savings at each of these savings institutions? More pertinently, does OIBM’s target market have access to formal savings services now, and, if so, where?

As noted earlier, the rural market can be segmented into three groups based on relative affluence: the Very Poor, the Poor, and the Well-to-do or Rich. It was generally agreed that the Very Poor segment does not have sufficient funds to save. To the extent that the Very Poor save at all, they save only with MSB. This is primarily because they are opening group savings accounts at MSB for the purposes of applying for MARDEF loans.

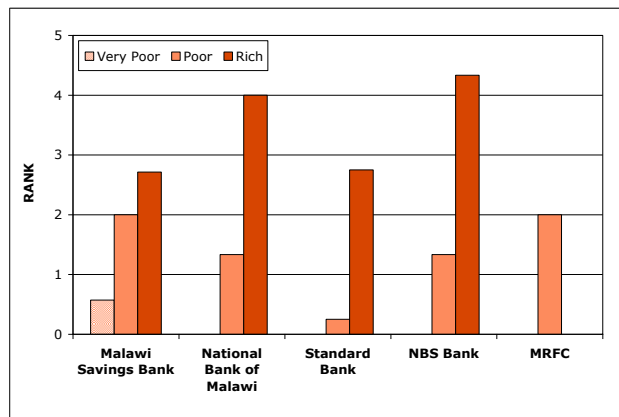
The market segment characterized as Poor saves with all five formal savings institutions, but their use of commercial banks is low due to the cost (price) and location (proximity) of these institutions. Commercial banks are only located in Lilongwe and in some cases, the secondary towns of Mchinji and Dedza. For many poor rural people, the time and cost of travel to bank branches in these locations is prohibitive (See section on transaction costs). Additionally, rural people feel safer banking outside of Lilongwe.

More importantly, the Poor in general cannot afford the costs of commercial banks’ products, further limiting access.

The minimum opening balance for savings accounts at most commercial banks were too expensive for this market segment. For example, National Bank of Malawi requires MWK 5,000 (\$USD 35.71) to open an account. As one respondent put it, “*once you open the account you cannot access your money because you only have MWK 5,000 in the account*”. In contrast, the minimum opening balance at MSB is MWK 500 (\$3.51). Of the existing commercial banks, the Poor prefer NBS Bank because the minimum opening balance is only MWK 1,000 (\$USD 7.00). Furthermore, NBS allows unlimited withdrawals and has few account opening requirements. (See table 11 for comparison of minimum opening balance amounts at different commercial banks.) The Poor who do use commercial banks are most likely to be tobacco farmers who use the bank as a “pay point” rather than for the purpose of saving.

In the end, when the Poor save, they are more likely to go to MSB. This is due to the low opening balance requirement and convenient locations, demonstrating again the importance of price and proximity. MSB has branches or outlets in Lilongwe, Mchinji and Dedza and also supports savings accounts at Post Offices in some of the smaller Trading Centers. Like the Very Poor, many of the Poor have opened savings accounts at MSB for the sole purpose of applying for MARDEF loans. The Well-to-do or Rich market segment typically saves at commercial banks and to a lesser extent at MSB. This group has the ability to travel to Lilongwe, Mchinji, or Dedza to access bank branches. Some respondents noted that some Rich people like the status associated with banking at a commercial bank. Many of the Rich use commercial banks primarily to have a pay point for their tobacco sales proceeds. When the Rich

FIGURE 14: ACCESS TO SAVINGS INSTITUTIONS BY MARKET SEGMENT



use MSB it is often because it is the only bank near them. In some cases however, the Rich use MSB in order to become eligible for MARDEF loans. While they rich are not in the MARDEF target group, in some locations they are able to access these loans.

OIBM is targeting the Poor and Rich segments of the rural market. It is clear that with respect to savings products, OIBM will have to compete with MSB on proximity and price and with NBS Bank on price and service. Aside from tobacco farmers who represent a ready market for transactions accounts and fixed deposits, the size of the untapped market for savings is still unclear. Nor is it clear how much of a competitive advantage OIBM will have in the market for voluntary savings.

ACCESS TO REMITTANCES AND PAYMENT SERVICES

Payment transfer products do not feature as largely as savings and loans in the financial landscape. Payment services appear to be more important than those for remittances, but they are usually conflated with savings accounts in the minds of respondents. Payment services include bill paying services, in which customers pay utility bills or rent through their bank, and automatic deposit services, in which salary or tobacco proceed deposits are sent directly to a customers' account. The market for remittances in comparison to loan and savings products is smaller and has fewer players.

BOX 8: TRENDS IN USE OF REMITTANCES

MCHINJI ROUTE

3 years ago: The Post Office, NBM, Standard Bank and NBS Bank were popular for remittances.

Last Year: MSB entered the market and was very popular. OIBM also entered the market. The Post Office remained popular. NBS Bank started in a new location and remained popular in another. Standard Bank started to lose popularity.

This Year: The Post Office and MSB both started to lose business in one location. Standard Bank declined even further in popularity. NBM and NBS Bank remained at the same level. OIBM has become very popular (but only in one location).

DEDZA ROUTE

Only the Post Office was identified as a provider of remittances. Use of the Post Office is reported to have declined significantly from 3 years ago to last year and remained low this year.

Trends in Remittances

The Post Office is the most frequently-used institution in rural areas for receiving remittances because of its convenient locations. However, there is a high level of dissatisfaction with the service due to delays in receiving money or money being lost entirely. Reliance on the Post Office for remittance transfers is decreasing. With the recent increased use of cell phones, people have been able to arrange to meet their relatives in person in order to pick up or drop off money. It is worth noting that the remittance business consists mainly of domestic transfers as international remittances of migrant workers' wages are no longer significant (see figure 15).

Commercial banks are frequently used for receiving deposits of tobacco sales proceeds. The banks providing payment services to tobacco farmers include Standard Bank, National Bank, NBS Bank and First Merchant Bank (available in Lilongwe). Demand for payment services at these institutions is closely related to the attractiveness of the savings account products available (see box 8 for a summary of trends in remittances).

Market Segments

Overall, the predominant users of remittance services are the Rich. They need remittance services to send money to their children who are away at school. Most tobacco farmers using commercial banks as pay points are considered rich.

ACCESS TO LOANS

The financial landscape for loans is more complex than those for either savings or remittances. The numbers of actors are greater and more diverse. They also include formal, semi-formal and informal credit providers. Formal providers of credit include OIBM, the only commercial bank lending in the study areas. Semi-formal providers include government (or parastatal) programs, NGO projects, and MFI companies. On the informal side, people rely on relatives and moneylenders when they need loans in an emergency.

With few exceptions, loan programs come to the customer, while savings institutions expect the customer to come to them. Access to loans is determined by eligibility criteria for borrowers, as well as the tendency of microcredit providers to target certain geographic areas. This results in a financial landscape for loans that is both complicated and fragmented.

Lending Institutions Available in the Study Area

Villagers who participated in the Financial Sector Matrix and Financial Sector Trends Analysis PRA sessions identified several loan providers in the study areas including a commercial bank, parastatal organizations, MFIs, NGOs, cooperatives, agricultural organizations, and moneylenders. The organizations identified are shown in figure 16, which also shows the number of sessions in which each institution was mentioned.

Loan Product and Lending Institution Preferences

Research participants were asked to rank the attributes of loan products most important to them when they make a decision to apply for credit. The results were consolidated and are presented below in table 17.

The highest-ranked and most frequently-cited attributes across all groups were: grace period, interest rate, loan term, and late payment policies. These priorities, to a certain degree, reflect the priorities of microcredit clients everywhere. However, the stress placed on the importance of a grace period (of sufficient length), reflects the priorities of a rural clientele, for whom agriculture is the major economic activity. Participants reported wanting long grace periods that would allow them to invest in

FIGURE 15: PERCEPTIONS OF TRENDS IN REMITTANCE PROVIDERS

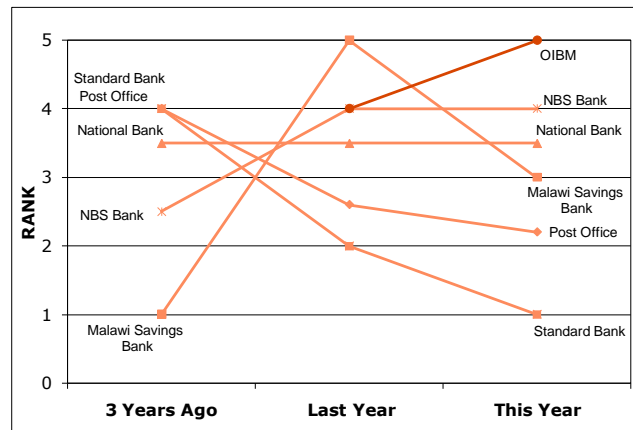
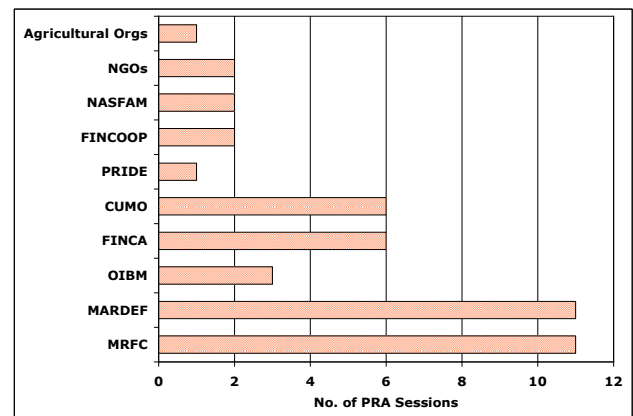


FIGURE 16: LENDING INSTITUTIONS IDENTIFIED BY SURVEY PARTICIPANTS WITH FREQUENCY OF MENTION



agricultural activities or to earn sufficient profit from their small businesses. Similarly, they prefer lower interest rates to allow for earning sufficient profit. Respondents prefer a longer loan term so that the repayment amounts in each period would be lower and more affordable. Lastly, participants look for credit suppliers that do not have onerous policies in the event of late payment. Participants in some of the groups stated that they would never borrow because they have seen family members or neighbors lose their assets when they could not repay a loan.

TABLE 17: RANKED PARTICIPANT PREFERENCES FOR LOAN PRODUCT ATTRIBUTES

Product Attribute	Explanation
Grace Period	The amount of time the borrower has to use the money before they have to repay it determines how much profit they can make.
Interest Rate	High interest rates will reduce the amount of profit the borrower can make and can cause them to have difficulties repaying the loan.
Loan Term	A longer loan term makes it easier for the borrower to repay.
Late Payment Policies	Respondents were concerned about what would happen to them if they could not pay on time. Some stated that they would never borrow because they had seen family members' assets confiscated for non-payment.
Timing of Loan Disbursement	The amount of time it takes from loan application to disbursement.
Type of Business	The profitability of the business is essential to the ability to repay the loan.
Loan Use Conditions	The limitations in how one can use the loan.
Loan Application Procedures	Some banks have long and complicated procedures.
Identification	People without identification are not able to obtain loans from institutions that require IDs.
Deposits	Many institutions require security deposits before borrowers can receive their loans. Respondents noted that most of the Poor and almost all the Very Poor cannot afford these.
Training	Respondents value business training provided by MFIs before loan disbursement.
Use of Intermediaries/Cost	The use of intermediaries (e.g., when a lender like OIBM partners with an institution such as NASFAM) was perceived to increase the cost of borrowing.
Experience in Running A Business	People who do not have experience running a business find it difficult to borrow from an MFI because they do not know if the borrower will have the ability to pay back the loan.

Trends in Access to Loans

Research participants were asked to identify all sources of credit in their community and to rate these institutions according to the degree to which they were used by community members. Respondents were then asked to rate the level of usage of these institutions one and three years in the past. This exercise highlighted changes in the use of credit providers over time and the reasons for those trends.

As with the trends in access to savings institutions, it was difficult at first to discern an overall pattern on each route (see Figures 17 and 18). Discussions with the FGD respondents revealed several dynamics behind these trends.

Demand for credit and particular credit organizations was the result of many factors both endogenous and exogenous to the lending institution. The variables over which the institution has some control that impact demand include the product features (e.g., interest rate and loan term), the methodology (e.g., repayment policies), delivery channels (e.g. directly to clients or working through local structures such as

the chiefs), targeting criteria, and location. The availability of credit institutions also varied considerably. At the low end of the spectrum, most NGOs were available only in limited locations while at the other end of the spectrum, the parastatals were available throughout the study area.

The key features of methodology that affected client use of a credit provider include the loan type and the repayment policies. The group loan was dominant in rural areas, as it makes the loan less risky for the provider and more affordable for the borrower. The most important feature of the methodology from the community perspective however, was how the institution handles borrowers who are delinquent. Respondents noted that people do not like late payment penalties nor do they like to have their assets seized if they cannot repay. These strategies, often imposed by fellow group borrowers, led delinquent borrowers to drop out of microfinance, and also deterred non-borrowers (the unbanked) from joining credit institutions.

Other aspects of methodology were equally important. The farmers association, NASFAM, required their members who borrow to sell their products back to NASFAM. This was not popular.

Delivery channels can have an impact on demand in some surprising ways. Some participants noted that NGOs and other institutions worked through the local chiefs to access the community. This resulted in less favored people being excluded from the opportunity to apply for credit. In other cases, NGOs or other providers rationed the credit available in certain locations with quotas administered locally, again excluding less favored residents. In addition to quotas, microfinance providers targeted certain populations (e.g., women, the very poor) and locations.

Awareness by community members of their financial choices was another important factor affecting demand. Knowledge of available credit providers varied considerably among respondents. We discuss the role of information in this market more thoroughly at the end of this chapter.

Demand for agricultural credit was stronger than for microenterprise credit. Villagers we spoke to focused on the need for financing to acquire fertilizer and other agricultural inputs. Trends in the use of significant individual credit providers in the landscape are discussed below.

OIBM: OIBM was the only commercial bank identified as a credit provider, but was only mentioned by one focus group. These participants reported that people in their community had been borrowing from OIBM for the past year. OIBM was very popular in this area and had been attracting more savers than borrowers according to this group.

FIGURE 17: PERCEPTION OF TRENDS IN USE OF LOAN PROVIDERS – MCHINJI ROUTE

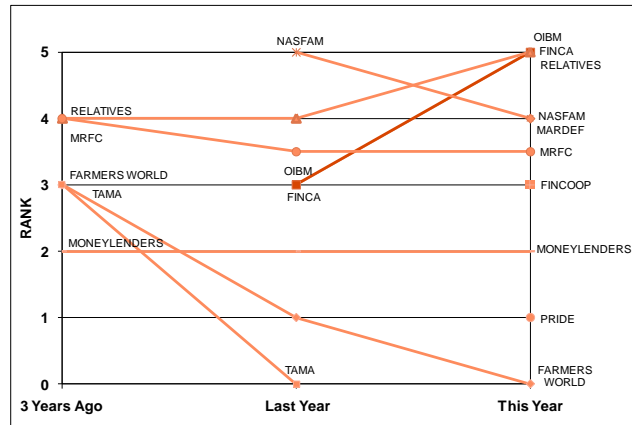
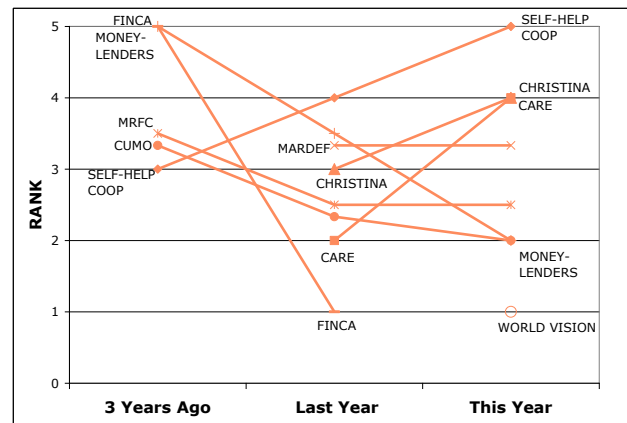


FIGURE 18: PERCEPTION S OF TRENDS IN USE OF LOAN PROVIDERS - DEDZA ROUTE



MARDEF: Over the past three years, MARDEF had become a significant and well known source of microcredit in rural areas. Respondents in more focus groups (5) knew more details about MARDEF than any other program, which attests to both the level of interest in MARDEF and its marketing efforts. The MARDEF program is extremely attractive to the rural population because it targets the rural poor, the interest rate is low and there are grace periods lasting up to 6 months depending on the microenterprise being funded. Although the interest in and knowledge of MARDEF was extremely high, actual experience with MARDEF among the respondents was low because many people who have applied for loans from MARDEF have not received them. The long wait for loans was causing dissatisfaction with the program. Additionally, MARDEF loans are relatively small and cannot meet the needs of every rural borrower. Access to MARDEF was not as universal as it would appear. One TA official informed us that some people are so poor that he will not let them apply for MARDEF loans.⁵⁴ Additionally, there is no guarantee that a MARDEF borrower will be able to obtain a follow-up loan in the next lending cycle.

MRFC: MRFC, along with MARDEF, was the best known program in the study area. Borrowing from MRFC had declined slightly in popularity over the past three years for two reasons: the confiscation of assets from defaulting borrowers frightened off both borrowers and their neighbors, and the high rate of interest (e.g., 32 to 36%). Respondents also reported dissatisfaction with the timing of MRFC's loan disbursements, which were not always at the most effective time of year for agricultural activities. On the other hand, MRFC was appreciated because people can borrow larger amounts from them. MRFC reported that demand exceeded supply of their credit. In one TA, it was estimated that one-quarter of all households were borrowing from MRFC for business or farming.

CUMO: CUMO is only available along the Dedza route. The research suggested that fewer people used CUMO each year. Respondents agreed that many people rushed in to borrow from CUMO when it first came to their areas, without fully understanding the implications of borrowing. As a result, many villagers had repayment difficulties and dropped out. In one area, the number of borrowers has remained the same over the past three years however, because the drop outs have been replaced by new members. In the other two areas, villagers stated that the numbers of clients borrowing from CUMO had been declining steadily over the past year or two. People were dissatisfied with the short loan term and low loan limit. In all communities, they noted that people do not like the repayment conditions that impose penalties if the loan installment is one day late. Due to the group guarantee, group members seize the assets of members who fail to pay on time to recover the payment. This has turned people off the CUMO program. Yet, at the national level, the numbers for CUMO suggest that it is growing rapidly.⁵⁵ Some said that people were borrowing from CUMO because they lack alternatives.

FINCA: The perceptions of the use of FINCA varied by route. Along the Mchinji route, use of FINCA increased over the past few years because it was the only organization available to those communities that provides microloans quickly. The recent popularity of FINCA here was interesting because they have been around since 1999. Two years ago, they began allowing a one week grace period and more people began to borrow from them. Along the other route, the use of FINCA has been declining because the loan features were not popular. Respondents noted dissatisfaction with the short repayment period, collateral requirement, and

⁵⁴ These people were described as being unable to afford basics such as soap and salt.

⁵⁵ www.mixmarket.org

particularly the high interest rate. They noted that many FINCA clients dropped out over the past year or so. They also mentioned that of the few remaining groups in their location, many had not yet received their next loan disbursements because of the high default rate in the area. It is possible that FINCA is pulling back from this area.

Self-Help Cooperative: This was identified as operating in the Dedza area for the past two years. It was becoming popular because it provides cash loans for up to 9 months and has flexible loan features such as a 3 month grace period and flexible payment schedules.

NGOs: Along the Mchinji route, most NGOs were providing in-kind loans such as farm inputs (e.g., fertilizers and seeds). The level of knowledge about the NGOs was too low to report information about NGO program use. Along the Dedza route, information on NGOs was more forthcoming. CARE was identified as a credit provider, but we believe this was their VSL program where group members lend to each other out of an internal savings account. The VSL program was popular because it builds the confidence of members as they increase their savings. In addition to CARE, some NGOs, such as World Vision, provided in-kind loans while CADECOM provided in-kind livestock loans to women.⁵⁶ This livestock program is becoming increasingly popular. Women participants are provided with goats or chickens along with animal feed. At the end of one year, these loans must be repaid by providing the same number of animals to a new beneficiary.

Other: Agricultural organizations were identified as credit providers along the Mchinji route. NASFAM was said to be highly used, but declining in popularity because of the requirement that members market all produce to them. NASFAM does not lend directly to farmers now, but facilitates loans from banks to the farmers. In the Mchinji area they worked with OIBM to provide loans to groundnut farmers as part of the rainfall index insurance pilot test. NASFAM's biggest partner in the study area was MRFC. Farmers World, an input supply store, was identified as having provided in-kind loans to farmers in the past. TAMA (The Tobacco Association of Malawi) also provided loans in the past.

Moneylenders: Use of moneylenders is believed to have declined slightly over the past three years. Two of the groups noted that because the harvest was good this year, fewer households will need to borrow to get through the next hungry season. Use of moneylenders was higher in the past, especially during the drought. People borrow from moneylenders when they have an immediate need for cash and there are no alternative sources of loans. Moneylenders lend in cash or in-kind goods for terms of up to one month at the rate of 50 to 100 percent interest. (See box 9.)

Family: Family members remained the preferred source for loans in the Mchinji area.

One other pattern was suggested by the data and from listening to villagers. There appeared to be a cycle to demand for particular credit providers. There was a pattern of initial excitement and high demand for loan providers. This was evidenced by the report of several lending institutions where the demand for credit outweighed supply in rural areas. As experience with a loan program or project developed, some clients

⁵⁶ CADECOM (Catholic Development Commission in Malawi) is a local partner of CRS. Villagers in other areas near Dedza reported a very similar program called "Christina". So called because it was started by a woman named Christina. We were unable to determine whether "Christina" is a separate NGO or is in fact the CADECOM program. It is not unusual for project beneficiaries to be unaware of the correct name of the program in which they are participating.

experienced problems with repayment and became disillusioned with the program. They dropped out or were forced out by their group. Conversely, as clients failed to pay back their loans, the credit supplier became reluctant to continue lending and may have pulled back from providing loans to people in that location. This pattern was suggested by the findings that the use or popularity of younger programs was often perceived to be higher than for those that had been around for awhile. If this pattern is, in fact, real, it implies that the early performance of a microloan program, for instance the first one to two years, is not indicative of the long run prospects of that program.

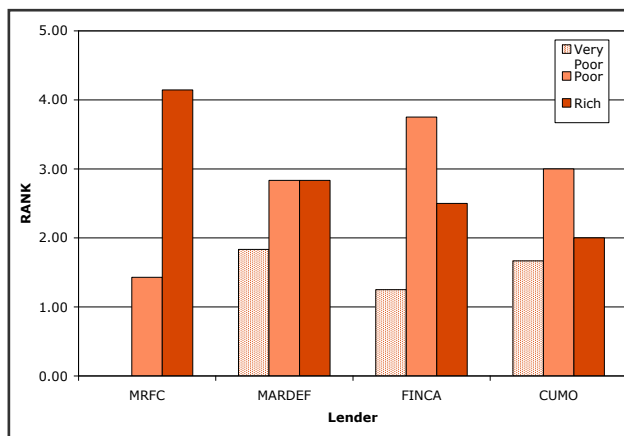
Access to Loans by Market Segment

We asked respondents to identify which socioeconomic groups used which financial institutions and the reasons behind it. The results were as follows:

The Very Poor

The Very Poor were able to access loans from only a limited number of lenders within the study area. These included MARDEF, FINCA, and CUMO, as well as moneylenders. While MARDEF and moneylenders were accessed throughout the study area, access to FINCA was mentioned mostly along the Mchinji route, while access to CUMO was limited to the Dedza area. In that area, CUMO appeared to be the most successful in reaching the Very Poor.

FIGURE 19: ACCESS TO LENDERS BY SOCIO-ECONOMIC GROUP



Overall, MARDEF was consistently the most popular program for the Very Poor because of the low interest rate. The Very Poor had lower

and varying levels of access to private-sector microfinance programs such as FINCA and CUMO. NGO programs tended to be more accessible to the Very Poor, but these programs were very localized and were not mentioned often (ex. World Vision International, NABW and Sasakawa Global 2000.) A wider variety of NGO programs were identified along the Mchinji to Lilongwe corridor.

Respondents did not agree on the accessibility of moneylenders to the Very Poor. Some said that the Very Poor used moneylenders in emergency cases when they ran out of food before the harvest period, or when they

needed to pay school fees for their children. Others believe that the Very Poor cannot afford to borrow from moneylenders because the interest rate is too high.

In general, the Very Poor had the least access to microcredit of the three socioeconomic groups. Their exclusion could be voluntary or not. Reasons for voluntary exclusion included:

- They did not have the money or assets to deposit as security.
- If they did have some assets, they were too afraid of losing them to pledge collateral.
- They could not afford the high interest rates or fortnightly MFI repayments.

- They were afraid that the pressure for money was so great in their households that business profits would be diverted, and as a result, they would not be able to reinvest in the business and would have problems paying back the loan.

At the same time, the Very Poor were often excluded from microfinance programs because of the principal that microcredit borrowing groups self-select their members. The Very Poor were intentionally not selected into borrowing groups by other villagers who doubted their ability to repay loans or provide assets in the event of non-payment.

The Poor

The Poor had greater access to loans than the Very Poor because they could afford the required security deposits or mandatory savings. All available loan programs and providers were accessible to the Poor, but some less than others. In particular, the Poor were significant users of dedicated microcredit providers such as FINCA and CUMO, and various NGO projects, such as Sasakawa Global 2000. The Poor were also believed to access FINCOOP, but only in a limited geographic area. The Poor also appeared to be the most significant market segment for moneylenders.

The Poor had less access to MRFC, which was more likely to serve the Rich. Farmers of burley tobacco were the only Poor segment who were reported to borrow from MRFC. Those who grew other crops were less able to afford MRFC loans and possibly did not have the collateral.

The Rich

The Rich had access to most sources of credit in this financial landscape. Only a few NGO programs were not reported to have Rich clients, suggesting that the NGOs were more successful at targeting the Poor and Very Poor exclusively. The Rich had better access to MRFC and to FINCOOP than did other groups. Access to MRFC loans required collateral while access to FINCOOP loans required membership. OIBM was being accessed by the Rich market segment in the form of tobacco farmers (see figure 19 for a summary of access to lenders by socio-economic group)

BOX 9: CASE STUDY OF AN EXPERIENCED MICROCREDIT CLIENT

Mr. L. is a young man in his mid to late-20s. He is an agricultural trader doing business in a Trading Center, which will be one of the stops of the OIBM mobile bank. He travels to villages to buy farm produce and then transports it to the Trading Center to sell. He operates a small stand with a scale and table out in front of a bar at the trading center. He is friends with the bar-owner and sometimes manages the bar as well.

Mr. L. feels that his use of financial services is average among the business-owners in his Trading Center. He can think of examples of merchants he knows who use more financial services, as well as examples of those who use less.

Mr. L. began his business with the proceeds from a group loan with OIBM around 2003. He said the loan made possible the establishment of the business; he could not have begun trading in produce any other way.

Since becoming a client of OIBM, he has borrowed three group loans. In all cases, a representative of the bank visited the Trading Center to recruit groups like his own for loan applications. His first loan was for MWK 10,000 (USD \$71.17). After successful repayment, his subsequent loans have increased in size to MWK 25,000 (USD \$177.94) and MWK 35,000 (USD \$249.11). All three loans have come with a five-month term. The first payment was due 40 days after the loan was received, with monthly payments thereafter. The interest rate on the first loan was 6% per month, but has dropped to 3% per month after successful repayment and subsequent loans.

Overall he is satisfied with OIBM service. He says he could not have begun his business without their loan. His main complaint is that they only offer group loans. He feels group loans can be unfair because some individuals in the group do not use the money for proper business investment and fail to repay. Then the group is liable for that portion in addition to their own. He would prefer individual loans.

He also borrowed a group loan for MWK 35,000 (USD \$249.11) from CUMO, in 2006. Like OIBM, the loan began with a visit to the Trading Center by a CUMO representative. The loan term was four months; repayments were bi-weekly with no grace period and the interest rate was 6% per month.

He prefers the CUMO loan over the OIBM product because he liked having to begin repayment after two weeks rather than after 40 days. He said the quicker repayment forced him to be more disciplined and to begin immediate business investment with funds. He also likes the lack of transport costs associated with repayments. His only complaint about CUMO is the same as his complaint about OIBM—that they offer group loans only, and that he had been liable to pay a portion for other members of the group who defaulted.

Mr. L. has had a savings account with Standard Bank since 2003. He began the account by traveling to the bank branch in Dedza and following instructions from bank personnel. Opening the account required a letter from his T.A. Chief, as well as official ID and the minimum balance of MWK 500 (USD \$3.56). The account has no withdrawal fees; he is unsure if there is a limit on the number of withdrawals he can make each month. There is a monthly service fee of MWK 35 (USD \$0.25). He is pleased with the service and has no complaints, other than the travel costs.

He said much of his current use of financial services is hampered by travel time and cost. He must travel to Lilongwe to make payments on his OIBM loan; the round trip cost is over MWK 500 (USD \$3.56) and involves two different buses. Similarly he must travel to Dedza to use his savings account at Standard Bank; the round-trip cost is MWK 160 (USD \$1.14). The only service without transport costs related to use is the CUMO loan. In that case, a representative comes to the Trading Center to collect payments. There is also a payment service for CUMO offered through the local branch of Farmers World (an agricultural supply store).

ACCESS TO INSURANCE

The field research among clients did not reveal access to any insurance products or providers. Since the supply-side research showed that several insurance products were available, and many of those were compulsory, we can only conclude that the rural population was unaware of insurance products, even when they were tied to savings and loan products.

TRANSACTION COSTS FOR CLIENTS

To better understand why segments of the rural market did or did not access the available financial services, we looked at the transaction costs of accessing these services from the customer perspective using a newly designed PRA tool in two FGD sessions.⁵⁷ This initial effort allowed us to assess the issues and methods to be used to better understand the role of customer transaction costs.⁵⁸

For the purposes of this study, transaction costs are *the cost of carrying out a transaction by means of an exchange on the open market*.⁵⁹ The research tool focused on the transaction costs of accessing financial services in terms of travel costs and the opportunity cost of time. It addressed the following questions:

- What are the travel costs incurred when accessing savings and loan institutions?
- How much time is involved in traveling to and from the financial institution?
- How much time is needed to carry out transactions at the financial institutions?

Information on transaction costs was also gleaned from other PRA sessions on existing formal financial services as well as from interviews with key informants.

The findings suggest that for rural Malawians, the types of transaction costs incurred when accessing financial services include:

- Travel Costs
- Opportunity Costs of Time
- Risk of Theft/Insecurity
- Indirect Financial Costs

These costs occurred at two stages: at the time of application for and during routine use of financial services. The magnitude of transaction costs, in this context, were dependent upon a number of factors including: access to identification, processes and procedures of the financial service provider, and the literacy level of the client.

Transaction Costs when Applying for Financial Services

Transactions costs related to applications for financial services could be substantial in terms of time and costs, even though they were not recurring expenses.

⁵⁷ Three PRAs were planned but one was not carried out due to lack of participants.

⁵⁸ This analysis is our first exploration of this question. We intend to both broaden and deepen the analysis of customer transaction costs in future studies in this series.

⁵⁹ Coase, Ronald H. (1937), 'The Nature of the Firm', 4 *Economica*, 386-405. Reprinted in Kronman, Anthony T. and Posner, Richard A. (eds) (1979), *The Economics of Contract Law*, Boston, Little Brown, 31-32. quoted by Allen at <http://allserv.rug.ac.be/gdegeest/o74oart.htm>.

The Importance of Identification

Most commercial banks require prospective customers to produce an official form of identification in addition to meeting other criteria.

BOX 10: LACK OF IDENTIFICATION

Without forms of identification, rural households have to rely on the TA Chief and local administrative offices to vouch for them. For example, a villager living in TA Zulu wishing to open a bank account at a branch in Mchinji Boma will travel to the TA Chief and request an official letter. The villager will then travel to the District Commissioner's office in Mchinji Boma and request a letter from the DCO. S/he will take both letters to the bank and request an application form. After they complete the application, the villager will leave it with the bank. This process can take up to 8 hours. The villager will have to return to the bank on another day to learn if their application has been accepted, thus incurring more transportation and time opportunity costs.

Malawi does not have a national identification card, however. Driver's licenses and passports can serve as official identification, but each of these documents costs about USD \$30 to obtain. At this price, they were out of reach for poor rural households. Hence, lack of identification was a major obstacle for poor people wishing to open a savings account. Access to commercial banks, with the exception of OIBM, which uses the Malswitch card, was difficult and more expensive for those who did not have an official form of identification. (See box10.)

Some financial service providers found ways to work with rural populations without requiring an official identification card. Both MSB and OIBM used the Malswitch smart card (see box 11). FINCA relied on borrower groups to self-select their members rather than requiring an official identification. FINCOOP used a low-tech system of keeping photographs of their customers on file. These will soon be accessible to tellers through the bank's MIS system.⁶⁰

BOX 11: THE MALSWITCH CARD

This smart card stores the cardholder's biometric information (fingerprints) and photo. In this way, no identification is necessary as the card can always be matched to the cardholder by the bank. Smart cards can store value or savings, they can disburse loans or enable money transfers.

Both OIBM and MSB provide these cards to their customers. In theory, users should be able to use any ATM or POS that is connected to the MALSWITCH system. One drawback is the cost of the card, which is about \$7.

Financial Service Provider Application processes and procedures

In addition to the requirement for identification, procedures for applying to financial service providers can be time-consuming for potential borrowers. For example, MARDEF requires that potential borrowers open group savings accounts at MSB before they can obtain a loan application form. Therefore, individuals must form groups, collect funds, and apply for a bank account. Then they must go back to the bank and request a MARDEF application form, which once filled out is resubmitted to MSB. Overall, three trips to the bank are required in order to apply for a loan.

Transactions Costs when Routinely

Using Financial Services

Transactions costs related to routine use of financial services were largely recurring costs that could add up over time. The results of the two PRA sessions, conducted along the Mchinji-Lilongwe route, are shown below. Table 18 contains the costs of

⁶⁰ FINCOOP is a co-op which started operations along the Mchinji route area in 2007.

accessing financial service providers in Mchinji from various villages in the Zulu TA. Table 19 displays the costs of accessing financial service providers in various locations, including Lilongwe, from one village near Namitete in the Lilongwe District. As shown in the tables, the minimum travel cost was zero for someone who was able to walk to the nearest Post Office. The maximum travel cost (including food) was MWK 800 (USD \$5.71), which exceeded the amount needed to open a savings account at MSB. In addition to travel costs, villagers reported spending from 10 minutes to 2 hours traveling to a bank or microfinance program.

TABLE 18: FINANCIAL SERVICES TRANSACTIONS COSTS RESULTS FROM TA ZULU

Village	Distance To FSP (KM) & Destination	Time Spent Traveling (Minutes)	Means Of Transport	Cost (One Way) (MWK)	Other Costs (Food)	Total Costs (MWK)
Nyamawende	2.5 (Mchinji)	45	Bicycle	150 (\$1.07)	100 (\$0.71)	400 (\$2.86)
Jenjewa	Does Not Know (Mchinji)	40	Minibus	300 (\$2.14)	200 (\$1.43)	800 (\$5.71)
Kamwendo	2 (Kamwendo)	30	Walking	0	0	0
Kacheta	20 (Mchinji)	120	Bicycle	250 (\$1.79)	150 (\$1.07)	650 (\$4.64)
Chisankhale	14.5 (Mchinji)	55	Minibus	100 (\$0.71)	100 (\$0.71)	300 (\$2.14)

Note: The cost for using a bicycle is due to the fact that people who do not have their own bicycle use bicycle taxis.

TABLE 19: FINANCIAL SERVICES TRANSACTIONS COSTS RESULTS FROM TA KALOLO

Location of FSP	Distance to FSP	Time Spent Traveling (Minutes)	Means of Transport	Cost (One Way) (MWK)	Other Costs	Total Costs (MWK)
Namitete (Post Office)	NA	20	Bicycle	70 (\$0.50)	NA	40 (\$1.00)
Chileka/Kapeni (Mrfc)	NA	20	Bicycle	70 (\$0.50)	NA	40 (\$1.40)
Chileka To Namitete	NA	10	Minibus	20 (0.14)	NA	40 (\$0.29)
Lilongwe (OIBM & Banks)	NA	> 60	Bicycle And Minibus	270 (\$1.92)	NA	540 (\$3.86)

Note: The cost for using a bicycle is due to the fact that people who do not have their own bicycle use bicycle taxis.

The availability of the OIBM mobile bank can reduce the transportation costs and time needed to get to a bank, but it will not eliminate these entirely. OIBM estimates that the catchment area for mobile bank customers extends 15- 20 kilometers from the bank call point, suggesting that some customers will be traveling long distances to reach them.

The amount of time needed to transact business once customers arrive at a bank was a matter of dispute. The PRA participants reported that it did not take much time to carry out business at financial service providers. A key informant in the TA suggested that it can take 3-4 hours to transact business at the NBS Bank branch in Mchinji and one hour at the Post Office, however. Direct observation showed significant queues within banking halls in Mchinji. ATM machines were not always an efficient

alternative. At the end of the month, the queues and wait times at ATM machines were extremely long.

Some institutions were more time consuming for customers than others:

- Often several trips to the Post Office were necessary to pick up remittances;
- Withdrawing large sums from MSB required giving advance notice, which necessitated a separate trip to the bank;
- Group lending programs required frequent and often time-consuming meetings for the borrowers.

A villager's opportunity costs of time can be estimated using the ganyu wage rate. Wage rates vary by time of the year (agricultural season vs. non-agricultural season) and by the activity undertaken (clearing fields, ridging fields, etc.). The minimum value that can be placed on one hour of a villager's time was estimated to range from MWK 3.75 (USD \$0.03) to MWK 22.5 (USD \$0.16) depending on these factors.⁶¹ This suggests that despite the time required to access financial services, the opportunity costs of that time, particularly during the off-season, were less significant than the transportation costs to reach the financial service provider, which often exceeded the minimum daily wage.

BOX 12: SECURITY IN MALAWI

Security is a national issue with 16% of the population of Malawi reporting feeling unsafe in their own homes; 5% feel unsafe walking in their neighborhood during the day and this goes up to 37% at night. There was no significant difference between the share of people feeling unsafe in rural or urban areas, however, the Central Region had a higher proportion of those who feel unsafe (18%). In the Dedza District, 25% feel unsafe in their home.

The share of people who were attacked in the year before the study, was 4% for the nation. Again, the rate was higher in the Central Region (5%). Surprisingly, the rate for Lilongwe Rural was the second highest in the country at 9%. This suggests that there are more attacks outside of Lilongwe city than in it.

In the year previous to the IHS survey, 15% of households in Malawi were broken into. In the study area, the rate was generally lower than this except for Mchinji where it was a startling 27% suggesting that more than one out of every four households was broken into during that time.

Source: I.H.S. 2004/2005.

In addition to travel and time costs, we found that several respondents were concerned with personal safety. Participants reported that rural people who must bank in Lilongwe are fearful of being robbed on the way to or from the bank. We cannot quantify the losses due to theft, but they represented one of the transactions costs of doing business in Lilongwe. The flip side to this is the fear of having one's savings robbed from the home. Several respondents noted that potential loss of savings was one of the disadvantages of saving in the home (see box12).

61 The government recommended rate for ganyu (casual) labor is MWK 70 (USD \$0.50) per day. Villagers in one location reported that the off-season rate is MWK 30 (USD \$0.21) per day while the agricultural season rate is MWK 100 to MWK 120 (USD \$0.71-\$0.86) per day. However, they also mentioned that clearing a field could bring in MWK 180 (USD \$1.29) per day while ridging the same field paid MWK 150 (USD \$1.07) per day.

FSP Routine Processes and Procedures

Financial service providers in the rural areas reduced their own transaction costs by requiring villagers to participate in groups (or “clubs”) to access financial and non-financial services. This had mixed effects on villagers. On the one hand, they spent considerable time in group meetings; on the other hand, the task of visiting a financial service provider and the associated costs could be shared among the group members. For example, FINCA reported that they required their members to deposit all loan repayments at local commercial banks, which were not easily available in rural areas. In some areas of Malawi, FINCA clients could spend an entire day (eight hours) traveling to and from the bank to make the loan installment. They do this every two weeks since repayments are on a bi-weekly cycle. Only one group member needs to undertake this trip however, so the costs were shared.

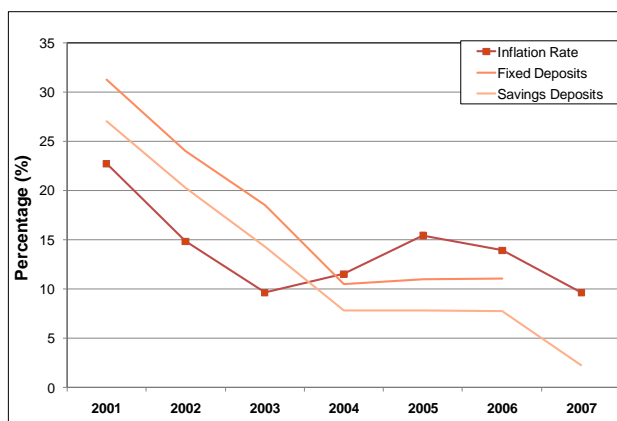
Indirect Costs of Financial Services

In addition to the costs of applying for and routinely accessing financial services, the indirect costs of using financial services in Malawi were high. Most loan products require cash security deposits or mandatory savings. Some loan and savings products have mandatory insurance policies, which represent another cost to the customer.

The incentives to save in formal financial institutions were not strong. Villagers understood that the interest rates paid on savings were low when compared to the interest charged on loans. In fact, at the national level, the interest rates paid on deposits have been lower than the rate of inflation since 2004, suggesting that saving in a formal institution would have been a losing proposition during this period (see figure 20).

These indirect costs come on top of the substantial direct costs highlighted earlier such as non-refundable loan application fees, monthly maintenance fees or fees per transaction on savings accounts, charges for ATM cards, etc. It is widely believed that the transactions costs of providing financial services in rural areas were high due to a less dense and more dispersed population, the lack of tarred roads, poor transportation, a lack of information, and the high number of low volume financial transactions. Financial service providers controlled their transactions costs by adapting strategies such as limiting the number of outlets or branches in rural areas or by working with groups of people rather than individuals. Both of these strategies shift more transactions costs onto financial services users who must travel farther and/or spend more time in group meetings to gain access.

FIGURE 20: INTEREST PAID ON DEPOSITS AND INFLATION RATES: 2001-2007



KNOWLEDGE AND ACCURACY OF RESPONDENTS' PERCEPTIONS

Awareness of the available financial institutions, services, and products was also found to affect demand for and access to these services. Knowledge of the details of financial products and providers varied considerably among villagers and was sometimes out-of-date. Information flows in rural areas were not even or consistent. People also guarded information about financial services to advance their own ends. For example, bank account holders would be reluctant to let others know that they

have an account for fear that people will ask them for loans. It was reported that authorities withheld information about lending programs to limit access to their family and friends. Our findings suggest that there is a low level of trust among rural residents around issues related to financial services.

There was also disinformation and misunderstandings about financial services due to the low education level of rural residents. It was not uncommon to hear reports that “banks have enough customers and do not want any more” or “the bank’s computer system is full and they cannot take any new customers” even from community leaders. The origin of these stories is unknown, but they can discourage demand and access to institutions.

The obstacles to free-flowing and accurate information imply that relying on word-of-mouth to disseminate information about a financial service or program may not be a wise strategy in this environment. MARDEF, which has the highest recognition of any financial institution in rural areas, advertized on the radio and worked through the local authorities.

SUMMARY

The focus group discussions showed that MSB was the most accessible savings institution in rural areas and was the most well-known. In addition to MSB, the rural population accessed formal savings products at Standard Bank, NBS Bank, and NBM, all of which had a presence in at least one of the two secondary towns. OIBM’s savings products were also accessed by a very limited number of people through their Lilongwe branch.

To the extent that they could access loans, villagers had a range of products and institutions available to them. Geography was more important in the loan market where availability of institutions and products varied considerably by location. Loans could be accessed from parastatals such as MRFC and MARDEF, or from MFIs such as FINCA and CUMO or from NGOs such as CADECOM, World Vision, or FITSE. In addition, loans were available through membership in agricultural organizations such as NASFAM.

The Very Poor only accessed savings products at MSB, but it is likely that their participation in group savings accounts was driven by the desire to become eligible for MARDEF loans. The Poor save at MSB, MRFC, NBM, NBS Bank, and a bit at Standard Bank. The Poor who save at commercial banks were said to be tobacco farmers who needed the accounts as pay points for their tobacco revenues. The Rich market segment had the best access to savings products. They can save at commercial banks as well as MSB. They were also said to be likely to bank at OIBM.

The Very Poor accessed loans from MARDEF, FINCA, and CUMO. Both MARDEF and CUMO actively targeted the very poor for loans. The very poor accessed NGO programs, but these were limited geographically. The Poor accessed loans from these institutions, plus OIBM and MRFC. Access to MRFC loans was believed by some to be restricted to certified tobacco farmers. The Rich market segment primarily obtained loans from MRFC, but also borrowed from OIBM, MARDEF, FINCA, and CUMO.

Access to savings in this context means either an ordinary or basic savings account. Some of the better-off villagers accessed fixed-deposit accounts. Access to loans was more varied. Both agricultural and microenterprise loans were available. Many of the agricultural loans that were available were in-kind. Microenterprise loans tended to be in cash. Both group loans and individual loans were available in this market,

but group loans predominated. Demand seemed to be greatest for loans for agricultural purposes, reflecting the dominant economic activity in rural areas.

Trends in savings institutions use reflected first physical access and then the cost of accessing an account. There was some evidence that when given a choice, customers were sensitive to customer service as well. The trends in savings institutions use reflected the availability of providers thus they differed between the two routes we studied.

Trends in lending institutions use on the two routes also differed considerably. Again use often reflected availability. Lending institutions differ from savings institutions in that they usually go to the borrower. (Savings institutions wait for the customer to come to them.) Also in contrast to savings accounts, loan use depends on eligibility. Each lending institution had a different target markets and conditions for eligibility. Although villagers had strong preferences for particular loan product features, between physical availability and eligibility, it appeared that they often did not have much choice when it came to loan access.

The transaction costs of accessing financial products were investigated and we found that transportation costs and the time needed to access savings or loans were both significant. However, when the opportunity costs of time were monetized, we found that the cost of transportation was significantly higher than the value of time used. The transaction costs that were important in this area in addition to those already mentioned included the indirect costs of obtaining financial products such as loan fees, security deposits, etc.

Although the villagers we interviewed had a low level of financial services use, they appeared to be well informed about the availability of different providers. They were less uniformly or accurately knowledgeable about specific product features. We also found that information availability and flows were not perfect in rural communities. Some people hoarded information on the availability of financial services for their own purposes. Many others had such a poor understanding of how banks function that they believed rumors about banks that discouraged their use. Both misinformation and poor information flows were barriers to access in this study area.

V. The Value Proposition of OIBM

This Financial Landscape Baseline explored the question of household *access* to financial services within Malawian rural areas that are the target market for the OIBM mobile bank innovation. The research identified the available financial service options from the perspectives of both the financial institutions and rural customers. The study documented the preferences of rural customers for financial services and products, at one point in time.

Access was defined as *the freedom or ability to obtain or make use of something*. Several kinds of barriers to access were found in rural areas. These include:

- Affordability, of not only the direct costs, but also the indirect costs (e.g., mandatory savings) and transactions costs of obtaining financial services
- Physical access
- Eligibility, which includes availability of official identification
- Awareness or knowledge of the available financial products and services

Access also implies the ability to make effective use of the available financial products services. Our research has only hinted at the question of product appropriateness. Other studies in this FSA project, for example, the Financial Diaries, may be able to examine this question more fully.

GAPS IN THE FINANCIAL LANDSCAPE

This qualitative research found that the areas that OIBM plans to serve with its mobile bank are not unbanked. The chapters on supply and demand painted a portrait of a dynamic financial landscape. We found a wide range of financial service providers available in this area: commercial banks, co-ops, MFIs, NGOs, parastatals, and agricultural organizations. Additionally, we found a wide range of products including savings, credit, remittance products, and payment services on offer. We also found that the average villager was informed about some, but not all of these choices. Even so, awareness of financial services did not translate into use or even access. The majority of study respondents were unbanked and did not use to any formal financial services. Those that did use financial services were three times as likely to have formal savings as to have a loan. These gaps in uptake represent opportunities for those financial service providers, such as OIBM, whose challenge is to figure out how to better serve the rural population.

Access to savings is limited by the distance to formal savings institutions, the cost of opening an account (including the cost of obtaining identification), and the availability of funds for saving. Poor customer service also discouraged the use of formal savings. Most providers of formal savings, the commercial banks, catered to the highest income groups. There was anecdotal evidence that some banks actively discouraged the rural poor from using their facilities. At present, MSB offers the most convenient and best-priced savings accounts for this rural market, particularly the poorer segments. At the same time, customers were dissatisfied with MSB's service. The opportunities in the savings area appeared to be the provision of more convenient and proximate savings services combined with better customer service.

Access to loans was less straightforward. The demand for loans exceeded supply. Certified tobacco farmers had the best access to loans and savings accounts of any rural market segment. Yet, even here, there was unmet demand.⁶² For rural residents who were not tobacco farmers (particularly certified tobacco farmers) access to loans was not uniform. MFIs and NGO programs were localized and awareness of their microcredit programs was not consistent or widespread. The most significant gaps in loan provision in rural areas were in the microenterprise and non-tobacco farmer segments. There may be significant opportunities to provide loans to these market segments, which include both the Rich and Poor socio-economic groups.

From the supply perspective, the challenges of lending to the rural market in Malawi should not be underestimated. The rural economy is subject to systemic risk due to small landholdings, low crop diversification, and marked seasonality. There are little to no mechanisms for managing price and production risks for either farmers or lenders.⁶³ In this environment, loan repayment has been and will continue to be a challenge. While many of the repayment problems were said to be due to drought or the volatile prices for commodities such as tobacco, some suggested that a few highly-subsidized NGO programs undermined the notion that loans must be repaid. As a result, the repayment culture in Malawi has not been the best.⁶⁴ This led some lenders to stop credit provision and the growth of the microfinance market has been constrained.⁶⁵ In addition to the risks of non-payment, financial institutions face high transactions costs in serving the rural market. Transportation, communications and information flows were additional obstacles to the provision of rural finance.

From the demand side or client perspective, transactions costs, including time and transport costs, were also high due to the high indirect costs of accessing financial services, the long distances to reach financial services, and the time required to participate in financial services. Additionally, there was a mutual lack of trust on the part of both clients and institutions, creating a further barrier to access.

TOWARD THE VALUE PROPOSITION FOR CLIENTS OF OIBM'S INNOVATION

The initial evidence from this baseline research suggests that by addressing some of the barriers to access identified for low-income consumers in this market: physical access, affordability and eligibility, OIBM may be able to add value to the rural market.⁶⁶ The value proposition of OIBM's innovation in this context may include the following four elements:

1. *Bringing the bank to the customers* – in at least 4 of the 6 mobile bank stops, there were no existing formal financial services with the exception of the Post Office. If OIBM can serve these locations consistently and sustainably, they may be able to attract a loyal customer base by reducing transportation costs and increasing security for customers. Physical access, above all, is what the BMGF-funded mobile bank enables.

62 NASFAM reported that only 80% of their members who want loans, can access them.

63 Burritt, p. 59

64 FINCA and PRIDE Malawi data for 2005 and 2006, www.mixmarket.org. Discussions with FINCOOP and FITSE staff.

65 Interview with National Bank of Malawi staff.

66 Value proposition is defined as: The unique added value an organization offers customers through their operations. From www.balancedscorecard.org/basics/definitions.html.

2. *OIBM offers a complete range of products* - loans, savings, payment services, and remittances. As we showed above, currently the financial landscape is fragmented along product lines. Customers must go to commercial banks for payment services or to save; to MFIs or parastatals to borrow, and the Post Office for remittances. This fragmentation increases the transactions costs for customers who require more than one product. One-stop shopping clearly will be an attractive option for this rural market.

3. *OIBM can reach the full range of client segments* - the Rich, the Poor and possibly the Very Poor. By diversifying the markets that it serves, OIBM is lowering its risk of lending and increasing financial inclusion. In terms of providing access to the Poor, OIBM targets the economically-active poor with appropriate products. These products, for which they expect to find demand in the rural areas, include: Trust Bank loans (groups loans for women), individual microcredit, Kasupe savings (customized to the needs of the rural market and cheaper than other savings products), and fixed deposits. They are already providing a limited number of agricultural loans to this market.

4. *OIBM knows how to work with the poor.* The use of the MalSwitch smart card is another way that OIBM is facilitating access to financial services for the poor by reducing eligibility barriers. By relying on biometrics and photos, this card obviates the need for an official identification card and gives OIBM an advantage in the competition for rural deposits. It also avoids the need for obtaining letters of recommendation from TA chiefs and/or District Commissioners – time-consuming processes subject to cronyism, which increase consumer transaction costs. However, although the use of the MalSwitch card allowed poor people to be eligible for OIBM savings accounts, OIBM is finding that it is unaffordable for many rural residents (it costs customers MWK 1,000 (\$7.14) each),. Exploring ways to lower the price of the card would be in the bank's interest.

OIBM'S COMPETITIVE ADVANTAGE

The sustainability of the innovation and its value proposition rests upon the competitiveness of the OIBM business model. We showed that OIBM is competing with different institutions in different product areas for different client segments. For example, their group loan product (Premium Trust Bank) will compete with those of FINCA, PRIDE, and CUMO. Their savings product (Kasupe account), will compete with those offered by the commercial banks and MSB. On individual loans, they also compete with commercial banks. On agricultural loans, MRFC presents stiff competition. In the commercial bank sector, their most serious competition will come from NBS Bank, which has targeted parts of the rural market, particularly tobacco farmers, for future growth. They will be competing with NBS Bank for fixed deposit accounts and possibly for agricultural loans.

OIBM's peers also include MFIs. The research revealed that some MFIs are effectively providing loans to the rural Poor and even the Very Poor. MFI operations are reaching remote rural areas. It is not yet clear if OIBM has a competitive advantage vis-à-vis MFIs in reaching these groups with microcredit. OIBM may need to develop techniques to reach those who live at a distance from the mobile bank and the main road, particularly if they want to expand the outreach of their Premium Trust Bank Loan.

THE FIRST PIECE OF A BROAD IMPACT PICTURE

The data at this time suggest that OIBM may have some competitive advantage in rural areas. It will be interesting to see how this plays out two years from now. At

that time -around July 2010 – we will return to the same rural areas to carry out a similar study that will constitute the Endline. The intent is to document changes in access and in the makeup of the financial landscape—developments that may correlate with the introduction of the OIBM innovation. In this way, the Financial Landscape Study, with its focus on the competitive landscape, will inform the analysis based on the panel Impact Assessment data.

In addition, the Endline will provide an opportunity for follow-up on a number of questions raised by the Baseline results including:

- Can OIBM succeed where others have failed? Commercial banks and MSB have closed branches in some of the locations that OIBM will be entering. Some microfinance providers have pulled back in these areas, apparently due to repayment problems. OIBM faces many of the same challenges as other financial service providers including— transportation and communications costs. These questions speak to the sustainability of the innovation and by extension its impacts. Additionally, because the OIBM mobile bank cannot leave the paved road, it will be challenged in reaching remote populations. This relates to the potential outreach of the innovation.
- Will OIBM’s rural expansion lead to “additionality” (i.e., will they bring the “unbanked” into financial services) or will it lead to “substitution” (i.e., will they take customers away from existing providers)? Anecdotal evidence suggests that the substitution has already started. This raises the question of how much of an effect OIBM’s innovation will have on the net outreach of financial services in rural areas. Another question is what will happen to OIBM’s client base when there is another “new kid in town.”

The results of the Financial Landscape study will be paired with the Impact Assessment study, which began in early 2008. That study is a quantitative household survey focused on the scalability and impacts of OIBM’s innovations. It will address research questions linked to the breadth and depth of outreach, and the impact of microfinance innovations at the household level. It is conducted at two points in time—when the innovation is first launched and again several years later. In addition, the project will include an innovative Financial Diaries survey that will be conducted from summer 2008 through 2009. That study will establish a comprehensive picture of the financial inflows and outflows of poor households by gathering data on income, consumption, savings, lending/borrowing, and investment. The Financial Diaries will identify the causal pathways by which impact occurs within households. Most panel studies, including the Impact Survey being carried out as part of this project, provide two snapshots (a baseline and endline), measuring the difference between the two, but only inferring what went on within households to produce impact. The Diaries will provide a direct view on what occurs between point A and point B, offering a view inside the household “black box” and demonstrating the mechanics of change. Finally, a study of the Enabling Environment will be undertaken to identify and explore the most salient macro- and meso-level factors that affect the impact of the innovation on household well being. These components of the *FSA* Project will combine different methods at different moments in time to deliver a singular composite portrait of impact—how and why conditions change. The expectation is that the results will contribute significantly to the learning agenda of BMGF and the field of microfinance in general.

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ANNEX 1 – Additional Information On The Purpose And Design Of The Research

TABLE A1-1: LOCATIONS OF BANK STOPS AND RESPECTIVE TAs

Trading Centre/Bank Call Point	TA of Call Point
KAMWENDO	TA Mlonyeni
MCHINJI	TA Zulu
MSUNDWE	TA Kalolo
NKHOMA	TA Mazengera
CHIMBIYA	TA Kaphuka
DEDZA	TA Kasumbu

Source: Kadale Consultants Research

TABLEA1-2: MOBILE BANK BRANCH PROPOSED SCHEDULE

Area	Mon	Tues	Wed	Thurs	Fri	Sat	Market Day
Dedza	Dedza 09.30 - 11.30 Chimbiya 12.30 - 15.00		Nkhoma 09.00- 14.00		Dedza 09.30- 11.30 Chimbiya 12.30 - 15.00		Wednesday and Sunday in Nkhoma Wednesday in Chimbiya
Mchinji		Mchinji 09.30- 11.30 Nsundwe 12.00- 14.00		Mchinji 09.30- 11.30 Kamwendo 12.30- 15.00		Nsundwe 09.00- 11.00	Wednesday in Nsundwe Sunday in Kamwendo

Source: OIBM, Revised 01/06/2007.

A NOTE ON THE STUDY LOCATION

Malawi is divided into three administrative regions: North, Central and South. These regions are made up of administrative Districts (27 for the whole country), which are further broken down into Traditional Authorities (TAs). A single TA can cover several hundreds of villages. Villages (up to 10) are clustered under the administrative control of Group Village Headmen (GVH), however these GVH clusters do not have official boundaries. Group Village Headmen and Village Headmen can be male or female. Each Village has a Village Headman (VH) who must be consulted on all important matters pertaining to the village and its inhabitants.

When conducting research in Malawi, and in particular in the rural areas, researchers meet with local authorities in order to get permission to enter the communities. The research team for the Financial Landscape study met with the District Commissioners and then the TA Chiefs of the study areas to both get permission and ask for assistance in organizing the PRA sessions.

ANNEX 2 – Additional Information On The Supply Side

A NOTE ON CERTIFIED TOBACCO FARMERS

Malawi has a highly regulated system for selling tobacco at auction. Farmers who wish to sell here must be certified by registering with the Tobacco Control Commission (TCC). This requires that farmers pay an application fee and submit information about their farm and their bank account among other things.⁶⁷ Certified tobacco farmers earn better returns by selling at the Auction Floors where the prices are highest. Farmers without certification must sell their tobacco in other ways. Some can sell through a certified farmer that they know but this is very risky because they may not receive the full price for their crop. Other farmers sell their crop outright in their village. In this case, they get much lower (even exploitative) prices.

Even with certification, smallholder farmers often work together in clubs or groups. A club of certified tobacco farmers will obtain financing together and will send their tobacco collectively to the Auction Floors. However, the registration number for each farmer means that all tobacco bales are traceable to that particular farmer. When the tobacco is sold at Auction, the TCC takes the sales proceeds and pays various service fees on behalf of the farmer or club. Then the TCC, on the basis of bank stop orders, will send the loan repayment to the bank that lent the farmers money for cultivating the tobacco. After all these payments are completed, the TCC forwards the remaining funds to the bank account of the farmer or the club. The farmers' banks receive the balance in US dollars. The banks convert these funds to Malawi Kwacha and deposit them in the farmers' accounts. Bank representatives reported that when farmers' clubs receive payment, the farmers often withdraw all the funds soon after they are received. This is due to a lack of trust among the farmers in the club.

⁶⁷ We were told that the application fee is not much and is not a significant barrier to obtaining certification.

TABLE A2-1: THE MICROFINANCE SECTOR IN MALAWI (AS OF MARCH 31, 2007)

MAMN Members	Loans				Deposits			
	No. of Loans Outstanding	Value of Loans Outstanding (MK)	Value of Loans Outstanding (USD)	% (Loan Value)	No. of Depositors	Value of Deposits (MK)	Value of Deposits (USD)	% (Loan Value)
Inside the Study Area								
CUMO	15,800	62,483,983	\$432,325	1.7%	1,309	8,096,743	\$56,021	0.3%
FINCA	20,823	246,146,322	\$1,703,081	6.6%	20,823	133,450,000	\$923,338	5.2%
FITSE	9,171	71,143,990	\$492,244	1.9%	10,460	23,055,851	\$159,523	0.9%
MRFC	21,940	973,737,213	\$6,737,267	26.1%	198,373	370,072,209	\$2,560,522	14.5%
MSB	61	15,719,312	\$108,762	0.4%	71	2,760,685	\$19,101	0.1%
NABW	310	2,915,354	\$20,171	0.1%	600	2,509,960	\$17,366	0.1%
OIBM	8,276	800,858,205	\$5,541,121	21.5%	61,546	977,949,790	\$6,766,414	38.4%
PRIDE MALAWI	7,825	162,731,796	\$1,125,938	4.4%	11,607	45,350,360	\$313,778	1.8%
Outside the Study Area								
DEMAT	47	7,721,516	\$53,425	0.2%	129	449,000	\$3,107	0.0%
ECLOF	1,975	50,125,475	\$346,817	1.3%	680	2,750,000	\$19,027	0.1%
MUSCCO	237,445	816,852,300	\$5,651,784	21.9%	64,847	940,649,606	\$6,508,335	37.0%
Project Hope	1,130	19,363,098	\$133,973	0.5%	1,210	36,280,019	\$251,021	1.4%
SEDOM	10,532	143,500,000	\$992,873	3.8%	1,459	700,000	\$4,843	0.0%
The Hunger Project	387	11,709,738	\$81,019	0.3%	90	23,600	\$163	0.0%
CISP	NA	NA	NA	NA	NA	NA	NA	NA
PRDO	NA	NA	NA	NA	NA	NA	NA	NA
MLF	3,075	15,716,775	\$108,744	0.4%	NA	NA	NA	NA
Total MAMN* Members	338,797	3,400,725,032	\$23,529,544	91.1%	373,204	2,544,097,823	\$17,602,559	100.0%
Non Members Inside the Study Area								
MARDEF								
APIP								
Non-Members Outside the Study Area								
Coffee SACCOs	1,817	331,595,578	\$2,294,303	8.9%	699	342,031	\$2,367	0.0%
CARE								
Total Non Members	1,817	331,595,578	\$2,294,303	8.9%	699	342,031	\$2,367	0.0%
Total Sector	340,614	3,732,320,610	\$25,823,847	100.0%	373,903	2,544,439,854	\$17,604,925	100.0%

Source: Deepening Malawi's Financial Sector Project.
Exchange Rate as of 3/31/07 was 144.53
Data for MARDEF: 103,000 clients; MWK 650 million (\$USD 4,497,336) in portfolio outstanding as of June 2007.

*MAMN: Malawian Microfinance Network

TABLE A2-2: COMPARISON OF REGULATED SAVINGS PRODUCTS IN THE STUDY AREA

Institution	Savings Product	Minimum Opening Deposit	Interest Rate Paid	Fees (per Month)	Debit Fees	Cost of ATM Card	Other
OIBM	Kasupe	MK 500 (\$3.57)	>MK1,000 (\$7.14) =2.5%, monthly	MK 1,000 -4,999 (\$7.14-35.7)	MK 50 (\$0.36) or MK15 (\$0.12) w/card	MK 1,000 (\$7.14) MalSwitch	
	Personal Savings Account	MK 500 (\$3.57)	MK 1,000-4,999 (\$7.14-35.71) =4% Semi-annual	MK 500 (\$0.36)	MK 50 (\$0.36) for multiple counter withdrawals MK 15 (\$0.12) w/card	MK 1,000 (\$7.14) MalSwitch	
Malawi Savings Bank	Passbook Savings	MK 500 (\$3.57)	5.5% (based on min. monthly balance and payable annually)	NA	MK 15 (\$0.12) for using card, MK 50 (\$0.36) when using other ATMs	Malswitch; Card is free but requires a minimum MK 700 (\$5) balance to maintain	Accessible at the Post Office. Withdrawal limits based on locations
National Bank of Malawi	Special Saver	MK 1,000 (\$7.14)	2.5%	MK 95 (\$0.68)	No fee to use ATM	MK 800 (\$5.71) ATM w/Pin	
	Ordinary Savings	MK 5,000 (\$35.71)	4.5%	No Fees	No fee to use ATM	MK 800 (\$5.71) ATM w/Pin	
NBS Bank	EasySave Account	MK 500 (\$3.57)	6% on balances over MK1000 (\$7.14)	MK 40-50 (\$ 0.29-0.36)	MK 30 (\$0.21) for every transaction w/card	Requires monthly income of MK 20,000 (\$143) & good credit	
	Ordinary Savings	MK 1,000 ⁶⁸ (\$ 7.14)	6% on balances over MK 1,000 (\$7.14)	MK 40 -50 (\$0.29-0.36)	MK 30 (\$0.21) for every transaction w/card	Requires monthly income of MK 20,000 (\$142.9), & good credit	
Standard Bank	Savings Account	MK 1,000 (\$7.14)	3%	MK 35 (\$0.25)	MK 25 (\$0.18) for ATM	MK 500 (\$3.57)	MK 39 (\$0.28) fee for Teller withdrawal
FINCOOP	Savings Account	MK 500 (\$3.57)	5% per year	Entrance fee of MK 200 (\$1.43)	Can withdraw any amount at any time		Depositors must buy MK 200 (\$1.43) in shares to be members
MRFC	Savings Account	MK 200 (\$1.43)	6% per year	NA	Must submit withdrawal request, takes 7 days		

68 From NBS Website

TABLE A2-3: SUMMARY OF AGRICULTURAL LOAN PRODUCTS: MALAWI

Institution	OIBM	OIBM	MRFC	FINCOOP	FITSE ⁶⁹
Product Type	Individual	Group	Group	Group	Group
Target group	Big farmers favored by agribusiness organizations	Clubs under agribusiness organizations	Smallholder Tobacco Farmers who want inputs for farming	Farmer clubs	People engaged in agriculture related activities
Group size (No. of people)	NA	Unknown	10-20	10-20	16-20
Min/Max Loan Size	MK 100,000 (\$714)	MK 5,000 per farmer (\$35.7)	Unknown	MK 1,000 (\$7.14) or 2 times savings on deposit	Min: ADP: MK 5,000-10,000 (\$35.7-71.4) ZEI: MK 10,000-15,000 (\$71.4-\$107.1) ⁷⁰ Max: MK 50,000 (\$357) Loans can increase by max of 50%
Max Loan Term	12 months	12 months	3 years	9 months	10 months
Repayment Frequency	Bullet (Once) and Balloon (Monthly payment on interest)	Bullet (Once) and Balloon (Monthly payment on interest)	Balloon payment (all at once) due Sept. 30	Grace period of 4 months (interest accrues) then installments or 1 balloon payment (all at once)	Preferably bi-weekly payments
Interest Rate per year	29% flat	29% flat	New Client: 33% flat Prime Clients: 30% flat Repeat Clients: 32% flat	25% flat	35% for 10 months (flat); mostly balloon payments (pay all at once); ZEI:46% for 10 months (flat when balloon payment)
Processing Fee (% of loan)	2.5%	2.5%	Unknown	2%	ADP: 2% ZEI: 3%

⁶⁹ Only 150 agricultural loan clients out of 4000 total clients

⁷⁰ ADPs are World Vision Area Development Programs or operating areas. Non ADP areas are called zones of economic influence (ZEI).

Institution	OIBM	OIBM	MRFC	FINCOOP	FITSE ⁶⁹
Product Type	Individual	Group	Group	Group	Group
Collateral/ Security Deposit	10% of Loan Security Savings	10% of Loan Security Savings	15% cash security deposit before loan disbursement. After disbursement, the loan balance is reduced by the amount of the deposit. ⁷¹ Must open a savings account of MK 200 (\$1.43)	Savings deposits & peer group pressure Must save with FINCOOP for 3 months before applying for a loan	Group Guarantee Loans over MK 10,000 (\$71.4) may require 15% of loan amount for collateral Savings: 5% of loan amount upfront Security deposit/ refundable 'loan insurance': ADP: 10% of loan ZEI: 15% of loan
Disbursement Type	NA	NA	Mostly in kind/ Agriculture inputs	Cash	Farm inputs
Payment Type	Cash	Cash	Cash	Cash	Cash

⁷¹ This is a new system this year.

TABLE A2-4 SUMMARY OF INDIVIDUAL LOAN PRODUCTS: MALAWI

Institution	OIBM	OIBM	FINCA	MRFC	FINCOOP	FITSE
Product Name	Mthunzi	(IMC) Mzati	Individual Loan ⁷²	Individual Loan	Business Loan	Individual Business loans
Target Group	Small business vendors who don't have collateral & don't want to join a group. Registered vendors w/3 months business experience	Graduates of the PTB group loan; At least one year of business experience; OIBM account holders; Experienced business people	Experienced borrowers graduating from a group loan Also given to new clients who need larger loans Available in urban but not rural areas	Can be individuals similar to estate people, have assets to provide as security	Larger businesses needing investment capital go for individual loans e.g. buying a minibus, a maize mill or trading stationary. Loan size is determined by risk	People with small businesses who need a first loan of MK 50,000 (\$357) or above.
Min/Max Loan Size	MK 15,000 to MK 70,000 (\$107-\$500)	IMC I: MK 30,000- MK 150,000 (\$214-\$1,071) IMC II: MK 151,000- MK 300,000 (\$1,079-\$2,143)	MK 50,000-1.2 Million (\$357-\$8,571)	Unknown	2 times savings on deposit MK 1,000 (\$7.14)	Min: MK 50,000-200,000 (\$357-\$1,429) Max: MK 500,000 (\$3,571)
Loan Term (months)	3-24	3-12	3-12	12 (most) Also:18, 24, 36	10	12
Repayment Frequency	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Interest Rate (per year, flat except where specified)	4.3% per month, flat: 52.2% per year	IMC I: 47.9% IMC II: 28.2%	Unknown	Prime Clients: 30% Repeat Clients: 32% New Clients: 33%	25%	66% per year d.b.b
Processing Fees	2.5% of loan amount	2.5% of loan amount MK 100 (\$0.71) application fee	Unknown	Unknown	2% of loan amount Min: MK 100 (\$0.71)	3% of loan amount

⁷² These have just been introduced and are only available at selected branches

Institution	OIBM	OIBM	FINCA	MRFC	FINCOOP	FITSE
Product Name	Mthunzi	(IMC) Mzati	Individual Loan ⁷²	Individual Loan	Business Loan	Individual Business loans
Collateral/ Security Deposit	Personal Guarantor (must be a salaried employee or self employed); 10% of loan amount; Clients' business proceeds to be deposited in the bank daily	25% cash deposit Loan Security Savings; Movable and Immovable properties; Personal guarantors	Collateral of 125% of the loan amount is required, people usually pledge household items	Requires collateral worth 130% of loan amount such as houses with title, vehicles, in addition to 20% cash collateral	If buying a fixed asset, FINCOOP will take ownership of the asset until the loan is repaid.	Savings requirement: 5% of loan amount upfront All must pledge assets worth 150% of loan amount Security deposit/ refundable 'loan insurance': 20% of loan amount
Mandatory Insurance (% of Loan Amount)	Credit Life Insurance premium: 2.25%	Credit Life Insurance premium: 2.25%	Credit Life Insurance premium: 0.05%	NA	NA	NA

TABLE A2-5: SUMMARY OF GROUP LOAN PRODUCTS: MALAWI

Institution	OIBM	FINCA	MRFC	MRFC	MARDEF	FINCOOP	FITSE	CUMO	CUMO
Product Name	Premium Trust Bank/ MAZIKO loan	Group Loan	Microloans	Group based Loans	Group Loans	Business Loan-Group	Group Business Loan	Kasupe Loan	Masika Loan
Target group	Economically active poor with at least 6 months microbusiness experience	Anyone in rural areas who wants a loan	Low income people self-selected via loan size & group methodology	Borrowers who are better off than MRFC microloan borrowers	Rural active poor. They give preference to women, youth, & the disabled	Rural people, also MEs in urban areas, market vendors, petty traders	Small entrepreneurs, 18-65 years old	Rural people	Rural poor
Group Size (No. of people)	7-10 (urban) 10-20 (rural)	15-40	10-20	5-9	10-20	NA	16-20	6-10	15-20
Min/Max Loan Size	1 st loan: MK 5,000-20,000 (\$35-\$142.9) In rural areas: MK 2,800 (\$20) Min: MK 5,000-40,000(\$35.71-\$285)	1 st loan MK 3,000-20,000 (\$21.42-\$142.9)	Min: MK 50,000 (\$357) Max: MK100,000 (\$714)	Unknown Min Max: MK 500,000 (\$3,571)	MK 100,000 to MK 200,000 (\$714-\$1,429) for a group About MK10,000 (\$71.4) per person	Min: 5 times savings on deposit	ADP: MK 5,000-10,000 (\$35.7-\$71.4) ZEI: MK 10,000-15,000 (\$71.4-\$107)	MK 30,000 (\$214)	MK 5,000 (\$35.7)
Loan Term (months)	4	3-6	12 (most) Also:18, 24, 36	12 (most) Also:18, 24, 36	12 (avg) 18 (max)	10	4 (avg) 6 (max)	4 (for 1 st loan)	4 (for 1 st loan)
Repayment Frequency	Maziko I: Bi-Weekly Maziko II: Monthly	Weekly, Bi-weekly or monthly (group decision)	Monthly	Monthly	Monthly, 6-9 month grace period	Monthly	Bi-weekly or monthly	Bi-weekly	Bi-weekly
Interest Rate (% of loan amount)	Maziko I: 49.2% per year Maziko II: 36% per year	48% per year, flat	Prime Clients: 30% per year flat Repeat Clients: 32% per year flat New Clients: 33% per year, flat	Prime Clients: 30% per year flat Repeat Clients: 32% per year flat New Clients: 33% per year, flat	15% flat	25% per year flat	ADP: 3.5% per month, d.b.b., or 14% over 16 weeks ZEI: 5.5% per month, d.b.b., or 22% for 16 weeks	6% flat per month or 72% annually	6% flat per month or 72% annually
Processing Fees (% of Loan Amount)	2.4%	NA	NA	NA	2.4%	2%	ADP: 2% ZEI: 3%	Application fee (unknown)	Application fee (unknown)

TABLE A2-6: OIBM'S SAVINGS PRODUCTS

Table Savings Product Summary	Kasupe Account	Savings Account Personal	Savings Account Business	Fixed Deposit	Premium Investment Account (Call Account)
Target Market	Rural	Urban	Sole Proprietorship; Partnership; Ltd Co., NGOs, Clubs & Societies	All	Affluent; Organizations
Minimum Deposit to Open Account	MK 500 (\$3.57)	MK 500 (\$3.57)	MK 5,000 (\$35.71) MK1000 (\$7.14) for Clubs & Societies	MK 5,000 (personal) (\$ 35.71) MK 10,000 (businesses) (\$71.42)	MK 500,000 (\$3,571)
Lowest min. Balance	MK 500 (\$3.57)		MK5,000 (\$35.71)/ MK1000 (\$7.14)	NA	MK 500,000 \$3,571
ATM Transaction charge	MK 15 (\$0.12)	MK 15 (\$0.12) per OIBM customer; MK 50 (\$0.36) for others	MK15 (\$0.12) per OIBM customer; MK 50 (\$0.36) for others	NA	NA
Interest Rate	0 - 0% > MK 1,000 (\$7.14) - 2.5%	<MK1000 (\$7.14) -0% MK1,000 to 4,999 (\$7.14- \$35.71)- 4% MK5,000 to 9,999 (\$35.71-\$71.43) - 5% > MK10,000 (\$71.43) - 5.5%	<MK1000 (\$7.14) -0% MK1,000 to 4,999 (\$7.14- \$35.71)- 4% MK5,000 to 9,999 (\$35.71-\$71.43) -5% > MK10,000 (\$71.43) - 5.5%	1 Month, 6% 2 Months, 7% 3 Months, 6.5% 6 Months, 5% 9 Months, Negotiable 12 Months, Negotiable	6%: 21 day account 5%: 7 day account
Interest Capitalization Frequency	Monthly	Semi-annually	Semi-annually	Paid on maturity - subject to tax if over MK 10,000 (\$71.43)	Accrues daily, paid monthly
Monthly Charge	MK 0	MK 50 (\$0.35)	MK 50 (\$0.35)	None	
Fees per Credit Transaction	MK 0				Further deposits allowed
Fees per Debit Transaction	MK 15 (\$0.12)	MK 50 (\$0.35) for excessive counter withdrawals (First 6 months free w/ds)	MK 50 (\$0.35) for excessive counter withdrawals (First 6 months free w/ds)	None	No limit to number of w/ds
Penalty for Early Withdrawal	NA	NA	NA	NA	NA
Requirements			Constitution or minutes of resolution to open an account	Constitution or minutes of resolution to open an account	
Other				Can serve as security for a loan	7 day and 21 day accounts available; can serve as security for loan

TABLE A2-7: OIBM'S LOAN PRODUCTS

	Premium Trust Bank/Maziko Loan	Individual Loan (IMC) Mthunzi	Individual Loan (IMC) Mzati	Consumer Payroll Loan	SME Loans - Individual	Consumer Credit – Mphamvu Loan	Agricultural Loans
<i>Type of product</i>	<i>Group</i>	<i>Individual</i>	<i>Individual</i>	<i>Individual</i>	<i>Individual</i>	<i>Individual</i>	<i>(See Table A3-3)</i>
Is the Product Designed for Poorer Clients?	Yes	Yes	No	No	No	No	
Eligibility	Economically Active Poor 6 months micro business experience OIBM account holders	Vendors running small businesses who do not have adequate collateral and do not want to join a group. Must be registered vendors with IDs 3 months business experience. Approved trading location. (Urban)	Graduates of PTB; At least one year of business experience; OIBM account holders; Experienced business people	An employee pre-qualified by an employer	Designed for middle and upper class business owners. Must have a deposit account at OIBM. At least one year of business experience.	Anyone with a deposit at OIBM	
Initial Amount (Minimum Amount)	Maziko I MK 5,000 to MK 40,000 (\$ 35.71 to \$ 285) (Minimum in rural areas is \$USD 20) Maziko II MK 40,000 (\$ 285) to MK 80,000 (\$ 571)	MK 15,000 to MK 70,000 (\$ 107 to \$ 500)	IMC 1: MK 30,000) to MK 150,000 (\$ 214 to \$ 1,071) IMC 2: MK 151,000- MK 300,000 (\$ 1,079 - \$ 2,143) IMC 3: Up to MK 1,500,000 (up to \$ 10,714)	MK 1,000 to MK 1,000,000 (\$ 7.14 to \$ 7,142)	MK 300,000 to MK 1,500,000 (\$ 2,143 to \$10,714)	MK 4,500 to MK 1,000,000 (\$ 32 to \$ 7,142)	
Term (Months)	4	3 - 24	3-12	3 to 48 Max 12 for amounts less than MK 500,000 (\$3,571)	3 to 12 for working capital 3 to 24 other	3 to 12	

	Premium Trust Bank/Maziko Loan	Individual Loan (IMC) Mthunzi	Individual Loan (IMC) Mzati	Consumer Payroll Loan	SME Loans - Individual	Consumer Credit – Mphamvu Loan	Agricultural Loans
Repayment Frequency	Maziko I: Bi-weekly. Maziko II: Monthly.	Monthly	Monthly	Monthly, direct debit from employee's salary by the employer who remits to the bank	Monthly	Monthly (Direct debit from savings account)	
Interest Rate	Maziko I: 4.1% per month (49.2% per year) Maziko II: 3.0% per month (36% per year)	4.35% Fixed and Flat (52.2% per year)	IMC 1: 3.99% per month (47.9% per year) IMC 2: 2.35% per month (28.2% per year) IMC 3: 2.35% per month (28.2% per year)	2.71% per month or 32.5% per annum. Fixed and flat.	22.5% (base rate) plus 6% (subjective)	24.5% per annum or 2.04% per month. Fixed and d.b.b.	
Processing Fees (% of Loan Amount)	2.4%	2.5%	2.5%	2% (Min. MK 150, Max. MK 10,000) (\$1.07, \$71.43)	1.5%	2% (min. MK 150, max. MK 5,000) (\$1.07, \$71.43)	
Application Fees			MK 100 (\$ 0.71)		MK 200 (\$1.43)		
Guarantees and collateral	Maziko I: 20% Loan Security Saving and group guarantee Maziko II: 25% LSS and group guarantee 7-10 people in urban groups; 10-20 in rural groups	Verifiable Guarantor (salaried employee or self-employed); 10% of loan amount; Business proceeds to be deposited in the bank on a daily basis. Letter of set off Floating charge over goods	25% Cash Deposit Loan Security Savings; Movable and Immovable properties; personal guarantors	Letter from employee to instruct employer to deduct the instalment from the salary. No other loans to be taken without banks consent.	Legal mortgage; Assets such as cars, machinery, stock; Bill of sale;	Pledge over a security. 90% 1 st loan; 100% 2 nd loan. Amount held is not accessible until loan is fully paid.	

	Premium Trust Bank/Maziko Loan	Individual Loan (IMC) Mthunzi	Individual Loan (IMC) Mzati	Consumer Payroll Loan	SME Loans - Individual	Consumer Credit – Mphamvu Loan	Agricultural Loans
Late Payment Penalties				3% of the defaulted monthly installment		3% of the defaulted monthly installment	
Mandatory Savings Requirement (if any)	Yes	No	No	No	No	No	
Purpose	Purpose: Working Capital or Fixed Asset Acquisition	Purpose: Working Capital or Fixed Asset Acquisition	Purpose: Working Capital or Fixed Asset Acquisition. Free business management advice.				
Other	4 weeks of Orientation	Processing time: 48 hours Allows individuals in bracket meant for group loans to acquire individual loans		Covered by Credit Life Protection which pays Full Pension contribution to beneficiaries in case of death	Processing Time: 48 hours. Cash flow supported. (Another version is available for corporations; similar terms and conditions apply.)	Processing time 24 hours if at branch. Billed as “solution to emergencies.”	

Maziko I-Loan Increments

1st Loan: 5,000-20,000 (\$35 to \$142)

2nd Loan: < MK 30,000 (< \$ 214)

3rd Loan: < MK 40,000 (< \$ 285)

After this graduates to Maziko II or Individual Loan

TABLE A2-8: OIBM'S INSURANCE PRODUCTS

	Credit Life	Asset Insurance
Eligibility (who can be covered?)	Everyone who borrows Trust, Individual or consumer loans	Corp clients have ins on assets which are greater than \$7000
Waiting Period	14 days	NA
Voluntary or Compulsory	Compulsory	NA
Premium	Built in charge (interest)	NA
Frequency of Payment	monthly	NA
Term of Policy	Within loan duration	NA
Coverage – who, what ages, levels, etc.	Death of the policy holder.	NA
Exclusions	Motorcycle accidents, HIV, dangerous games	NA
Premium Collection Method	Repaid together with loan instalments	NA
Claims Process		NA
Claims Verification	Death certificate	NA
Claims Payment	None - outstanding loan is paid off	NA