Government of Malawi

Financial Sector Development Strategy III

2024 – 2028

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Acronyms and Abbreviations

ABL	Asset Based Lending
ACB	Anti-Corruption Bureau
AML/CFT	Anti-Money Laundering/Combating Financing Terrorism
API	Application Programming Interface
ATS	Automated Transfer Systems
ARCI	Africa Risk Capacity Insurance
ATM	Automated Teller Machines
BAM	Bankers Association of Malawi
CBPS	Cross Border Payment System
CDS	Central Depository System
CFTC	Competition and Fair Trading Commission
CSD	Central Security Depository
DFS	Digital Financial Services
DFSP	Digital Financial Services and Products
DIS	Digital Identification System
EDF	Export Development Fund
eKYC	Electronic-Know Your Customer (Digital Identification)
FARMSE	Financial Access to Rural Markets and Smallholder Enterprises
FIA	Financial Intelligence Agency
FSDS	Financial Sector Development Strategy
FSP	Financial Services Provider
GDP	Gross Domestic Product
GPS	Gateway Payment System
IPO	Initial Public Offer
KYC	Know Your Customer
MACRA	Malawi Communications Regulatory Authority
MAIIC	Malawi Agricultural Investment and Industrial Corporation
MGDS	Malawi Growth and Development Strategy
MIP	Malawi 2063 Implementation Plan
MIP-1	Malawi 2063 First 10-year Implementation Plan
MIP	Malawi 2063 First 10-year Implementation Plan
MoEST	Ministry of Education, Science and Technology
MoFEA	Ministry of Finance and Economic Affairs
MoGCS	Ministry of Gender and Community Services
MoH	Ministry of Health
MoJCA	Ministry of Justice and Constitutional Affairs
MoTI	Ministry of Trade and Industry
MoTPW	Ministry of Transport and Public Works
MNO	Mobile Network Operator
MSE	Malawi Stock Exchange
MSME	Micro, Small and Medium Enterprise
MUSCCO	Malawi Union for Savings and Credit Cooperative
NAT SWITCH	National Switch
NBM	National Bank of Malawi
NSO	National Statistical Office
NTEP	National Task Force on Electronic Payment
NVNSS	National Visa Net Settlement System
OTC	Over the Counter
PoS	Point of Sale
PPP	Public Private Partnership
PPPC	Public Private Partnership Commission
RBM	Reserve Bank of Malawi
RTGSS	Real Time Gross Settlement System
SACCO	Savings and Credit Cooperative
SDG	Sustainable Development Goals
SME	Small and Medium Enterprise
STR	Secure Transaction Registries
TNM	Telekom Networks Malawi
VA	Virtual Assets
VASP	Virtual Assets Service Providers

Foreword

Minister of Finance and Economic Affairs.

Honourable Simplex Chithyola Banda, MP.

The Financial Sector Development Strategy III (FSDS III) is a blueprint document designed to serve as a single reference document aimed at providing strategic direction for the development of the financial sector in Malawi. The Strategy, whose implementation period is from 2024 to 2028, has been developed from the realisation that the Financial Sector is key to the facilitation of economic growth and development in the country. The production of the Strategy stemmed from a vigorous review of the FSDS II and through wider consultations on the current strategic needs of the country's financial sector.

The objective of the FSDS III is to develop a more resilient, competitive and dynamic financial system that will be able to support and contribute to the growth of the economy, help strengthen domestic financial institutions making them technologically driven, and meet the growing needs of Malawi's businesses, industries and the general population.

The FSDS III is a third Strategy and it replaces the FSDS II whose implementation came to completion in December, 2021. Notable achievements made as a result of the implementation of the FSDS II include the rapid diversification of the finance industry. Conversely, challenges and weaknesses were also noted. Consequently, the FSDS III has been developed to address the identified weaknesses and challenges and build on the gains made. The FSDS III has been divided into seven pillars and these are considered as milestones to the attainment of the country's financial sector development goals. The Pillars are as follows:

Developing and Deepening Financial System; Creating an enabling policy, legal and regulatory environment; Digital Finance; Promoting Competition in the Financial Sector; Financial Inclusion; Enhancing Participation of the Financial Sector in Growth Sectors; and Financial Literacy and Customer Protection.

It is my sincere hope that the implementation of this strategy will provide a critical intervention to achieving the Government's objective of economic development and poverty reduction as prescribed in the Malawi 2063 and the Malawi 2063 First 10-year Implementation Plan (MIP-1).

Honourable Simplex Chithyola Banda, MP.

MINISTER OF FINANCE AND ECONOMIC AFFAIRS.

Preface

Secretary to the Treasury

Betchani Tchereni, PhD.

The financial sector plays a pivotal role in driving economic growth, facilitating investment, and mobilizing savings. Its stability and efficiency are essential for promoting sustainable development, fostering innovation and enhancing financial inclusion. Cognizant of the role that financial sector plays in Malawi and the challenges identified in the sector, FSDS II was developed whose overall objective was to provide a road map of the financial sector over the 5-year period (2017-2021) that would ensure the financial system's effectiveness, competitiveness and resilience. This roadmap was developed on the premise of the overarching national medium-term development strategy (MGDS III). The FSDS II was implemented between 2017 and 2021.

After 5 years of implementing FSDS II, Malawi has made some achievements, albeit significant challenges remain in the face of a number of opportunities. The achievements include rapid finance industry diversification, bringing regulations and supervision up to international standards, establishing a mechanism to manage in times of crisis, and assisting the financial sector to provide needed financing and financial services to the agriculture, industry, and other real economic sectors.

FSDS III has been developed as a national response to address the structural weaknesses in this sector that were identified in the review of the implementation of FSDS II. This strategy serves as a guiding framework to foster the growth and resilience of our financial sector, ensuring its alignment with national development goals and international best practices.

In crafting this strategy, we engaged with stakeholders from across the financial industry, including regulators, policymakers, industry experts and representatives from private sector. Their insights and contributions have been invaluable in shaping a comprehensive and forward-thinking approach.

As we embark on the implementation of this strategy, we recognize that success will require collaboration and partnership among all stakeholders. We are committed to working closely with industry participants, regulators, development partners and other relevant stakeholders to achieve our shared objectives.

Lastly, I would like to express my gratitude to all those who have contributed to the development of this strategy. Together, we can build a stronger, more inclusive and resilient financial sector that serves the needs of our people and supports sustainable economic development.

Betchani Tchereni, PhD

SECRETARY TO THE TREASURY

1. Introduction

1.1. Objectives of the Financial Sector Development Strategy III

The main objective of the Financial Sector Development Strategy (FSDS) III is to develop a more resilient, competitive and dynamic financial system that will be able to support and contribute to the growth of the economy, help strengthen domestic financial institutions by making them technologically driven, and meet the growing needs of Malawi's businesses, industries and the general population.

By the end of 2028, the FSDS seeks to achieve the following:

- An efficient, deepened and well-developed financial system;
- A stable, competitive, inclusive, and well-regulated financial sector;
- A vibrant capital market;
- Respected and effective regulators; and
- Financially literate and protected consumers of financial services and products.

1.1.1. Outcomes

The achievement of the goals/objectives above will enable the Malawi financial system to achieve the following outcomes:

- Better meet the financing needs of the country's growing economy;
- Increased access to financial services to the currently underserved but economically active population, in particular to the micro, small and medium enterprise (MSME) sectors and to the rural and agricultural sectors;
- Reduced costs of financial services, in terms of intermediation spreads and cost of transactions; and
- Enhanced efficiency and soundness of the financial system

1.2. Background Information

In 2016 the Government of Malawi developed the second rolling Financial Sector Development Strategy (FSDS) II, whose overall objective was to provide a road- map for the financial sector for the five-year period (2017-2021). This roadmap was developed on the premise of the overarching national medium term development strategy (MGDS III).

The FSDS II was implemented between 2017 and 2021. During the past five years of implementing FSDS II, Malawi made some achievements, albeit significant challenges remain in the face of several opportunities. The achievements include rapid finance industry diversification; raising regulations and supervision to international standards; establishing a crisis management mechanism, and assisting the financial sector to provide needed financing and financial services to the agricultural, industrial, and other economic sectors.

While there may be other documents that address issues relating to the development of the financial sector in Malawi, this Strategy has been developed as a national response to address the structural weaknesses in this sector and it will serve as a single reference document for financial sector development in Malawi.

Malawi's financial system, which is still in the developmental stage, is shallow and segmented, with eight banks, over sixty microfinance institutions (MFIs), two licensed e-money issuers, fourteen insurance companies, and two pension fund agencies. There is a financial infrastructure comprising payments, a clearing and settlements system, and a commodity market.

"This strategy document will serve as a single reference document for financial sector development in Malawi"

Although Malawi's financial system appears to be sound and functioning well, the sector still faces some challenges that affect its contribution to the overall performance of the economy. The financial sector is expected to play a vital role towards the achievement of the country's medium- and long-term goals, with credit to the private sector expected to grow positively in real terms over the next ten years. In addition, lending to critical growth pillars such as agricultural productivity and commercialization, industrialization and urbanisation is expected to grow above the current average.

Looking ahead to the next five years (up to 2026), commercialization of productive systems, promotion of an industrialisation drive, fast-tracking of urbanisation, cultivation of a transformative mindset, provision of effective governance systems and institutions, attainment of an effective and prudent public service and achievement of a dynamic and vibrant private sector are priority goals of the Government of Malawi. The Financial Sector Development Strategy 2022–2026 (FSDS III) is designed for the purpose of continuing developing a strong and resilient financial system and market-based principles. It recognizes the fact that the financial sector plays vital roles in the economy such as:

- Encouraging, mobilising, and allocating savings to investments that would impact on the economy.
- Enabling payments and thus enhancing trade (domestic and international) that would enable people to break free from the constraints of subsistence economic activity thereby achieving the aspiration of having an inclusively wealthy and self-reliant lower middle-income Malawi and attain most of the Sustainable Development Goals (MDGs).

The development of this strategic document took into account the achievements made in implementing FSDS II as well as experiences and lessons learned from past reforms and the anticipation of a rapid financial market development. Therefore, FSDS III document considers the following:

a. Addressing critical and underlying issues that hinder the development of the Malawi financial system as a whole by considering its current status as well as its critical sub- components.
b. Building the need to create a more inclusive financial sector and identify critical factors affecting the development of the financial system that is an enabler to economic development.
c. Addressing relevant issues at policy and regulatory, meso, micro and consumer levels and outlining a comprehensive strategic framework for tackling and aligning them to the Malawi 2063 First 10-Year Implementation Plan (MIP 1) 2021 – 2030.
d. Developing a thorough review of past experiences as well as stakeholder consultative process.
e. Considering critical issues necessary for modernising and improving the financial system, including but not limited to:
    - improvement of the financial infrastructure;
    - improvement of the policy and regulatory environment;
    - enhancement of client education and protection;
    - improvement of product and channel design and payments systems; and

- making financial services accessible to the excluded.

The ability of financial institutions to deliver products and services in the most efficient and effective manner will be vital in determining the performance and relevance of the financial sector. This Financial Sector Development Strategy will therefore ensure a financial system that is best suited to the needs of Malawi's economy by being well developed and diversified and characterised by efficiency, effectiveness and stability.

1.3. Macroeconomic Development

Malawi's economic growth over the past ten years was characterised by a cyclical pattern with real GDP growth oscillating between 1.9 percent & 9.6 percent, a rather stable but weak economy. The annual average real GDP growth rate for the period 2016-2021 stood at 3.6 percent, and this was below the average growth rate of 7 percent that is required to meaningfully reduce poverty and stimulate economic growth and development envisaged in the implementation of Malawi's medium- and long-term development strategies.

The exogenous and endogenous shocks continued to negatively impact economic performance, as reflected in lower growth rates in some years. These shocks included unfavourable weather conditions such as drought and flood incidents which affected agricultural production, coupled with an unstable and unfavourable macroeconomic environment and high cost of production. In addition, the severe effect of the Covid 19 pandemic exacerbated the slump experienced in 2020 with real GDP growth of 0.9%. Conversely, during the years when Malawi experienced favourable weather conditions, coupled with a sound macroeconomic environment, Malawi registered impressive growth rates. Figure 1 below illustrates the trends in real GDP growth over the last 10 years.

"Over the past few years, Malawi's macro-economy has remained relatively stable but weak."

Figure 1: GDP Annual Growth Rates: 2013 – 2022

Notwithstanding the positive growth, the majority of households remain critically below the poverty line of 1.90 United States of America dollars per day, owing to the nature of the economy being rural-based, where more than 80% of the population is predominantly dependent on informal smallholder subsistence agriculture with minimal mechanisation and insignificant non-rainfall-based irrigation.

1.3.1. Inflation, Exchange Rates and Interest Rates over the Past 4 Years (2018 – 2022)

Between 2012 and 2022, inflation in Malawi was influenced by three main factors, namely, drought, ex- change rate movements and policy. Overall Inflation was at about 16 percent in 2012 with steady increases then a reduction in 2019 to about 9 percent. Inflation began to increase again to above 20 percent from 2022.

Recently vulnerability has heightened as the exchange rate is experiencing volatility and uncertainty.

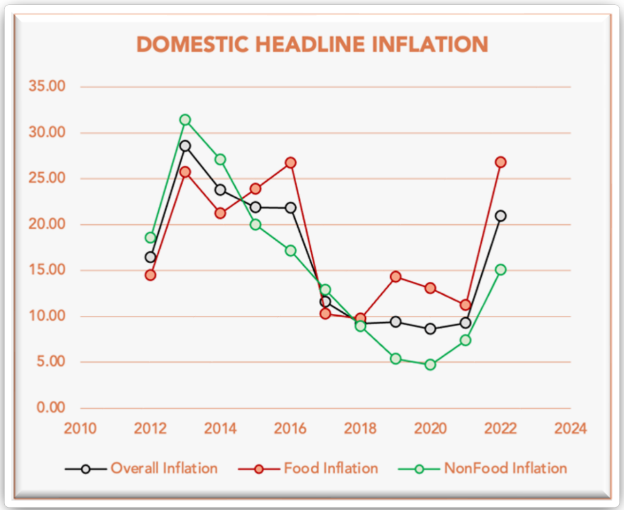


Figure 2: Domestic Headline Inflation

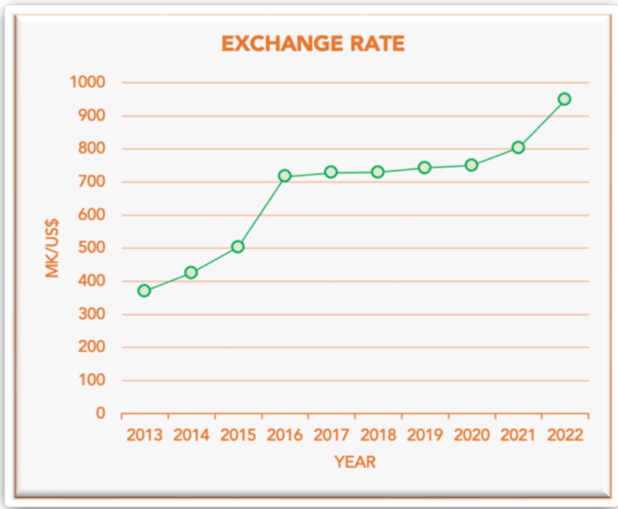


Figure 4: Exchange rate

Despite some positive trends in interest rates, the cost of borrowing and, consequently, the cost of production remained high. The policy rate followed the same trend as inflation, closing at 20 percent at the end of 2022.

With a relatively stable exchange rate over the past five years, most commercial banks in Malawi experienced adequate liquidity levels with the liquidity ratio, which remained above the prudential benchmark of 25.0 percent. Anticipating that the exchange rate would remain unchanged in the medium term, banks increased credit extension to the private sector.

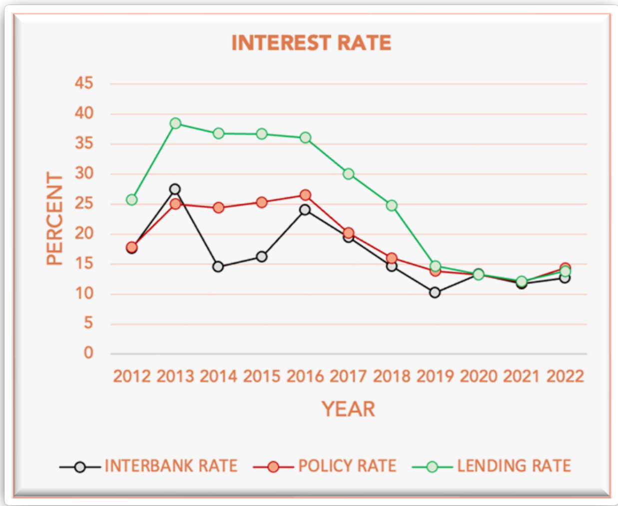


Figure 3: Interest rate

Although Malawi's financial system is considered sound and functioning well, an assessment of risk exposure revealed vulnerabilities in terms of credit concentration, especially that only three industrial sectors continued to contribute more than 50.0 percent of gross loans and leases (namely wholesale and retail sector, agriculture sector and community, social and personal services). This meant that a downturn in any of these sectors would cause a high proportion of banks' outstanding loans to become non-performing. Liquidity risk continued to pose some level of concern following the investment of short- term liabilities into long-term assets. High demand to withdraw short-term liabilities could strain the industry. Covid-19 pandemic followed by Cyclone Fredy continued to pose a concern to the stability of the sector primarily due to its effect of reducing economic activity.

Therefore, there was a high risk of increased non-performing loans, high cost of preventative measures and reduction in revenues and profits, among other things which might in turn have affected capital and profitability of the financial sector.

"Malawi's financial system appears to be sound and functioning well. However, an assessment of risk exposure reveals some vulnerabilities."

1.4. The Financial Sector

- The current financial services sector in Malawi has a number of positive features. These include:
- Robust core banking systems;
- Availability of critical elements of infrastructure for digital banking and payment systems;
- A drive towards meeting financial inclusion objectives, through development of policies and strategies such as National Strategy for Financial Inclusion, Long Term Finance Policy, Microfinance Policy, among others; and.
- Creation of a primary capital market for government bonds and equities.

"Financial services sector in Malawi has a number of positive features, yet there are also some gaps and opportunities for further development."

There are also a number of gaps and opportunities for further development in the financial system which include the following:

- Weak market competition amongst financial service providers (there are persistent geographical and monopolistic concentration tendencies).
- Levels of financial intermediation remain relatively low with a 25.1 percent total domestic credit to GDP ratio in 2022. Moreover, domestic credit to the private sector as a percentage of GDP accounted for 8.2 percent in 2022. The breakdown of credit by economic activity shows that 18.2% of total loans were channelled to the wholesale and retail trade, 14.5% to the agriculture sector and 31.7% to community social and personal services in 2022.
- Limited services in some market segments as well as among the financially under-served.
- The tendency of financial institutions, especially the banks, of concentrating their credit provision to government, corporates and high net worth individuals.
- Exposure of consumers of financial services to the damaging conduct of some providers,
- High levels in the use of cash as a means of payment despite significant strides made in the payment systems.
- Limited access to capital caused by illiquid secondary markets for bonds and equities.

With respect to financial sector regulatory and supervisory arrangements, the main challenges relate to inadequate human capacity in key sectors (manifested in staff attrition and turnover), and ineffective coordination and implementation.

Other regulatory and supervisory issues include:

- Lack of enforcement mandate by the relevant regulatory authorities, for instance, those found breaching the law on AML/CFT cannot be prosecuted by the FIA.
- Lack of a framework to regulate digitization or innovations in the financial sector.

1.5. Policy Alignment

Malawi propagates an inclusive financial sector as a key objective in the national development plans such as the Malawi 2063 and MIP-1, and this position is further underpinned by the country's thrust to achieve the remaining global SDGs by 2030.

In its vision, Malawi emphasises that the financial markets play a pivotal role in creating a sustainable future. The MW2063 theme focuses on increasing inclusive growth (especially through SMEs and agriculture), access to basic services (energy, health and education), and improving household resilience, as well as gender equality. Increased reliance on technological innovation and digital financial services will help in improving the scale and efficiency of financial inclusion interventions.

"Increased reliance on technological innovation and digital financial services will help in improving the scale and efficiency of financial inclusion interventions."

In that regard, in line with the priorities stated in the MW2063 and MIP-1, the Financial Sector Development Strategy will respond to market needs, including those of the growing middle class and emerging micro-entrepreneurs in hard-to-reach areas.

While this strategy will contribute to the MW2063 agenda on the one hand, it will also assist in attaining Sustainable Development Goals on the other. Among others, it will enhance access to finance for individuals, SMEs and the government. This will help in facilitating secure payments, including for basic services and trade; ensure smooth cash flows; offer financial protection, and improve the allocation of capital and at the same time enable investments in many areas.

In addition, this Strategy has been developed in line with other policy documents, including; the National Strategy for Financial Inclusion, National Financial Literacy and Capability Strategy, Long Term Finance Policy, Microfinance Policy, Digital Economy Strategy, National Anti-Money Laundering and Combating Financing of Terrorism and Proliferation Policy and Gender Policy.

1.6. The Approach and Focus of Implementation

FSDS III will run for a period of five years, from 2024 to 2028. Within this period, there will be periodic reviews and monitoring and evaluation. A number of specific initiatives and activities are proposed for implementation within a specified timeframe and an annual budget. This approach will ensure that the Government's medium-term strategic development objectives for the sector are achieved, but this will depend on effective implementation of specific projects in the short-term together with mid-term reviews. The Strategy also provides opportunities for progress reviews towards the end of each year by the Financial Sector Technical Working Group. In an event where resources are limited, the Strategy will employ a prioritisation approach to ensure that resources are not spread across thinly, thereby attaining meaningful results.

1.7. The Scope of the Financial Sector Development Strategy III

The Financial Sector Development Strategy III (FSDS III) provides a road-map for the financial sector for the next five (5) years that will ensure the financial system's effectiveness, competitiveness and resilience. This roadmap has been aligned with the overarching national medium term development strategy, Malawi 2063's First Implementation Plan (MIP-1). This Strategy has been developed as national response to address the fundamental weaknesses, gaps and opportunities in this sector in order to serve as a single reference for the entire financial sector development in Malawi.

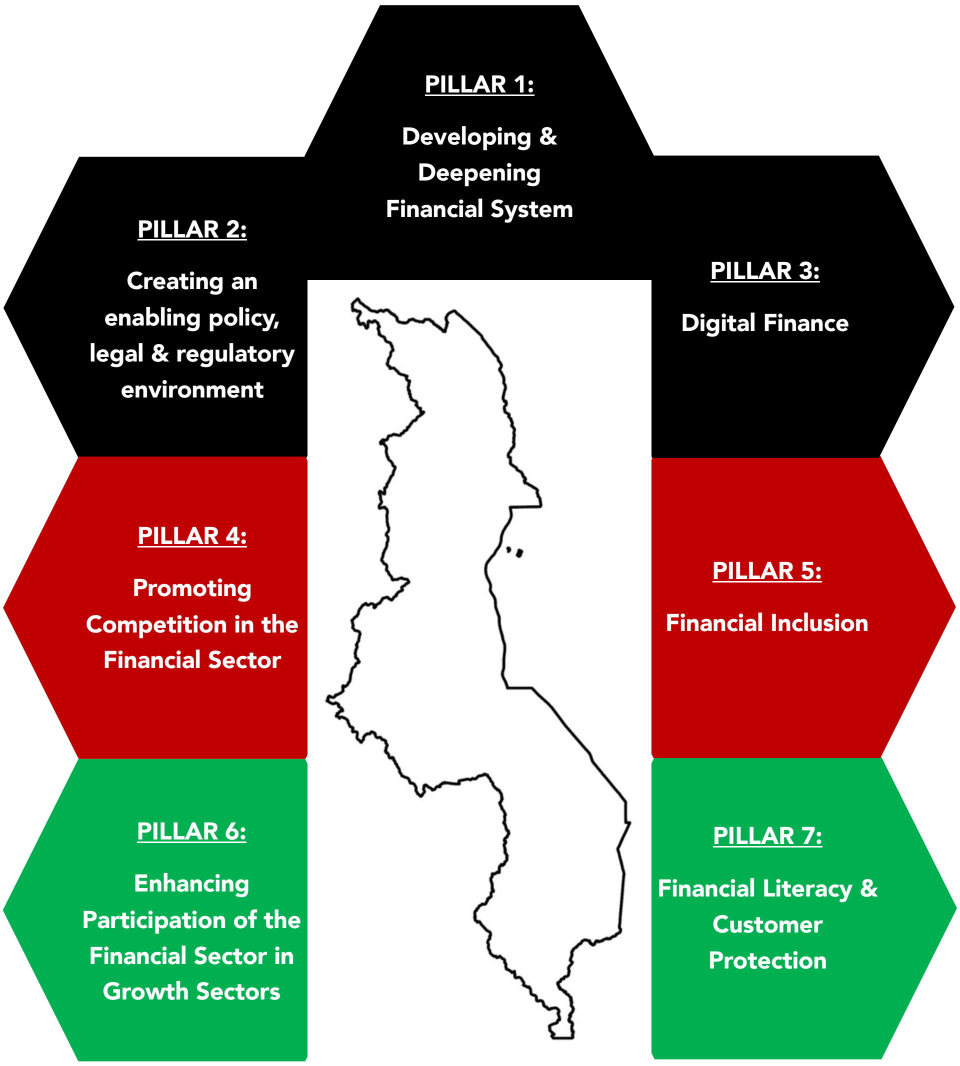
The strategy has been developed after a series of broad and in-depth consultations with all relevant stakeholders, which include Government Ministries, Departments and Agencies (MDAs), the financial sector players (including microfinance practitioners and industry associations), civil society organisations, development and cooperating partners, and the academia.

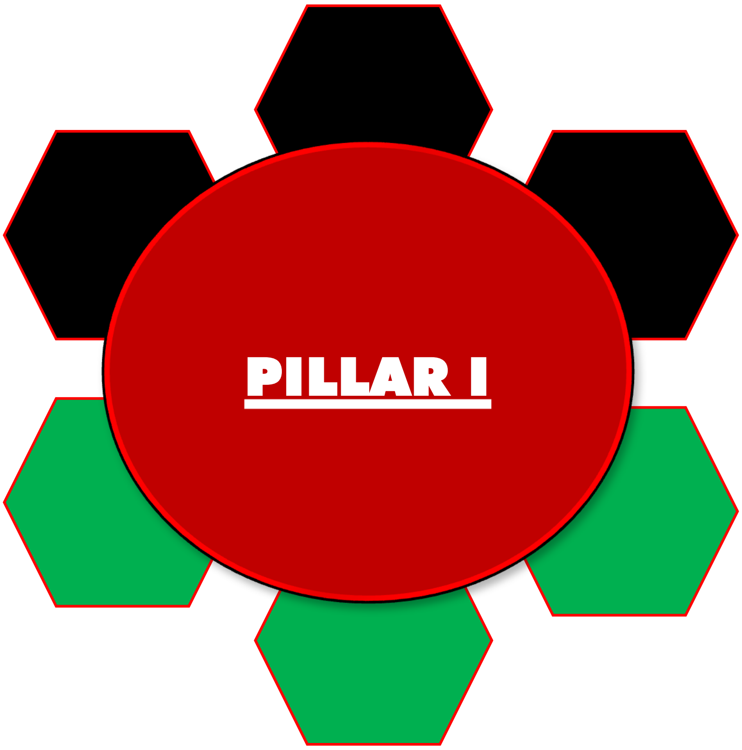
2. Financial Sector Development Strategy Pillars

This section presents the seven pillars of this FSDS. These are as follows:

1. Developing and Deepening Financial System;
2. Creating an enabling policy, legal and regulatory environment;
3. Digital Finance;
4. Promoting Competition in the Financial Sector;
5. Financial Inclusion;
6. Enhancing Participation of the Financial Sector in Growth Sectors; and
7. Financial Literacy and Customer Protection.

In order to achieve its overall objective, FSDS III will lean on the SEVEN pillars.





3. Developing and Deepening the Financial System

Financial deepening is about increased provision of financial services with a wide choice of products and services that are geared to reach all levels of society.

A deepened financial system stimulates economic growth and reduces costs of financial intermediation.

3.1. Introduction

The financial system comprises a set of institutions and practices that facilitate and allow for the exchange of funds between the borrowers, lenders and investors. In Malawi, the formal financial sector consists of commercial banks, stock exchanges, development banks, mutual funds, insurance companies, pension schemes, Microfinance Institutions (MFIs), financial cooperatives, and Mobile network operators, among others.

The sector is dominated by commercial banks both in terms of assets and loan advances. Commercial banks are the major source of credit, followed by MFIs, financial cooperatives, development banks, and private placement mechanisms.

Financial deepening is about the increased provision of financial services with a broad choice of products and services that are geared to reach all levels of society. Increasing access to credit, savings, insurance, pensions, remittances, money transfers, stocks and securities, and other financial services is critical to achieving sustainable economic growth and development in Malawi.

A deepened financial system stimulates economic growth and reduces the costs of financial intermediation. In this regard, the need for a comprehensive strategy to deepen access and usage of financial services in Malawi cannot be over emphasised.

"A deepened financial system stimulates economic growth and reduces costs of financial intermediation."

3.2. The Banking Sector

Commercial banks dominate the financial system in Malawi, accounting for over 50 percent of total financial system assets. As of the end of December 2022, there were 8 commercial banks in operation with total bank assets estimated at K3.6 trillion. Among the 8 banks in operation, 2 remained dominant in the sector and accounted for around 46.7 percent of total banking sector assets in December 2022. The number of branches reached 129 as at the end of December 2022.

"Although the banking sector has generally been experienced increased bank assets, yet it is characterized by high NPLs."

3.2.1. Current Situation, Assessment and Challenges.

The banking sector in Malawi has generally remained sound and resilient with adequate capitalization, sufficient liquidity, increased earnings and improved asset quality. Core and total capital ratios stood at 19.0 percent and 22.4 percent in December 2022, against the regulatory benchmarks of 10 percent and 15 percent, respectively. The sector is deemed sufficiently liquid, registering a liquidity ratio of 53.6 percent as of December 2022, against a benchmark of 25 percent.

However, the key challenge is the commercial banks' preference for government securities which may amplify risk and vulnerability. Government securities and statutory corporation loans account for more than 40 percent of the banking system's loan assets. Top beneficiaries that access credit from commercial banks include the wholesale and retail trade, (21.0 percent), agriculture (16.4 percent), and community social and personal services (33.2 percent) and a small number of customers thereby exposing the banks to loan concentration risk.

"Despite the conspicuous vulnerabilities the banking sector in Malawi has been deemed sound and resilient."

The same beneficiaries contributed more than 50.0 percent of gross loans and leases, accounting for 73.7 percent of non-performing loans as of December 2022. Generally, commercial banks have less preference to lend to private businesses due to lack of credit worthy investment projects and weaknesses in the legal and judicial environment that make it challenging to recover bad loans or to realise collateral.

This has been compounded by increased Government domestic borrowing. The operating costs of commercial banks are high by international standards, especially given moderate lending and depository services, for instance, net interest margin and the ratio of fee income to average assets in banks are among the highest in Africa. In addition, commercial banks are increasingly relying on income from treasury bills and foreign exchange operations. This shows that the banks are not performing their core function of intermediation effectively.

There are inadequate formal structures for a financial safety net in Malawi, thereby exposing the public to losses in case of a bank failure, although a deposit insurance scheme has just been established. Despite complying with most international standards, problems still exist in the supervisory process, such as delays in the processes in coming up with subsidiary laws, slow judicial process and lack of adequate procedures for the orderly liquidation of banks and other financial institutions. While market activities of some banks are becoming more complex in line with developments in the international financial systems, the supervisory skills remain underdeveloped. Despite the emergence of the credit reference bureau, consumers with good credit rating score have not benefited from the pricing of risks by the banks.

In addition, the cost of accessing credit reference reports remains high, contributing to the high cost of borrowing. Furthermore, the process of recovering non-performing loans is not well supported by the existing legal framework especially in liquidating collateral.

"Despite implementing a number of strategies in FSDS II there remains challenges, gaps, and opportunities that constrain financial sector development."

3.2.2. Targeted Outcomes

- An Increase in ratio of private sector credit by banks to GDP from 25 to 35.0 percent by 2028.
- Have a resilient banking sector operating in line with international standards by 2028.

To achieve the above outcomes, the following measures will be undertaken:

3.2.2.1. Maintaining Government Domestic Borrowing to Sustainable Levels

In order to reduce crowding out the private sector borrowing, the Government will reduce contracting domestic debt through adherence to fiscal measures and rules aimed at containing the fiscal deficit.

The Government will also continue to restructure its domestic debt instruments from short-term to long-term, including swapping existing debt for development finance.

3.2.2.2. Maintaining a Supportive Interest Rate Policy

The Reserve Bank of Malawi will maintain an interest rate policy that supports credit growth to the private sector by reducing the cost of borrowing for the private sector while keeping inflation under control. This rate shall remain the main signal of monetary policy thrust and direction. In addition, RBM will use existing regulations to encourage commercial banks and other lending institutions to reduce the margin between savings and lending rates.

3.2.2.3. Continue Strengthening the Supervision Function and Financial Stability

This will involve adopting a consolidated supervision framework that entails the following:

- a macro prudential supervision framework;
- a domestically systemic assessment framework;
- a mortgage finance regulatory framework;
- an enhancement of a risk-based supervision framework with more emphasis on IT-based examinations; new minimum capital requirements for banks; a regulatory framework for bank holding companies; a crisis management plan;
- an Islamic banking regulatory framework and an improved bank reporting system using appropriate technology, that was developed in the FSDS II.
- RBM will fast track the finalisation and approval on pending frameworks and regulations such as:
    - a macro-prudential supervision framework;
    - a domestically systemic assessment framework; and
    - a mortgage finance regulatory framework. The Reserve Bank will continue to maintain standards and global best practices in the banking sector through adherence to the Basel accord.

3.3. Capital Market

In Malawi, the capital market comprises one stock exchange with the equity and debt markets, four brokerage firms, eight portfolio managers, nine investment advisors, four transfer secretaries, and two collective investment schemes, one of which is a unit trust. The Malawi Stock Exchange (MSE), which is central to the capital market in Malawi, commenced operations in 1994, with its first listing arising from Malawi's privatisation program in November 1996. The number of listed companies has increased from 13 in 2016 to 16 in 2021. New listings were ICON Properties plc, Airtel Malawi plc and FDH Bank plc.

There are three platforms on the MSE, namely, the Main Board, Alternative Capital Market (EDGEX) and Debt Market, which cater for equity securities for larger and well-established companies; equity securities for Small and Medium Enterprises; and issuers of debt instruments, respectively. On the Debt Market, the MSE listed the first corporate bond by MyBucks Banking Corporation and Malawi Government Treasury Notes. However, there was no issuing of corporate papers (both short- and long-term) by state agencies as well as listings on the Edgex Board with regard to SMEs.

3.3.1. Current Situation, assessment and challenges.

The FSDS II projected an active capital market with higher turnover, liquidity and intermediation as well as domestic market capitalization exceeding 30 percent of GDP by 2021.

A review of the FSDS II has shown that the capital market is still not vibrant, highly illiquid and with limited instruments. Trading is still low and dominated by institutional investors who hold on to the securities for a long time. By the end 2021, the domestic market capitalization was only 18.05 percent of GDP. Various factors limited the increase in Initial Public Offerings (IPO), on the MSE, both equity and the debt market as presented below:

- Lack of mandatory directives that require certain companies to list.
- Lack of incentives that encourage listing.
- Many business leaders shun capital markets due to fear of losing control of ownership.
- Poor governance of some prospective issuers of securities with regards to up-to-date financial records and reporting.

3.3.1.1. Illiquid Market

There is limited trading on MSE largely due to shallowness of the market liquidity despite growing demand for securities from pension funds. This challenge does not exclusively stem from a few public floats for trading but also from the fact that most long-term investors tend to hold on to the few listed shares up to maturity.

"Malawi's capital market is shallow and illiquid"

Furthermore, some investors prefer to trade over the counter to trading on the bourse, including lack of market makers and limited availability and variety of securities.

3.3.1.2. Limited Participation in Government Security Trading

The trading of government securities is still concentrated to a few players comprising commercial banks, pension funds and insurance companies.

Consequently, there is minimal secondary trading as these institutional investors tend to hold the securities to maturity.

The review of FSDS II revealed challenges and opportunities which necessitate those reforms and interventions be undertaken in FSDS III, to achieve the following targeted outcome:

3.3.2. Targeted Outcome

An active capital market with a higher turnover, liquidity, intermediation and domestic market capitalization from the current 22.9 percent to 45 percent of GDP by 2028

To achieve the above outcome, the following actions will be undertaken:

3.3.2.1. Restructuring the Malawi Stock Exchange

The Malawi Stock Exchange (MSE) remains un-restructured and it is wholly owned by the Government. It is essential to realise that Malawi's capital market is still nascent and in need of Government support. Therefore, a phased or structured pull-out of the Government from ownership in the MSE should be put in place to allow for full private sector participation.

3.3.2.2. Improving Market Liquidity Through New Listings

Although the MSE has not been directly involved in Public-Private Partnership initiatives, there has been the issuance of bonds for infrastructure development such as roads. To improve liquidity in the market, the Government will enforce the listing of companies trading with the Malawi Government to offer the general public a stake. The qualifying trading threshold and proportion of public stake will be determined by the enactment of relevant legislation.

The problem of the capital market lies predominantly on the supply side as such attention will be on restoring the balance between the supply and demand side to ensure that the MSE is able to attract new listings. This will help to enhance market liquidity.

The Government will encourage state-owned enterprises (including local authorities) with good balance sheets to issue corporate papers (both short- and long-term) as an alternative to bank financing. This will increase the number and size of debt instruments available on the capital market.

The Government will continue working with the private sector in public-private partnerships (PPP) and seek the indulgence of the MSE in the PPP initiatives. As these initiatives succeed, there will be increased investment opportunities for the public when these companies seek listings on the stock exchange.

3.3.2.3. Increasing Public Float of Listed Companies

Government through MSE will continue to encourage listed companies to increase their float to the public through arranged business meetings and discussions. Furthermore, the government will encourage the public companies to get listed on the MSE and increase their float to the public.

3.3.2.4. Trading of Government Securities on MSE

The Government will continue to promote the trading of securities on the MSE through listing of its securities, especially long-term instruments. The Government will also include programmes such as issuing development bonds to further support trading on the MSE.

To address the challenge of high interest rates in the money market, which makes them more attractive than the stock market, the Government will remain committed to implementing the Domestic Revenue Mobilisation Strategy in order to reduce domestic borrowing.

3.3.2.5. Increasing the Size of the Investor Base

On the demand side of the market, increasing the retail investor base is essential for creating vibrancy in the stock market. Government through MSE will continue to carry out awareness and sensitization campaigns in order to increase the investor base.

On debt securities, although Treasury Notes and Treasury Bonds continued to be listed on the MSE, and the investor base registered an increase over the period, there has been no secondary market on the instruments. This lack of a secondary market on these instruments makes it challenging to increase the investor base. Banks, fund managers, and very few high-net-worth individuals usually hold Treasury Notes and Treasury Bonds to maturity rather than trading them on the secondary market. Further- more, banks are traditional intermediaries that get the business of trading government securities. They prefer using the over the counter (OTC) platform to the MSE because of a requirement to trade on the exchange through brokers, which entails additional brokerage costs. Besides, participation of retail investors in the primary market is almost non-existent.

The investor base for debt securities still requires deepening and broadening by increasing trading of Treasury Notes, and Treasury Bonds and introducing Development Bonds on the MSE. The government will continue to list or introduce these securities on the bourse.

Overall, the MSE and the RBM will intensify the awareness and sensitization programmes. On a positive note, growth in terms of utilisation of information technology amongst the youth and urban population is a development that could highly optimise the existing automated trading at the MSE to incorporate mobile application trading. This growing population would be tapped on to grow the investor base.

3.3.2.6. Utilising the Improved Market Infrastructure

The market infrastructure improved tremendously during the period reviewed. One notable development was the introduction of "Automated Trading System" that directly interfaces with central clearing, settlement and registry systems. The automated system introduced delivery versus payment (DvP) and Straight Through (end to end) Processing (STP) in debt and equity markets. The Central Securities Depository (CSD) at the RBM was enhanced to accommodate private instruments as well.

Apart from improving the clearing and settlement system, this has led to the dematerialization of the securities and made trading efficient. The MSE will take advantage of the infrastructure to deepen the market further in terms of use. Further, the Government will connect all the systems through the Gateway Payment System.

There is need to design capital market products and services in a way that makes them more inclusive. This will entail using digital platforms to deliver these products and services to ordinary people.

3.3.3. Yield Curve, Issuance Calendar, and Credit Rating

The existence of a long-term yield curve, issuance calendar, and credit rating is vital for the development of a corporate debt market. Currently, there is a yield curve based on actual trades, with the longest tenor being 10 years. The Treasury now issues 2-year, 3-year, 5-year, 7-year and 10-year Treasury notes according to a published issuance calendar.

As for the credit rating agencies, the securities market is still not deep enough to provide sufficient business to credit rating agencies. So far, there is no locally established credit rating firm in Malawi.

The government will increase the issuance of long-term debt instruments to develop the capital market and to serve as a benchmark for corporate debt issuers. It is expected that the development of the yield curve will also provide a platform for the establishment of credit rating agencies in the country.

The Government will continue to publicise its issuance calendar for its debt instruments. The Government will undertake sovereign credit rating using international standards.

3.3.4. Development and Support of New Institutions and Products

The economic environment has not driven demand for venture capital and real estate investment trusts; therefore, intermediaries opine that there would be low uptake of such new products. The major players in the sector, Old Mutual and NICO control about 80 percent of the funds under management, thereby creating some sort of an oligopoly. This dilutes the need for new products as competition for varied instruments is very low. Under-development, including a limited number of traded securities, in the organic market of equity and bonds, provides no latitude for the development of exchange-traded funds (ETF), derivatives and other securitized instruments.

Apart from the factors above, other challenges include:

- Low skills level of market participants to establish new products and new institutional vehicles.
- Lack of incentives for new institutional vehicles to operate in Malawi.
- Lack of regulatory framework that supports issuance and trading of derivatives.

The Government will support the establishment of new institutional vehicles and products to create vibrancy in the capital market as these types of institutions help provide risk capital (equity) and longer-term funds for companies, especially for start-ups.

Government will provide an enabling environment to support the development and offering of new instruments by market players, such as ETF, securitized instruments and derivatives in an attempt to deepen the capital market.

3.3.5. Approach to Regulation

Government continues to provide a conducive regulatory environment for the capital markets to thrive. Legislation such as the Securities Act has been under review, several capital markets directives have been reviewed. New directives have also been developed. However, not much has been done to develop an appropriate regulatory framework for the commodity exchange. Currently, there is a Warehouse Receipts Act in place and a directive guiding the regulation of commodities exchange (Financial Services {Regulation of Commodities Exchanges} Directive, 2018). However, these are not comprehensive enough to guide commodities operations in terms of derived financial instruments. Furthermore, the capacity of the Registrar of Financial Institutions as supervisor and regulator of commodity exchange has not been strengthened.

The challenge in terms of commodities exchange is that Malawi's commodity exchange is a spot market; it has not evolved to the level of trading derivatives. As such, there are no financial instruments to regulate or to spur the need for regulation.

The Reserve Bank, through the Export Development Fund, started buying alluvial gold from artisanal and small-scale miners across the country. The main objective is to provide a formal market structure for trading the commodity. Although there are currently no formal plans, this initiative could potentially lead to the formation of a commodities market that can include other minerals such as gemstones. This has a potential for the development of financial derivatives from the underlying spot market, hence the need for the development of relevant regulatory frameworks.

The Government will therefore continue to provide a conducive regulatory environment for the capital market to thrive. Government will also develop an appropriate regulatory framework for the commodity exchange. The capacity of the Registrar of Financial Institutions, as supervisor and regulator of commodity exchange will, also need to be strengthened.

3.4. Insurance Sector

The insurance sector in Malawi is expanding rapidly as firms, households, and Government are increasingly becoming customers in both life and general insurances, and there is an expected moderate growth in the sector's reinsurance business. As at 31 December 2022, total assets of general insurance in Malawi were valued at K88.9 billion while total assets of life insurance were valued at K1.3 trillion.

Insurance plays a critical role in economic development. It provides guarantees against capital investment, credit and lengthens the time horizons, thereby increasing the willingness of financial institutions, such as banks and investors to take risks, which might be very important in various economic sectors that are at early stages of development. However, the insurance sector in Malawi is often not well recognized within the broader financial services market despite its long-term contribution to the overall economic development of the country.

The sector is regulated by the Registrar of Financial Institutions appointed under the Financial Services Act (FSA) 2010, and is governed by the Insurance Act 2010. Detailed regulatory and supervisory requirements are issued from time to time by the Registrar of Financial Institutions under the two subsidiary legislations.

"Malawi's insurance sector is fairly developed"

3.4.1. Current Situation, Assessment and Challenges

The insurance sector is currently comprised of six Life Insurance Companies, eight General insurance Companies, one Re-insurance Company, 24 Insurance Brokers, five Agents for brokers (banks offering banc assurance services), 40 Insurance Agents (for general insurers), 494 Individualised Agents (for life insurers), 16 Insurance Loss Assessors/Adjusters, one Insurance Settling Agent, and one Funeral Services Insurance provider.

Insurance uptake in Malawi remains very low. Its penetration, which measures the contribution of the insurance sector (through the amount of premium income generated in a particular year) in a country to its economy (gross domestic product) has stagnated over the years, largely due to low uptake of insurance products by the population and also the rebasing of the country's gross domestic product. Insurance penetration in 2017 was 1.52 percent while the projected figure for 2021 was 1.50 percent. These percentages are lower than insurance penetration of 3 and 2 percent reported in 2008 and 2014, respectively.

Comparatively, insurance penetration rates for SADC and COMESA countries have also remained relatively low for most countries except for South Africa and Namibia which had higher penetration rates of 17 and 6.7 percent, respectively, in 2017. Mauritius, Lesotho and Zimbabwe had insurance penetration rates of more than 4 percent.

There has been an introduction of new products such as weather index insurance. In addition, the Government purchased a sovereign policy named the African Risk Capacity Insurance Policy in the 2020/21 growing season. This was done in order to protect its small-scale farmers from drought related shocks, among others. In addition, tailor-made credit life and funeral insurance products for rural-based customers, mostly farmers, have been introduced.

Despite the government creating an enabling environment for insurance services and products, coverage in rural areas remains limited. Most rural-based potential customers have little or no knowledge about insurance products and their importance. Coverage ought to leverage the advancement in ICT technologies to penetrate the rural sector with digital insurance products, among other means.

The growth of the sector has been hindered by several factors such as low financial literacy, little disposable income and inadequate available capital margin for some insurance companies, among others.

"Insurance services and products, coverage in the rural areas remains limited."

A review of the insurance sector has revealed challenges and opportunities which necessitate further reforms and interventions to achieve the following targeted outcome:

3.4.2. Targeted Outcomes

An increase in the total insurance premium as a percentage of GDP to 3.5% by 2028. An increase in the percentage of adults having access to insurance products and services to 7% by 2028.

To achieve the above outcome, the following actions will be undertaken:

3.4.2.1. Introducing New Insurance Products

The Government will provide an appropriate environment to enable the insurance industry to introduce new products such as weather index insurance and help to scale-up the use of available products in order to deepen the insurance market.

3.4.2.2. Establishing Islamic Insurance (TAKAFUL)

The Registrar of Financial Institutions has embarked on building the capacity of its staff for the development of a regulatory framework for Islamic Insurance. During the implementation of FSDS III a framework for Islamic insurance will be developed and implemented.

3.4.2.3. Rolling Out Micro-Insurance (Inclusive Insurance)

To address insurance coverage, especially among low-income Malawians, the Government will continue to facilitate the rollout of inclusive insurance initiatives targeting micro-insurance products and services in line with the National Strategy for Financial Inclusion.

Government will work with other players in the sector, including the insurance companies and Mobile Network Operators (MNOs) to accomplish this initiative. The Government will continue to provide financing for financial service providers (FSPs) through various projects and programmes. Insurance players will be encouraged to collaborate with other players such as MNOs in delivering insurance services and products through digital platforms.

3.4.2.4. Creating a Third-Party Motor Accident Compensation Fund

Government will pursue the creation of the third-party motor accident compensation fund to improve compensation and coverage of third-party motor vehicle claims.

3.4.2.5. Creating Depositors and Policyholders Protection Scheme

As part of a deposit insurance scheme government will extend the mandate of the Deposit Insurance Corporation to also include policy holders with the aim of protecting them in the event of failure of an insurance company.

3.4.2.6. Introducing Professional Training

Responding to calls from the insurance industry on the need to improve underwriting skills for risk pricing, especially in case of property and casualty situations, the Government has already introduced actuarial science training at the University of Malawi (UNIMA). The Government will continue encouraging other training institutions to start offering actuarial science and other related insurance courses in their program offerings.

3.4.2.7. Developing Mortality Tables

The use of mortality tables from South Africa or elsewhere leads to higher premiums, and as a result, the Government is in the process of developing mortality tables for the country. Therefore, the Government will ensure that the domestic mortality tables are developed and in use.

3.4.2.8. Adopting Medical Aid Scheme Regulatory Framework Developed and Adopted

In order to enhance the safety, soundness and prudent management of the medical aid schemes in Malawi, the Government will put in place legal and regulatory frameworks for medical aid schemes in collaboration with other health-related schemes with the aim of protecting the interests of beneficiaries and ensuring the highest standards of conduct of business.

3.4.2.9. Introducing Compulsory Classes of Insurance

Many public buildings in Malawi are not insured. In the event of any disaster happening to the public buildings, the public organisations themselves directly bear all the burden to construct new buildings using their own budgets because there is no risk financing plan to manage such occurrences.

In this regard, the government will ensure that all public buildings are insured. This includes buildings under construction. In addition, other two compulsory insurance will be introduced, such as contractors' all risks and marine insurance.

3.5. Microfinance and Financial Cooperatives Sector

Cognizant of the importance of a good financial services sector capable of extending services to low-income groups, the Government adopted microfinance as a way of reaching out to low income, particularly groups not reached in the informal financial markets. It is more flexible and provides innovative ways of delivering financial products and services to the poor using simpler delivery methods. With simpler forms of collateral and where no collateral mechanism is required, the concept of peer group lending and joint liability is deployed.

Microfinance offers credit, savings, insurance and other essential financial services to poor people. Microfinance provides people with an opportunity to increase productivity as well as learn and set up small and medium-scale businesses. The ultimate goal is to reduce poverty through economic empowerment of low-income groups by increasing their access to sustainable financial services such as savings, credit, insurance and payments.

Government focuses on developing this microfinance sector with the aim of creating an inclusive and sustainable market-oriented microfinance sector, which provides services that are affordable and accessible to all in order to contribute to economic development and poverty reduction.

The Microfinance Act (2010) categorises the microcredit agencies, deposit and non-deposit taking microfinance institutions and financial cooperatives known as Savings and Credit Cooperatives (SACCOs) as some of the main players in the microfinance industry in Malawi. In addition, some Commercial banks also have microfinance windows.

The microfinance sector is made up of 128 licensed and registered microfinance institutions comprising of 5 deposit taking institutions, 13 non deposit taking institutions, 71 micro-credit agencies and 39 financial cooperatives.

"Government focuses on developing this microfinance sector with the aim of creating an inclusive and sustainable market-oriented microfinance sector."

3.5.1. Current Situation, Assessment and Challenges

Malawi's microfinance has made modest progress over the last few years despite various efforts by the Government and other partners. The sector's growth has remained low due to challenges such as poor coordination, an unconducive business environment, poor infrastructure and limited capacity of the players, among others. Some of the specific challenges that the microfinance sector faces include Government direct involvement in the delivery of microfinance, political interference in Government-owned institutions and programmes which affects repayments, lack of capacity by microfinance service providers to expand out- reach, low levels of financial literacy, limited depth and range of financial services on offer, poor repayment culture which affects the sustainability of institutions, poor infrastructure such as roads, electricity and mobile connectivity, and insufficient legal and regulatory framework, especially on consumer protection.

"The growth of the sector has remained low due to challenges such as poor coordination, unconducive business environment, poor infrastructure and limited capacity of the players"

Malawi's microfinance sector is exposed to risks that threaten its stability and could compromise its growth. FSDS II review reveals shortcomings in terms of governance, financial and accounting management, internal control, capital and credit processing of MFIs. In the formal microfinance sector, many MFIs continued to operate despite operational and performance anomalies. In addition, the growth of unregulated informal credit groups in recent years is worrying as this can be a recipe for a crisis should there be a failure to meet the expectations of the majority of clients.

However, the Government has been implementing a number of initiatives aimed at improving access to financial services, including the Financial Inclusion in Malawi (FIMA) Project, FARMSE, and FINES. Despite these efforts, the sector still faces challenges experienced prior to FSDS II and these include:

3.5.1.1. Continued Direct Involvement of the State in Microfinance Service Delivery

The primary role of the public sector in microfinance lies in ensuring that a conducive environment exists for fair competition, innovation and growth. However, due to poor performance and inadequacy of microfinance institutions, the Government continues to participate in the sector by directly providing credit.

3.5.1.2. Challenges to Extend Services to Rural Areas and Lack of Interoperability mong Sector Players

The microfinance service providers remain highly concentrated in cities. They cite the high cost of operating in rural areas as a deterrent factor. Despite improvements in mobile and payments systems infrastructure, the sector has been slow in developing or adopting digital infrastructure to enable timely transactions and promote interoperability among players. Only a few MFIs have been connected to the MFI Hub, citing the cost of connection as a deterrent factor.

In addition, most players in the sector have inadequate capital to enable them to extend their services to other places, particularly rural areas.

3.5.1.3. Low Financial Literacy Levels and Limited Business Training and Awareness

Despite efforts to improve financial literacy in the country, the knowledge gap on microfinance products and services has remained unabated among the potential beneficiaries. There has been low coverage of financial literacy efforts. As a result, many people do not realise the opportunities being offered by MFIs. In addition, a lack of training and entrepreneurship skills prevents many entrepreneurs from accessing loans that could have a meaningful impact on their businesses.

3.5.1.4. Lack of Training Institutions Offering Specialised Courses in Microfinance

Currently, Lilongwe University of Agriculture and Natural Resources (LUANAR) is the only academic institution that has introduced a programme in microfinance. Furthermore, lower-level tertiary institutions such as technical colleges only offer microfinance courses as add-on components to the mainstream courses.

The review of FSDS II revealed persistent challenges and opportunities which necessitate that further reforms and interventions be undertaken in FSDS III to achieve the following targeted outcome:

3.5.2. Targeted Outcomes

A broadened and deepened microfinance sector to meet the varying needs of low-income Malawians by 2028.

The following actions will be undertaken:

3.5.2.1. Reducing Government Involvement in the Microfinance Sector

The Government will implement a phased-out approach in its participation in the credit market of microfinance. Furthermore, the Government will strive to encourage the private sector to participate and adopt best practices. Government will also continue to pursue a market-oriented financial and credit environment that creates incentives for private sector participation in microfinance; avoid costly, unsustainable, and distorting credit subsidies and credit guarantee schemes; and make a distinction between credit and welfare policy.

3.5.2.2. Setting up of an Apex Fund for MSME and Ordinary Malawians

Government will continue to implement a number of projects signifying the importance of a vehicle through which funds for MSMEs could be channelled. It will also put in place an exit strategy that will see its involvement in providing financing reducing gradually towards the establishment of the Apex fund for wholesale lending to microfinance.

3.5.2.3. Regulating of MFIs on the Pricing of their Products And Services.

The Government through the RBM will continue to regulate microfinance institutions on the pricing of their products to be in line with the market trends.

3.5.2.4. Intensifying Financial Literacy

The Government will continue to promote initiatives aimed at bringing awareness and education on microfinance products and services to the general population. Although the Government and RBM will take a lead in these initiatives, the private sector will be allowed to be the drivers of financial literacy as much as possible.

3.5.2.5. Promoting of Specialised Training in Microfinance

The Government will provide an environment that encourages the establishment of microfinance training institutions driven by the private sector. In addition, the Government will continue to encourage the existing academic and research institutions and technical colleges to develop and offer specialised programmes in microfinance in collaboration with MFI players.

3.5.2.6. Developing Supportive Infrastructure

The Government will continue putting in place the right microfinance infrastructure that will promote the development of the microfinance sector.

The Government and RBM will ensure that all MFIs get connected through the Microfinance Hub. The Government will also continue to undertake other major infrastructure developments such as roads across the country to link the rural communities with suppliers of microfinance and other sources of finance.

3.6. Pension Sector

The pension sector is regulated under the Pension Act 2022. All existing pension entities which include pension funds, administrators, pension services companies, operators of umbrella funds, umbrella funds, pension brokers, custodians, investment managers and trustees have been licensed or registered by the Registrar of Financial Institutions. During the second half of 2020, the pension sector showed signs of recovery from the perceived impact of the Covid-19 pandemic and a bearish stock market in 2019. There was substantial growth in total assets driven by traditional inflows in the form of investment income and pension contributions which prevailed over pension outlays.

Both investment performance and pension contributions increased. Notwithstanding these improvements, there was a significant increase in pension contribution arrears during the review period.

"Both investment performance and pension contributions increased."

3.6.1. Current Situation, Assessment and Challenges

Government made strides by implementing the Public Service Pension Trust Fund in 2017. As of 31 December 2022, the actual pension membership for the public service pension fund was 118,000. The pension sector has grown steadily since 2017 from an asset base of K532.2 billion in December 2017 to K1,700.0 trillion in December 2022. Over the years, the asset growth has been continuously sustained by growth in investment returns and pension contributions following steady growth in pension membership.

The sector lacks viable, long-term instruments for the investments of the growing reserves especially from the pension funds. As a result, fund managers are increasingly forced to invest in unlisted, inherently risky instruments.

"Government made strides by implementing the Public Service Pension Trust Fund in 2017."

The review of FSDS II revealed further challenges and opportunities which necessitate that further reforms and interventions be undertaken in FSDS III to achieve the following targeted outcomes:

3.6.2. Targeted Outcomes

Increased coverage of contributory pension to 50 percent of the workforce by 2028. Increased long-term investment avenues for growing reserves especially from the pension funds.

To achieve the above outcome, the following actions will be undertaken:

3.6.2.1. Reforming the Government Pension Scheme

The Government will continue to make substantial parametric reforms in the Public Service Pension Scheme to sustain fiscal obligations.

The current defined benefit public service pension scheme will gradually be replaced with a defined contribution scheme but bearing in mind the persistent fiscal and capital market constraints.

3.6.2.2. Accommodating Pension Coverage in the Informal Sector

The current regulation covers only the formal sector. Therefore, the Government will review the regulatory framework to allow for the provision of voluntary personal pension to cover the informal sector which has the largest workforce. The government will among other things consider introducing incentives and measures that will encourage individuals to have personal pension plans in clusters or associations.

3.6.2.3. Issuing Long-Term Debt Instruments by Government

Government will issue long-term debt instruments such as infrastructure bonds to provide an avenue for pension fund investments and to promote infrastructure development in the country.

4. Creating an Enabling Policy, Legal and Regulatory Environment

A conducive regulatory environment is one that applies appropriate regulations, encourages innovations and provides for effective risk management in the financial sector.

4.1. Introduction

The success of financial market operations is dependent on the foundation of policies, laws and the regulatory environment which the government creates. It is the legal infrastructure that plays a vital role in the operations of the financial sector.

"The success of financial market operations is dependent on the foundation of policies, laws and regulatory environment."

4.2. Current Situation, Assessment and Challenges

The Government has made significant progress in developing policies, legal and regulatory frameworks to support the development of the Malawi financial sector. At the macro level, Malawi has taken the necessary steps to create an enabling policy, strategic and regulatory environment for the development of the financial sector. Several significant policies and strategic frameworks have been put in place in the past decade, including a draft Micro Finance Policy; the Financial Sector Development Strategies (FSDS) I and II (2010-2015 and 2016 -2021) and the National Strategies for Financial Inclusion (NSFI) I and II (2010-2014 and (2015–2020).

"Regulations contribute to necessary discipline in the market place."

In 2010, the Malawi Government launched the FSDS I, a rolling five-year strategy with the overarching goal of providing strategic direction for the development of the financial sector. The strategy, which expired in 2015, was succeeded by another one, the FSDS II, with the objective of building on the success of FSDS I and enabling the financial sector to transform and make a more meaningful contribution to the economic objectives of poverty reduction and wealth creation.

On the regulatory side, relevant essential laws and regulations have been amended and enacted for the efficient and effective operation of the sector, and these include the Payments Systems Act (2016), Deposit Insurance Act (2022), Pension Act (2022), Financial Crimes Amendment Act (2022), RBM Act (2018), Agent Banking Regulations (2018) and E-money Regulations (2019), Credit Reference Bureau, Interoperability Directive, Directive on Domestic Systemically Important Banks, and various Capital Markets Directives, among other regulations.

Cognizant of the critical role of the legal and regulatory environment in the financial sector, further reforms and interventions will be undertaken to achieve the following targeted outcome:

4.3. Targeted Outcome

A strengthened legal and regulatory framework that supports the development, safety and soundness of the financial sector in Malawi.

The Government will continue to strengthen the existing legal and regulatory framework that supports the financial sector's development, safety, and soundness. Among others, the Government will undertake the following:

4.3.1. Operationalising a Crisis Management Plan

The Government will operationalise a Crisis Management Plan that has been developed by RBM to provide better coordination between the RBM and MoF in case of systemic failure of an essential financial institution in the country. The Crisis Management Plan will be anchored by a robust framework for supervising financial institutions on a consolidated basis.

4.3.2. Operationalising Deposit Insurance Scheme

Following the approval of the Deposit Insurance Bill by an Act of Parliament, the Government will fast-track the setting-up of a deposit insurance scheme that will be managed by an independent body. Its mandate will be to ensure funds of clients of insured institutions and to reimburse insured amounts to such clients in the event of a failure of an insured institution.

Apart from ensuring funds, the Corporation will also undertake the resolution of troubled institutions and act as a statutory manager or liquidator of such institutions upon being appointed to do so by the Registrar of Financial Institutions. The establishment of the Corporation will contribute to the Registrar's objective of promoting the stability of the financial system and enhancing financial consumer protection.

4.3.3. Developing Sound Macro-Prudential Supervision

The RBM will continue to develop and adopt a sound macro-prudential supervisory framework to provide the tools for early warning and identification of systemic problems in the financial sector.

The framework will be supported by robust stress testing tools to inform supervisory policy. In addition, the risk-based supervision approach will be rolled out to other non-bank financial institutions.

4.3.4. Strengthening the Legal Framework for Resolution of Financial Institutions and Developing New Laws and Regulations.

The Government shall continue to amend the laws in the financial sector in accordance with the requirements of the environment, and the Regulator shall be given adequate powers to enforce supervisory actions with minimal legal obstructions from shareholders. In particular, the amendment to the existing laws will respond to financial technologies and the gains and threats from the innovations.

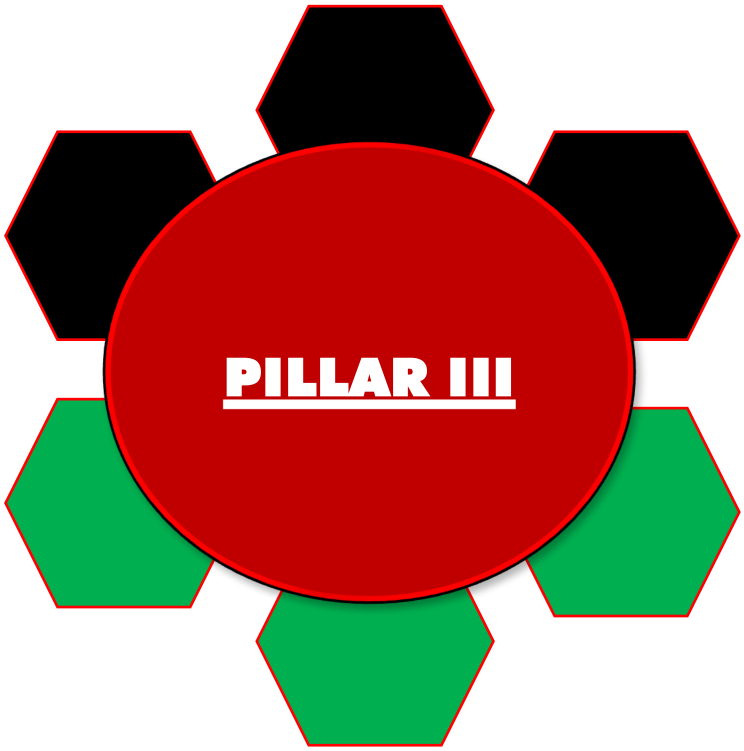
Some of the Acts being amended include the Banking Act, the Financial Services Act, the Insurance Act, the Securities Act, the Microfinance Act and the Financial Cooperatives Act. New Acts to be introduced include the Financial Ombudsman Bill, the Financial Consumer Protection Bill, Medical Aid Schemes Bill and the Mortgage Finance Bill. There will also be an ongoing review of existing regulations, directives and guidelines as well as introduction of new ones.

Enforcing of International Standards and Best Practices To ensure the quality of services and soundness of the financial sector, the RBM will continue to regulate the sector in line with the international standards and best practices. Appropriate training in international standards and best practices in relation to regulating the sector will be provided.

4.3.5. Building Capacity of Staff

The Government and RBM will continuously build the capacity and skills of its members of staff and other players in the financial sector in matters of policy, regulation and supervision of the financial services industry. The regulator will keep pace with rapid market developments, complex products and services as the market continues to evolve and become more sophisticated. Capacity building will include, among other things, placement of appropriate personnel in vacant positions in the key Ministries (Ministry of Finance, Ministry of Justice and Constitutional Affairs). The focus will be on increasing efficiency and building skills/expertise. This will enable the Ministries to provide strategic financial policy direction. For instance, this will ensure timely, smooth and sound processing of laws and subsidiary laws by the Ministry of Justice and Constitutional Affairs. For RBM, one of the areas that require capacity building include the professional development of bank's supervisors in the mortgage finance, consolidated supervision, macro-prudential supervision, IT examination and adoption and supervision of virtual assets and virtual assets service providers.

Capacity building will also involve continuous engagement/interaction with commercial banks and other stakeholders on new regulations, directives and policies.



5. Digital Finance (DF)

The country's economy, like most of the economies worldwide, is slowly and continuously shifting from its heavy reliance on cash-based transactions to an increasing usage of digital platforms as evidenced by the emergence and growing contribution of FinTech and other digital systems on the market.

Digital finance goes beyond digital payments, Digital finance means financial services or products that can be electronically delivered through mobile phones, personal computers, the internet or cards linked to reliable digital systems such as payment systems.

These developments and opportunities need to be harnessed and enhanced in order for Malawians (as individuals and businesses) to enjoy the enormous benefits associated with digital economy.

5.1. Introduction

The government of Malawi recognises the importance of financial digitisation. For instance, increasing access, usage and quality of digital financial services has been one of the objectives in the National Strategy for Financial Inclusion (NSFI) I and II.

"The government recognizes the enormous benefits of digitisation in an economy."

In emphasising its support of financial digitization, the Government developed the Digitization of Government Payments Roadmap for 2017 to 2021. In July 2019, the Government issued E-Money regulations through the RBM to provide finer regulations on the provision of mobile money services in line with the Payment Systems Act. However, digital finance goes beyond digital payments, Digital finance means financial services or products that can be electronically delivered through mobile phones, personal computers, the internet or cards linked to reliable digital systems such as payment systems. Examples of some digital financial products and services include crypto currency, e-currency, etc., banks accounts, insurance, remittance and payment services, financial advisory services etc.

In order to provide excellent service and increase usage and sustainability, digital financial services and products require an efficient and regulated digital environment and ecosystem. Basically, this entails having the following foundational conditions met: -

1. Conducive legal and regulatory frameworks.
2. Enabling Financial and digital infrastructures.
3. Ancillary Government support systems.

5.1.1. Some Supply and Demand Risks Associated with the Digital Financial Services.

5.1.1.1. Data Governance and Privacy.

Consumer data are collected, stored, processed, and exchanged as part of the delivery of digital financial services and products. These processes use a variety of ecosystems and players at various stages, all of which are vulnerable to attacks, unauthorised data exposure/ disclosure, and other risks.

5.1.1.2. Cyber Security and Operational Risks.

Data infrastructures used by providers of digital financial services are prone to cyber-attacks and system failures. Furthermore, DFSs over-rely on third-party service providers, putting them at risk of attacks and compromise if data governance issues are not addressed urgently. They are also always associated with financial instabilities and business disruptions.

5.1.1.3. Financial Integrity

Since DFSs require remote and fast transactions, some users may circumvent or evade controls and carry out illicit financial transactions. These users mostly take advantage of implementation gaps and lags in the controls.

5.1.1.4. Regulatory Arbitrage.

When some DFSs are offered by new unregulated entities that fall between cross-sectoral regulatory gaps and outside existing legal frameworks, there are always additional risks building up.

5.1.1.5. Macro-Financial Risks.

The cyber and operational risks, if left unregulated, may negatively affect not only individual institutions but may also have disruptive spill over effects on the macro-level economy. Some impacts from these cyber and operational risks have pro-cyclical and systemic effects on the economy at a macro level.

5.1.1.6. Fair Competition

Due to economies of scale, reputation, and capital, there is the potential for large DFSs platforms and big-techs to reduce overall competition and increase the concentration of risks in the financial sector.

5.2. Current Situation, Assessment and Challenges

In Malawi, there are large segments of the population that are both underserved and unserved with financial services and products. As of 2022, about 74% of the adult population had access to formal financial and banking services.

"The country is now experiencing proliferations of the Digital Financial Services and Products."

The country is now experiencing a proliferation of the Digital Financial Services (DFSs). This needs to be harnessed in order for the nation to reap the enormous benefits that come with the DFSs. Therefore, the digital financial environment needs to be conducive enough in order to ensure integrity, sufficiency, transparency, stability, competition and efficiency in the supply and usage of DFSs to complement the cash related transactions and services.

The review of FSDS II has revealed that the digital financial aspect is a cross-cutting issue. The DFS is envisaged to contribute immensely to the efficient and sufficient growth of the economy. The review further reveals weaknesses, challenges, gaps and opportunities in relation to digitisation, which would necessitate further reforms and interventions to be undertaken (in FSDS III) in order for the financial sector to be more conducive and vibrant.

5.3. Target Outcomes

Conducive legal and regulatory environment created; digital infrastructures and ancillary systems developed. Over 70 % of eligible Malawians accessing formal digital financial services and products including credit, insurance, etc. by 2028

In order to achieve the above targeted outcome, the following strategies will be implemented: -

5.3.1. Developing Ancillary and Related Technologies.

The government is knowledgeable of the importance of ancillary systems and their relationships to financial technologies (FinTech). The ancillary systems are mostly government domain-based. They are critical to the development of DFSs. Government will, among others, enhance the Digital Identification System (DIS) which enables efficient on-boarding of customers by financial institutions in order for them to comply with regulations such as Anti-Money Laundering, e-Know Your Customer (eKYC), and many others.

5.3.2. Opening Application Programming Interface (API) Systems

The Government will develop the API systems that will allow DFS providers to have access to both public and private data systems. The Government will put in place robust security measures in order to maintain the safety and reliability of the data. This is also necessary for transaction speed improvement and cost minimization.

5.3.3. Developing Financial and Digital Infrastructure

The DFSs depend on financial technologies (FinTech), which form an ecosystem through which the services and products are transmitted to the users. Since the Malawi economy is in transition from cash to digital base, the Government shall put in place relevant infrastructures to support both modes.

These infrastructural developments will be enhanced as part of the creation of the enabling environment for the digital economy.

A well-functioning Gateway Payment system is fundamental in the digital economy. It facilitates interoperability among the DFSs providers and mitigates common risks. At the same time, the system ensures convenience to the recipients (customers) of the DFSs as interoperability among the payment systems is enhanced and becomes efficient.

Interoperability ensures the sharing of payment channels such as Automated Teller Machines (ATM)s, Point of Sales (POSs) E-cards and other platforms. So far, the following have been some of the infrastructural payment systems: -

Malawi switch centre, Automated Transfer System (ATS), Real-Time Gross Settlement System (RTGS), Central Securities Depository, National Switch Ltd, Visa National Net

Settlement System, Cross-border Payment systems etc.

The market becomes efficient when the digital payment systems share common rules, standards, and procedures. Therefore, the Government will ensure seamless interoperability among all payment systems so that the customers are provided efficient financial services and products.

The Government of Malawi will develop one main Gateway Payment System (GPS) which will anchor all other payment systems. The benefits of GPS are enormous, including tracking of institutional real-time tax collections and non-tax payments.

5.3.4. Formulating Conducive Legal and Regulatory Frameworks

For the digital financial services ecosystem to be conducive, all necessary enabling legislation, regulations and policies, ancillary systems and financial infrastructures will be developed and put in place. The legislation, regulations and policies will allow and facilitate entry by both banks and non-banks institutions into the market, offering adequate and efficient DFSs to the customers.

For this to be achieved, the government will employ different approaches, including the following:

- Encouraging partnerships between non-banks and banks or other licensed entities that offer the DFSs.
- Granting some specialised licences for digital financial service provisions.
- Granting licences to offer financial services and products under existing non-financial business.
- Regulating agents conduct and liability to be regulated (to be the responsibility of the parent company/service provider) Legislations, policies and directives will be put in place in order to level the field in terms of: -
    - Access to critical telecom and other data platforms in a fair and transparent manner
    - Encouraging the establishment of critical financial infrastructures
    - Interoperability and connectivity enhancement for efficient FSPs delivery (increased speed, coverage and utility cost minimizations.

5.3.5. Protecting Consumers

A wide range of legislation, policies and strategies will be put in place to address consumer protection risks. For instance, there is a need for policies or legislation that address the issue of clear and timely disclosure of standardised total-cost metrics for mobile money products and remittances before transactions are undertaken.

For some products, there is a need for standardised explicit warnings about the product's risks and responsibilities in order to mitigate the risks of aggressive marketing. Government will put in place good practices such as liability for agent behaviour and security of funds especially in the e-money accounts.

5.3.6. Laws and Regulations on Data Protection And Privacy

The customers' data shall be protected, and obligations of the institutions that collect, store and analyse the customers' data shall be explicitly spelt out.

These require the necessary legislations and policies to be in place. Government will review financial sector related privacy legislation and also come up with new legislation in order to protect both the consumers and digital financial services as well as products' providers.

5.3.7. Fostering Demand for DFSs and Confidence Amongst Consumers in DFSs

Government shall put in place deliberate policies that contribute to the creation of demand for the DFSs. The government believes that the deliberate policies will be complemented with incentivizing the switching away from cash to digital transactions. These policies include digitization of private sector wage payments and all other business-related payments.

Incentives for financial digitization will also include the government using subsidies and tax inducements to encourage both businesses and consumers to adopt DFS and simplify requirements for firm registration. The government will develop deliberate policies and incentives for digitization.

5.3.8. Legislating Virtual Assets (VAs) and Virtual Assets Service Providers

The government is aware of the existence of virtual assets, such as crypto-currency, which are part of digital financial products. These products have been adopted in other countries. The government will come up with its position on the adoption of VAs. Currently, there is no legal provision on the Virtual Assets (VAs) and Virtual Assets Service Providers (VASPs).

Government will make a policy decision on Virtual Assets such as Crypto-currency. Currently, the government will continue to conduct studies and make consultations on virtual Assets with various stakeholders.

5.3.9. Amending the Companies Act

Despite the existence of AML/CFT policy addressing the issue of Business Beneficial Ownership, the Government will amend the Companies Act so that it sufficiently covers the beneficial ownership aspect of the registered business companies and its related information. The amendment should cover among other things issues such as the provision of the requirement of the information of the Beneficial Ownership of legal persons, accessibility of that information, and keeping that information up-to-date.

5.3.10. Enhancing Credit Infrastructure

Well-developed credit infrastructures are very instrumental in the digital economy. They often reduce transaction costs and improve the speed of service delivery.

Since the country already has credit reference bureau legislation, it will be essential to incorporate data from digital sources through various analytical tools such as APIs. Credit eco-systems improve the efficiency of digital credit provision, thus lowering the cost of lending, improving the speed of service delivery and enabling responsible lending.

The credit ecosystems will be put in place by the stakeholders in order to increase the scope and coverage of credit provision to the masses in the country.

Government will develop Secured Transaction Registries (STR) to enable the development of digital solutions to automate the lending cycle and collateral monitoring for Asset-Based Lending (ABL). Government will encourage the use of secured digital platforms and efficient use of digitised financial instruments, such as invoices, warehouse receipts, credit card receivables, and electronic payments.

5.3.11. Supporting Digital Connectivity Infrastructure

Digital Financial Ecosystems (infrastructures) work simultaneously only in the presence of connectivity. Connectivity is critical for the functioning of the digital ecosystems and the DFSs providers. The Malawi Communication and Regulatory Authority (MACRA) will ensure that the country has both sufficient and efficient network coverage.

Power supply is vital since digital ecosystems require connectivity which is also dependent on continuous power supply. The government will ensure that there is sufficient electricity supply. There are several initiatives that are currently underway, such as the use of solar power supply sources, interconnection of power sources from outside the country and the hydropower supply the country has been using since 1965.

5.3.12. Centralising Ancillary Government Support Systems (Government Data Platforms, Digital Identification (ID), and Government Financial Management Systems)

The DFS providers need to have efficient access to government data on most of their customers. The data are usually for verification of their customers for customer due diligence and other validation and

verifications of information on their customers and assets. The data such as assets, land records, demographic information, income and tax records, education records and employment history, are kept by different public institutions, such as the National Registration Bureau, Immigration Department, Credit Reference Bureau etc. Availability of these data in an efficient manner using automated interfaced systems enables DFSs providers to reduce their costs and improve customers' convenience.

The government will connect its data systems and platforms to one central system which will be connected to the Gateway Payment System. Digital ID system is very crucial to the effectiveness of most fintech models. National or industry-wide ID data infrastructures are ideal for most fintech models and less costly than a single institutional-based data infrastructure. This enables verification to be done remotely even at an agent location hence cost reduction and is also time efficient. The Government ensures that various data systems connected to the Gateway Payment System are synchronised with Digital Identification or Electronic KYC.

The way and level of automation of the government's financial planning and management systems are developed is very crucial for digital finance management in any country. If the system has some gaps, it means there would be perpetual inefficiencies in digital financial transactions, hence rendering the cash-based system superior. The Government of Malawi will continue in its effort to digitise its payment systems and enhance the government financial management systems so that the two are in sync. In order to reduce the gaps, the government will acquire the most efficient or upgraded financial systems in synchronisation with the real-time.

5.4. Payment Systems and Mobile Banking

There has generally been an increase in both uptake and usage of electronic payments in the country. For instance, mobile money subscription has more than doubled over the years, reaching about 12.2 million by 2022, and activity rates for both subscribers and agents have been impressive, although there is still more room for improvement.

The distribution of mobile money agents has also increased tremendously, thereby increasing access points for financial services in the country. Consequently, there has been a significant increase in usage as both the volume and value of transactions have increased over the years.

5.4.1. Current Situation, Assessment and Challenges

In pursuit of modernising its payment systems, Malawi proposed to increase the volume and value of digital payments to 30.0 percent and to 65 percent, respectively, by 2021. Overall, the volume and value of digital payments have surpassed the expected target increases; for instance, as of December 2022, percentage increase in volumes was at 62.1 percent to K772.7million, and consequently, the increase in value increased by 77.5 percent to K101.6 trillion during the same period.

"There has been general increase in both uptake and usage of electronic payments in the country."

The national switch has integrated all the 8 commercial banks; the 2 mobile money service providers; and is currently working with MFI Hub, an aggregator of MFIs and SACCOs, to also integrate to the national switch.

Interoperability of card-based ATM and POS transactions has been achieved; interoperability of mobile money has also been achieved. However, despite these tremendous achievements, the payment system in Malawi remains predominantly cash-based.

The major challenges to the payments system and mobile banking include:

- Fraud targeting users of electronic payments. This may erode the confidence built over the years in terms of adoption and usage of electronic payments.
- Intermittent power supply. This affects the availability of the technology supporting the provision of electronic payments.
- Low financial literacy levels among the general public on the available payment products and services. This makes penetration slow and difficult.
- Financial constraints by service providers. This makes it difficult to reach out to all corners of the country with messages on the benefits of payment products and services.

Cost of DFS, especially mobile money. Emergent issues currently include regulation of new electronic payment technologies, including crypto-currencies. These are blockchain digital currencies that are not over seen by the Reserve Bank of Malawi. Even though these currencies are not formally regulated, the Reserve Bank closely monitors developments in this space and has issued public warnings on the issuance of the same. The Government will come up with a policy position after RBM conducts a study on its usage, risks, and implications on the Malawi financial sector.

"Payment system in Malawi is still predominantly cash based."

5.4.2. Targeted Outcomes

Reduce the overall use of cheques by 70 per cent and cash by 80 per cent, by 2028

5.4.3. Strategies to Achieve the Outcome

To achieve the above outcome, the following actions will be undertaken:

5.4.3.1. Increasing Public Awareness and Financial Literacy on Electronic Payments

Since 2017, the RBM has been carrying out awareness activities under the National Taskforce on Electronic Payments (NTEP), a grouping of industry stakeholders. The Taskforce is headed by the RBM and has been carrying out various stakeholder awareness engagements such as roadshows targeting the general public (in collaboration with the Ministry of Civic Education), flighted billboards in the major cities of the country, radio and TV jingles, regional meetings with corporate institutions, radio interviews with community radios across the country and distribution of promotional materials (calendars and t/shirts) bearing electronic payment messages. All these activities are aimed at creating awareness of the different electronic payment products and services and their benefits. These activities have been highly successful, as reflected by the increased volume and value of digital payments during the review period.

The overall success notwithstanding, the penetration of the same in the rural areas where the majority live, is dismal. The low literacy levels by the general public on the available payment products and services hamper the adoption of initiatives that would benefit the majority. The implementing agencies face financial constraints to reach out to all corners of the country with messages on the benefits of payment products and services. Government will come up with deliberate policies to increase public awareness, especially in the rural areas.

Increasing Affordability, Accessibility and Public Confidence in Electronic Payments. There has been a significant improvement in network connectivity over the years. Network connectivity improvements might have been the major driver of increased usage (volume and value) of digital financial services over the review period, whilst affordability had no bearing on increased usage as charges for services kept going up. Network connectivity is key to the provision of digital financial services and therefore, the improvement in connectivity has helped to increase the adoption as well as usage of electronic payments in the country.

Despite improvements in the network connectivity and interoperability of card-based ATM, POS, and mobile money transactions, interoperability will be extended between all commercial banks and all mobile money service providers. There is also a need to integrate all Government payment systems into the National Switch.

Much as there have been infrastructural improvements in national payments, affordability of electronic payment services is still a problem as charges for the services keep going up. The Government and service providers will find ways to bring the costs down for consumers.

One of the problems with the provision of electronic payments is intermittent power supply which affects the availability of the technology supporting the provision of electronic payments not only in rural areas but in urban areas too. Government will enhance the capacity of power supply entities in the country to ensure a steady supply of power.

5.4.3.2. Protecting Consumers

The RBM has continuously been engaging service providers, through moral suasion, on fair pricing to ensure the products and services are affordable even for the common man in the rural areas.

There are regulations in place that oblige the service providers to, among others, disclose the charges or put posters highlighting the charges in all their outlets so that customers are aware before they complete the transactions.

The RBM facilitated the creation of complaints handling units within the service providers' premises to handle any complaints that customers may have. In addition, the RBM has a complaint handling unit to assist customers who are not satisfied with the way service providers have handled their complaints.

All these arrangements notwithstanding, there are rampant fraudulent practices targeting users of electronic payments, which may erode the confidence built over the years in terms of adoption and usage of electronic payments. The Government will come up with ways of protecting consumers and the general public from financial abuse and fraudulent activities prevailing in electronic payments.

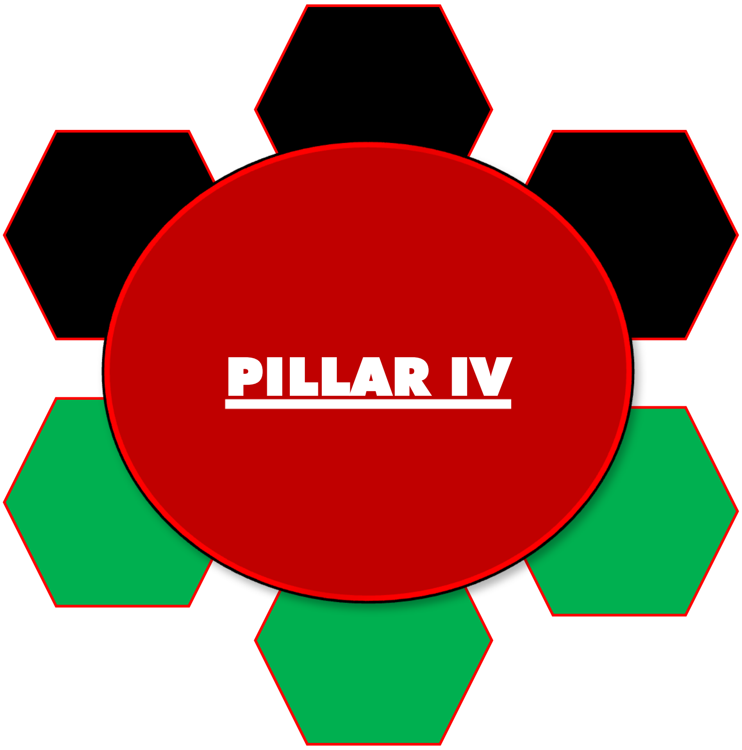
5.4.3.3. Improving Regulatory Framework and Supervisory Oversight for Electronic Payments.

The Government facilitated the enactment of the Payment Systems Act in 2016, which provides a legal framework for licensing and provision of electronic payments in the country. Under the Payment Systems Act, other auxiliary Regulations have been implemented, such as the Interoperability Directive 2017, Guidelines on Application and Authorization of payment system providers (2017) as well as the E-money Regulations (2019).

There is a good working relationship between the Government and the RBM in formulating policy and regulatory instruments that guide the provision of electronic payment in the country. RBM also works hand in hand with the Financial Intelligence Authority in licensing and overseeing service providers with respect to KYC and AML/CFT issues, being an agency mandated with the enforcement of the Financial Crimes Act.

RBM has invested a lot in building capacity within its Payments System Department to oversee electronic payments in the country. However, there are still gaps that need to be filled with more capacity building initiatives in view of the rapidly evolving nature of the payments systems.

One of the emergent issues currently is the regulation of new electronic payment technologies, including crypto-currencies. RBM will closely monitor developments in blockchain digital currencies and Cryptocurrency issues and will continue to issue public warnings on the issuance of the same.



6. Promoting Competition in the Financial Sector

Competition works in the interest of the consumers. It results in innovation, bringing new products and services, meeting customer needs better and delivering them in convenient ways and at lower costs.

6.1. Introduction

The key players in the financial sector are the banking subsector, the insurance sub-sector and the microfinance sub-sector. As at June 2023, the banking sub-sector had 9 institutions comprising 8 commercial banks and 1 discount house. The insurance sub-sector had stagnated with 8 general insurers, 6 life insurers, 21 insurance brokers and 1 reinsurance company.

"Competition works in the interest of both the consumers and services providers."

With regard to the microfinance sub-sector, it had 71 micro-credit agencies, 13 non-deposit taking MFIs, 5 deposit-taking MFI, and 39 financial cooperatives. Two (2) mobile network operators, offering electronic money services across the country thereby increasing financial inclusion.

6.2. Current Situation, Assessment and Challenges

The number of Financial Institutions in the country is still small and their outlets are highly concentrated in the cities. Despite this high concentration of Financial Institutions, especially commercial banks, there are uncompetitive behaviours. To mitigate against these behaviours, the Government, through its agencies, is regulating the market. Despite these efforts and the emergence of digital financial services and products, the incidences of uncompetitive behaviours are increasing on the market.

"The number of Financial Institutions in the country is still small and are highly concentrated in the cities."

6.3. Targeted Outcome

A thriving financial sector that promotes competition and innovation by 2028.

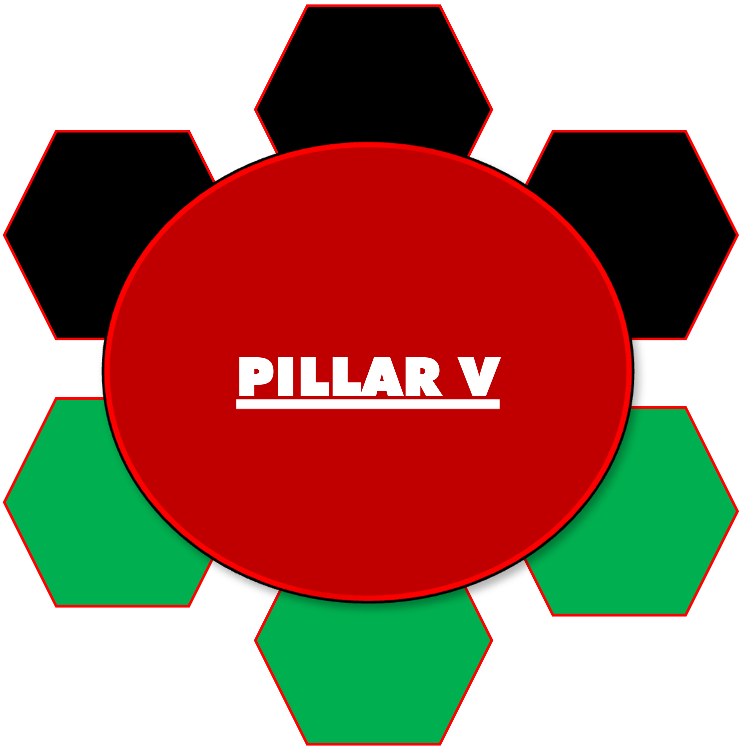
In order to discourage uncompetitive behaviour among financial institutions, RBM and Competition and the Fair-Trading Commission (CFTC) will continue to provide checks on uncompetitive behaviour in the financial sector to make sure that there is fair competition on the financial market in the country

6.3.1. Innovative Products and Entry of New Financial Institutions

The Government will continue creating a conducive environment that encourages competition among existing institutions through product diversification and innovation. The Government will also continue encouraging the entry of new institutions with different business models and higher risk appetites.

6.3.2. Increasing Investment

The Government will continue working with players in the subsectors, especially those faced with capital constraints, to identify possible areas of cooperation, including Public Private Partnerships (PPPs), among others. Respective subsector players will also be encouraged to look beyond national borders for capital and/or partnerships in order to expand the scope and size of their businesses.



7. Financial Inclusion

Financial inclusion is about ensuring that individual and businesses have access to and can effectively use financial products and services (payments, savings, credit and insurance, etc) that meet their need and are delivered in responsible and sustainable way.

Access to financial services has many dimensions including; easy physical access to financial infrastructure, appropriateness and affordability of available products and services, and knowledge of what is available.

7.1. Introduction

The Government believes that inclusive finance is essential to achieve the objectives of its development strategies. It is a key instrument for increasing agricultural productivity and production, starting or expanding micro and small enterprises, creating employment, increasing household income and smoothing consumption, among others. Access to financial products and services helps people manage their financial affairs efficiently, run businesses profitably and thus leading to the generation of employment, and reduction of poverty and inequality. Inclusive finance is about access to a range of quality financial products and services such as credit, savings, insurance, payment systems, and remittances that are appropriate, affordable, conveniently accessible, and delivered with dignity to low-income and vulnerable people.

These products and services ought to be provided by formal financial sector institutions like, banks, micro-finance banks, deposit-taking microfinance institutions, non-deposit-taking MFIs, financial cooperatives, and Non-Governmental Organisations (NGOs). In order to enhance financial inclusion, the government developed a National Strategy for Financial

Inclusion (NSFI) in 2010 which was reviewed in 2016. The strategy has been implemented during FSDS I and II and has shown that access to formal financial services and products has been improving in the country. Malawi 2014 Consumer FinScope survey report indicates that access to formal financial services and products had increased to about 34 % while NSFI 2019 progress report indicates further improvement to about 45%. This, therefore, calls for the continuation of the implementation of the strategy in the FSDS III period.

7.2. Current Situation, Assessment and Challenges

A significant number of people in the country do not have access to formal financial products and services. The 2023 FinScope Consumer survey report indicates that access to formal financial services and products is at 74% of the adult population. This means that over half of the population is still excluded from formal financial services and products. The report further reveals that if informal financial services and products are considered, the financial exclusivity stands at 8%. Similarly, the proportion of women with access to formal financial services stands at about 69% compared with 72% males despite females constituting about 52% of the population. Many women access financial services and products through the Village Savings and Loan (VSL). The Government's main interest is to have high-quality standards of the financial services and products which is still a challenge to be met by the VSLs.

If formal financial services are extended to the excluded, deposits in the financial system would increase substantially as would the loan portfolios. By leaving these groups out, the country is missing out on resultant beneficial impacts. Key challenges for expanding inclusive finance in Malawi include the lack of loanable funds for on-lending by MFIs; limited institutional capacity of inclusive finance providers; absence of demand-driven and client-centred financial products; limited use of ICT to improve Management Information Systems (MSIs) and expand front-office technologies; weak Meso-level support; lack of financial literacy interventions and limited non-financial support to build the capacity of clients.

"Financial exclusion level in Malawi remains high."

Financial exclusion does not affect individuals but also affects small and medium enterprises that equally face serious access problems. The predicaments faced by the SMEs are twofold: they are considered to be too risky for lending by the commercial banks because of their perceived inability to repay the money borrowed, and too large for lending by micro-lenders, in the sense that the amount required often exceeds their credit limits.

The challenges SMEs face include, but are not limited to, high transaction and/or information costs; limited management capacity of SMEs, lack of appropriate collateral, oligopolistic bank market structure that inhibits innovation due to limited competitive pressure, and land title/tenure system that does not provide a title to assets such as agricultural land and houses in rural areas which makes it impossible for such assets to be used as collateral.

In view of the weaknesses identified above, reforms are needed so that the ideal situation as suggested by the following outcome is achieved.

7.3. Targeted Outcome

Over 95 percent of Malawians accessing financial services with 80 percent of them accessing formal financial services by 2028.

To achieve the vision on financial inclusion, the National Strategy for Financial Inclusion lists specific interventions and actions that will be taken at three levels namely, the Government level, the financial institution level, and the client level. Listed below are selected interventions that relate to initiatives in the financial sector.

7.3.1. Enabling Policies, Strategies, Legal and Regulatory Systems, and Infrastructure

Government will continue to develop enabling policies, strategies, legal and regulatory systems, and infrastructure that are conducive to achieving the objectives of financial inclusion. The Government will put in place policies that support provision of inclusive financial services particularly to rural areas through agent banking and mobile payment initiatives.

7.3.2. Supporting Interoperability of the Financial System

Government will continue supporting linkages between commercial banks, microfinance providers and mobile network operators (MNOs) that will enable rapid settlement of payments and money transfers.

7.3.3. Fully Operationalising the Collateral Registry System for Movable Assets

The Government will ensure that the Collateral Registry System for movable assets, which is now in place, will be fully operationalized such that both lenders and borrowers will be using it to increase access to credit for individuals, MSMEs, inter alia. Among other initiatives, the Government will undertake promotional campaigns to bring awareness about the system.

"The implementation of Collateral Registry system will enhance credit accessibility."

7.3.4. Developing appropriate Land Tenure System

The Government will continue developing the land tenure system that supports financial inclusion. It has now reviewed some land related legislations that makes it possible for the adjudicated pieces of land owned by rural masses as collateral security. This review also partially pertains to mortgages and collateral to make it easier for lending institutions to foreclose collateral of defaulters. Furthermore, this improves and streamlines the processing of titles to land.

7.3.5. Developing a National Land Physical Plan

The Government will put in place a national land physical plan. This will complement the implementation of the revised land tenure system in the country which in turn will require substantial financial resources and personnel. Donors will be approached to complement the government's effort in implementing this.

7.3.6. Applying Proportionate Regulation

Government will continue promoting financial inclusion through the application of risk-based Anti-Money-Laundering legislation. In particular, the Government will continue applying proportionate regulations based on income levels.

7.3.7. Hastening the Implementation of the National ID System

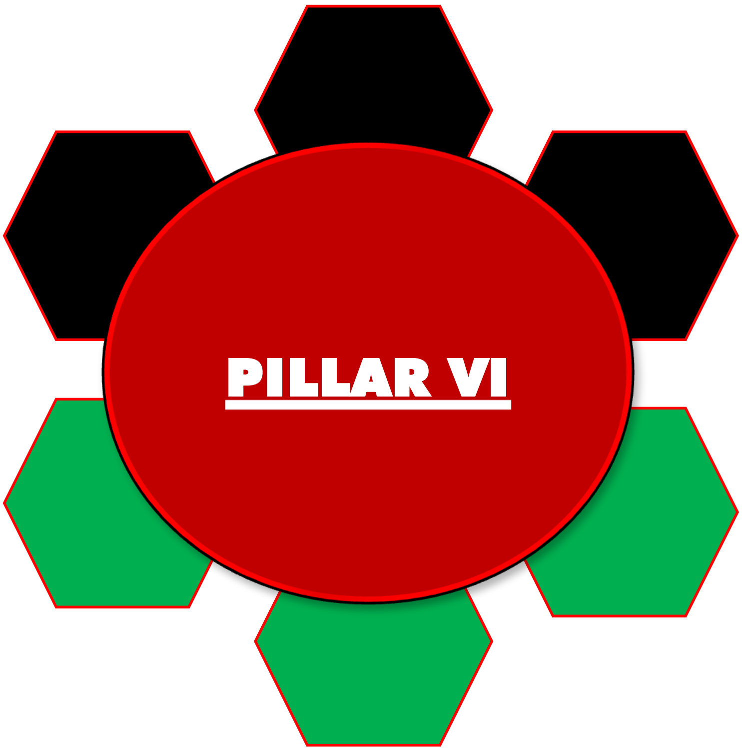
The Government recognizes the adverse effects of lack of national IDs on ease of doing business across all sectors of the economy. In this regard, the Government has successfully rolled out the Malawi National ID System, which covers individuals aged 16 years and above. The government will make sure that the ID system is extended to all eligible age groups so that it becomes comprehensive.

The government will make sure that the systems and databases keep running 365 days per year and are accessed without difficulties. For this to happen, there will be need for enough financial and skilful human resources allocated. Donors will continue to be engaged to support this.

The National ID System will be synchronised with other database systems, such as: Land Registry, Road Traffic, Banks, and Immigration, among others. Support Credit Reference Bureaus To facilitate access to credit for borrowers with a good credit history, the Government will put in place subsidiary legislation or regulations to enforce compliance by, among others, parastatals, state-owned enterprises and merchants to provide customer credit data to credit reference bureaus which will result in the building of comprehensive credit worthiness of individuals seeking credits (loans).

7.3.8. Develop and Implement a Registration Framework for Savings and Loan Groups

As a way of promoting formalisation of SLGs Government will develop and implement registration framework for SLGs.



8. Enhancing Participation of Financial Sector in Critical Growth Sectors

To enable Malawi's growth sectors to attract sufficient financial flows, there is need for joint commitment from all players and stakeholders in the market.

8.1. Introduction

Traditionally, the agriculture sector has been the mainstay of Malawi's economy and it is one of the key pillars for supporting growth in the MIP-1. Yet, lending to the sector by the financial institutions remains low. Similarly, although tourism, transport infrastructure, manufacturing, and energy and the mining sector have been increasing their contribution to the growth of the economy, they also have limited access to financial products and services. The largest component of the private sector credit is channelled to non-critical growth sectors namely: the Community, Social, and Personal Services; and Wholesale and retail trade sectors, which take-up a total of 54.2 percent of outstanding total private sector credit in 2022.

"Agriculture still remains the priority growth sector for Malawi"

8.2. Current Situation, Assessment and Challenges

Despite making huge contributions to the country's economy, the critical growth sectors still face financial resource allocation challenges for investment purposes. Additionally, most commercial banks and other financial lending institutions are still reluctant to provide financial loans to the critical sectors due to the different fragilities the sectors are experiencing, such as unpredictable weather patterns.

These growth sectors require different funding products due to their diverse nature and needs that can be provided by specialised financial institutions. Currently, there are only 3 institutions, namely MAIIC, NBM Development Bank and EDF, whose capacities remain inadequate in their present statuses.

"Growth sectors need sufficient financial support"

Currently, Malawi's domestic credit to the private sector expressed as a percentage of the country's GDP still remains the lowest in the Sub-Saharan African Region. The government is still pursuing ways of addressing this challenge.

The review of FSDS II revealed further weaknesses, challenges, gaps and opportunities which necessitate that further reforms and interventions be undertaken in FSDS III to achieve the following targeted outcome:

8.3. Targeted Outcomes

Domestic credit to private sector expressed as a percentage of GDP to increase from 8.2 percent to 15 percent with a significant amount of it going to the critical growth sectors including agriculture, tourism, transport infrastructure, manufacturing, energy and mining.

8.3.1. Increasing Support to Agriculture Sector

The Government is supporting several initiatives in the agricultural sector which aim at strengthening business relationships between farmers and intermediaries along the agricultural supply chains.

Among others, the Government will continue to support the insurance industry towards developing more farmer-friendly insurance products such as weather and crop insurance through the development of enabling infrastructure.

Greater use of insurance products by the agriculture sector will reduce the risk for direct lenders and this will in turn increase the flow of credit to agriculture. In addition, development partners will continue supporting the Government's efforts to develop early warning weather systems that will help monitor, warn, and measure the impact of climatic events.

All this will help in better management of risks and improving the comfort level of direct lenders. Furthermore, the directive to have all banks in the country increase lending to the agriculture sector will be revisited to prioritise the funding of the value chain of the sector. The challenge with regard to enforcing this directive was that in a liberalised economy, such protectionism is deemed voidable.

However, the Government will come up with incentives to encourage lending institutions.

8.3.2. Increasing the Number of Specialised Financial Institutions

The Government recognizes the need for specialised financial services for the critical sectors and, therefore, will support the establishment of additional specialised financial institutions in the country such as development banks to cater for the needs of these sectors. In addition, the Government will also promote the development of venture capital funds and private equity for start-up businesses.

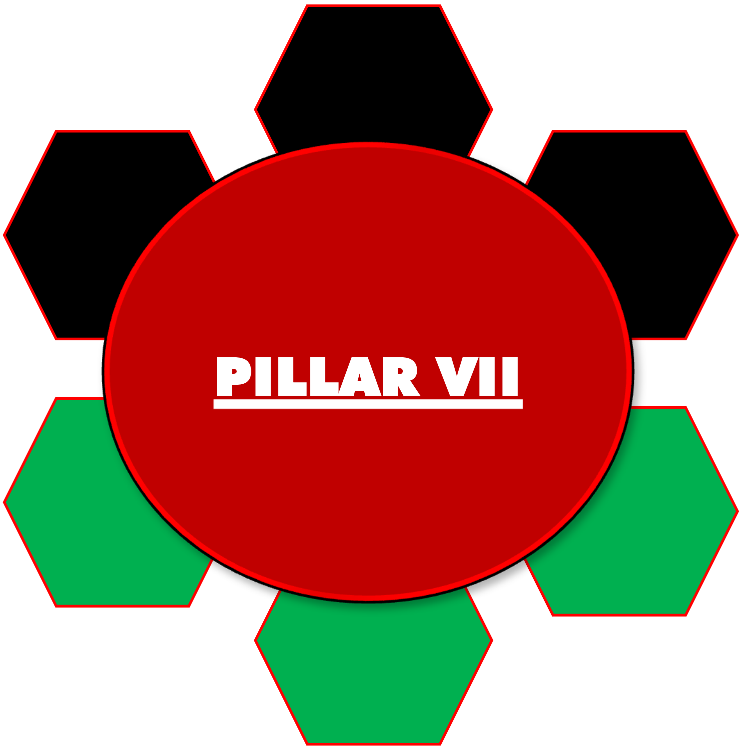
The Government will facilitate the collaboration of relevant stakeholders to develop reliable value chains in Agriculture and other critical sectors. In addition, the Government will ensure that the provision of financing towards these value chains is provided.

8.3.3. Transforming Some Financial Institutions

The Government will strengthen the two currently specialised financial institutions (MAIIC and EDF) to enable them to have specific mandates which they currently do not have, like lending to their non-traditional but critical growth sectors of the economy.

8.3.4. Encouraging More Public Private Partnerships

The Government recognizes that while some sectors are primarily driven by private sector funding, others primarily remain in the domain of public funding. Many countries have found that large amounts of private sector investment can be attracted into typical public domain sectors through PPPs. Therefore, the Government, through Public Private Partnership Commission (PPPC) and with support from the private sector, including the financial sector, will continue promoting the establishment of such PPPs in an attempt to bring rapid investment into these sectors that will trigger growth.



9. Financial Literacy and Consumer Protection

Use of financial services requires effective customer protection standards, practices, mechanisms, awareness, and knowledge of what is available that build trust and confidence among customers.

9.1. Introduction

Implicit and explicit shocks and disturbances continue to exert uncertainties on actual and potential financial users both globally and domestically. Hence, Governments world over are responding by advancing financial education and awareness as part of priorities in order to cushion the customers (financial service users) from the effects arising from the disturbances and shocks.

"Globally customers seek more information, guidance and financial protection in this dynamic sector."

The Government has continuous responsibilities to protect customers from deceptive and unfair practices when they get services from the financial sector. These responsibilities include protecting consumers from deceptive lending practices, non-disclosure of effective interest rates and prices, as well as violation of contractual obligations (terms) in financial contracts such as in insurance, debt collection and credit counselling or other debt assistance practices. Disclosure is necessary for maintaining consumer confidence in the financial sector by ensuring that consumers are given clear and accessible information about the terms and conditions of the financial services to be rendered to them. Customers also need to know where and how to complain in the event of any problem.

It is for these reasons that the Malawi Government wishes to ensure that necessary structures are put in place to create awareness, educate and protect customers from unfair practices in the financial sector.

9.2. Current Situation, Assessment and Challenges

According to the 2023 Household Financial Literacy and Capability Survey, financial literacy rate in Malawi stands at 47%. The Government of Malawi continues to embark on programs aimed at increasing financial literacy among its citizenry. Some examples of financial literacy program include incorporating of financial literacy in curriculum of various levels of education and conducting financial outreach mass programmes.

"The financial literacy rate in Malawi stands at 47%."

The FSDS II review report further reveals increased disputes and financial violations among the stakeholders, including customers. Some sections of the Malawi population which forms a financial customer base are left out of the financial literacy programs. For instance, the curriculum-based financial literacy programme has left out those in tertiary institutions, primary schools and some technical schools as well as adult literacy education programme run by the Ministry of Gender.

The outreach financial literacy education has become a single annual event, dubbed financial literacy week. Despite the efforts, the financial literacy education programs remain largely fragmented and market/ product related, and they continue featuring gaps, poor coordination and inefficient utilisation of resources at a national level.

In view of the above weaknesses and challenges, reforms are inevitable in order to achieve an ideal financial environment through the following targeted outcomes.

9.3. Targeted Outcomes

All appropriate financial consumer protection, legal and regulatory frameworks outlined in FSDS II including the current digital framework requirements shall be in place to ensure transparency and disclosure, as well as effective mechanisms for handling consumer complaints and redress. Increased national financial literacy rate to about 70% by 2028.

The following strategies will be implemented in order to achieve the above stated outcomes:

9.3.1. Protecting Consumers

Mechanisms for consumer protection regulations on complaints and dispute redressal, and disclosure and transparency have been developed, reviewed and adopted. The Government will continue to develop, adopt, implement and review enabling policies, laws and regulations that aim at protecting customers from the financial sector's abuse and malpractices, as well as indebtedness of the customers arising from multiple loans through transparent pricing; appropriate debt collection practices; overpricing on loan and under-pricing of deposits interests; ethical staff behaviour; proper mechanisms for addressing client grievances and client information confidentiality.

9.3.2. Supervising Financial Institutions' Market Conduct

Government will continue supervising financial institutions' consumer protection and market conduct through the Reserve Bank of Malawi. The law to this effect has already been drafted. The RBM will continue doing this through market surveillance, mystery shopping and market conduct on-site examinations in order to promote compliance with consumer protection and market conduct regulations and best practices.

9.3.3. Creating a Financial Ombudsman

The government will establish a financial Ombudsman to settle consumer complaints or disputes against financial service providers. The running of this institution will be supported by both the public and private sectors, including the development partners (donor community).

9.3.4. Providing Consumer Education

Consumers will continue being educated on their rights and obligations as well as redress provisions so as to ensure consumer activism in the market. Consumer education will also include debt and other financial products as well as counselling in order to provide advisory services where needed and rehabilitate people who are over-indebted.

9.3.5. Developing Financial Literacy Programmes

The Government will provide financial education to the masses, focusing on finance management (savings and loans), cash-flow management and management of relationships with lenders. A number of interventions will be employed to achieve this objective. They include, but are not limited to, capacity building activities focusing on increasing knowledge of financial concepts, skills and attitudes amongst the low-income individuals and translating this knowledge into behaviours that result in good financial outcomes for customers and finance providers; incorporating financial literacy themes in electronic media programmes such as TV and radio series; and strengthening financial industry associations' capacity on financial literacy.

9.3.6. Providing Financial Education in Schools

The Government will continue supporting the Ministry of Education to carry on with incorporating financial education in the school curricula of different educational institutions for different ages from primary school up to tertiary level, including adult literacy education programme. It is hoped that this will aid Malawians to be responsible people capable of making prudent personal financial decisions.

9.3.7. Developing a National Database on Financial Inclusion

A national baseline data on financial literacy has been developed and it will be updated regularly. Also, the implementation of the periodic national surveys to assess progress made both at school and national levels as well as challenges and capabilities of the institutions, trainers/teachers and learners (students) in the area of financial literacy will continue.

10. The Implementation Matrix

PILLAR I: Developing and Deepening Financial System

Banking Sector			
Objective	**Actions**	**Responsibility**	**Time frame**
To reduce crowding out the private sector borrowing	Government reduces contracting domestic debt	MoF, RBM	2024 – 2028
	Reduce policy rate to support credit growth to the private sector	RBM, MoF	2024 – 2028
	Fully operationalise and utilise Collateral Registry for movable assets	Registrar General, MoTI, RBM, MoF	2024 – 2028
To enhance resilience of the banking sector	Develop, adopt and implement enhanced methods of regulating and supervising banks	RBM, MoF, MoJCA	2024 – 2026
	Build capacity of relevant institutions	RBM, MoF, MoJCA	2024 – 2028

Capital Market			
Objective	**Actions**	**Responsibility**	**Time frame**
To have a vibrant capital market with active trading	Restructure Malawi Stock Exchange (MSE) through phased gradual pull-out of Government ownership	RBM, MoF	2024 - 2028
	Encourage new initial public offerings (IPOs)	MSE, RBM	2024 - 2028
	Encourage listed companies to increase their public float	MSE, RBM	2024 - 2028
	Promote trading of Government Securities on MSE	MSE, RBM, MoF	2024 - 2028
	Increase investor awareness	MSE, RBM, MoF	2024 - 2028
	Improve market infrastructure	RBM, MoF, MSE	2024 - 2028

Capital Market			
Objective	Actions	Responsibility	Time frame
	Develop corporate debt market	MoF, RBM, MSE	2024 - 2027
	Develop new institutional vehicles and products	MSE, RBM, MoF,	2024 - 2028
	Develop, adopt and implement new approach to regulation	RBM, MoF, MoJCA, MSE	2024 - 2028
	Develop new institutional vehicles and products	RBM, MoF	2024 - 2026
	Develop, adopt and implement new approach to regulation	RBM, MoF MoJCA	2024 - 2026

Insurance			
Objective	Actions	Responsibility	Time frame
To increase insurance penetration and coverage	Develop and support new innovative Products	RBM, MoF	2024 - 2027
	Implement the Islamic Insurance	RBM, MoF	2024 - 2028
	Roll-out inclusive insurance initiatives targeting micro- insurance products and services in line with the National Strategy for Financial Inclusion.	RBM, MoF	2024 - 2027
	Create third party motor accident compensation fund to improve compensation and coverage of third-party motor vehicle claims	RBM, MoF, MoJCA, MoTI	2024 - 2027
	Create Depositor and Policyholder Protection Scheme with an aim of protecting depositors (with commercial banks and policyholders)	RBM, MoF	2024 - 2025
	Introduce specialised training to improve underwriting skills and pricing in insurance, courses like actuarial sciences in tertiary institutions	RBM, MoE	2024 - 2028

Insurance			
Objective	**Actions**	**Responsibility**	**Time frame**
	Develop mortality tables for Malawi	RBM, NSO, MoF MoH	2024 - 2028
	Develop, adopt and implement medical Aid Scheme (MAS) regulatory framework	RBM, MoF MoH MoJCA	2024 - 2026
	Introduce actuarial science and other related insurance courses in training institutions	MoE, MoF	2024 - 2028
	Government to ensure that all public buildings are insured	MoF	2024 - 2027
	Introduce two compulsory insurances (contractors' all risks and marine insurance).	RBM, MoF	2024 - 2027
To support the broadening and deepening of microfinance services	Eliminate the existing distortions in the financial market to create a level playing ground for microfinance practitioners	MoF, MoTI, MAMN	2024 - 2028
	Facilitate access to ongoing research Findings and practitioner - based lessons	MoF, RBM, MAMN, MUSCCO	2024 - 2028
	Sensitise MFIs on pricing of their products and services	RBM, MoF MAMN	2024 - 2028
	Establish innovation fund / apex fund or channel wholesale funds to MFIs, including those coming through projects, for on-lending to target clientele	RBM, MoF MoTI	2024 - 2027
	Encourage the existing academic and research institutions and technical colleges to develop and offer specialised programmes in microfinance in collaboration with MFI players	MoF RBM, MoE	2024 - 2028

Insurance			
Objective	Actions	Responsibility	Time frame
	Ensure that all MFIs get connected through the Hub by lowering the costs of connectivity	MoF RBM MAMN	2024 - 2028
To increase coverage of pensionable workforce	Ensure Government pension scheme complies with Pensions Act	MoF	2024 - 2028
	Spearhead voluntary pension drive targeting the informal sector	RBM, MoF	2024 - 2028
To support the broadening and deepening of microfinance services	Eliminate the existing distortions in the financial market to create a level playing ground for microfinance practitioners	MoF MoTI MAMN	2024 - 2028

Microfinance Sector and Financial Cooperatives			
Objective	Actions	Responsibility	Time frame
To support the broadening and deepening of microfinance services	Eliminate the existing distortions in the financial market to create a level playing ground for microfinance practitioners	MoFEA, MoTI MAMN	2024 - 2026
	Facilitate access to ongoing research findings and practitioner-based lessons	RBM, MoFEA, MAMN, MUSCCO	2024 - 2028
	Sensitization of MFIs on pricing of their products and services	RBM, MoFEA, MAMN	2024 – 2028
	Establish innovation fund / apex fund or channel wholesale funds to MFIs, including those coming through projects, for on-lending to target clientele	RBM, MoFEA, MoTI	2024 – 2027
	Encourage the existing academic and research institutions and technical colleges to develop and offer	MoFEA, RBM, MoE	2024 – 2028

Microfinance Sector and Financial Cooperatives			
Objective	Actions	Responsibility	Time frame
	specialised programmes in microfinance in collaboration with MFI players		
	Ensure that all MFIs get connected through the Hub by lowering the costs of connectivity	MoFEA, RBM, MAMN	2024 – 2028

Pension			
Objective	Actions	Responsibility	Time frame
To increase coverage of pensionable workforce	Ensure Government pension scheme is complied with Pensions Act	MoFEA, RBM,	2024 – 2028
	Spearhead voluntary pension drive targeting the informal sector	RBM, MoFEA	2024 – 2028
To provide appropriate investment avenues for pension funds	Establish an independent pension regulator to improve supervision for the sector	RBM, MoFEA	2027 – 2028
	Promote long term debt instruments such as infrastructure bonds	MoFEA, RBM	2024 – 2028

PILLAR II: Creating an Enabling Policy, Legal and Regulatory Environment

Objective	Actions	Responsibility	Time frame
To strengthen the existing legal and regulatory framework in line with dynamics in the financial sector	Develop, adopt and operationalise a Crisis Management Plan	MoFEA, RBM, MoJCA	2024 – 2026
	Develop, adopt and implement sound micro- prudential supervisory framework	RBM, MoFEA	2024 – 2027
	Enact amendments to financial services laws that provide for least cost resolution options of problem institutions in the financial sector and empower the regulatory authority to enforce supervisory actions with minimal legal obstructions from shareholders	RBM, MoFEA, MoJCA	2024 – 2028

PILLAR III: Digital Finance

Objective	Actions	Responsibility	Time frame
Enabled Digital Financial Infrastructure environment	Foster good availability and penetration of mobile gadgets (mobile phones, computers) with very good connectivity	MoFEA, MACRA	2024 – 2028
	Enhancing the well-functioning payment systems and enabling interoperability	RBM, MoFEA	2024 – 2028
	Establish credit/insurance infrastructure and enhance coverage of credit relevance data	RBM, MoFEA	2024 – 2028
	Support universal broadband connectivity	MoI, MACRA	2024 – 2028

Objective	Actions	Responsibility	Time frame
Enabled ancillary government support systems	Enhance financial management systems to support intensive shift of cash to digital payments (G2P)	MoFEA, RBM	2024 – 2028
	Establish and expand coverage of digital ID	NRB, MoFEA, MACRA	2024 – 2027
	Start transforming digital ID to e-KYC and expand its coverage.	NRB, MoFEA, MACRA, RBM	2024 – 2028
	Allow automated access to some digitized financial related Government data platforms by private sector	MoFEA, MoI, RBM	2024 – 2028
To have a very conducive legal and regulatory frameworks in place	Allow non-bank issuance of e-money	MoFEA, RBM	2024 – 2027
	Implement simplified CDD	RBM, MoFEA	2024 – 2027
	Enable the development of more widespread financial agents' networks	RBM, MoFEA, BAM, MNOs	2024 – 2028
	Putting in place regulations for widespread agents in digital finance	MoFEA, RBM, MoJCA	2024 – 2028
	Legislate the digital payment systems	RBM, MoFEA, MoJCA	2024 – 2028
	Enable non-banks access to payment systems	RBM, MoFEA	2024 – 2027
	Develop and implement a robust digital consumer protection framework	MoJCA, MoFEA, FIA, CFTC	2024 – 2028
	Develop and implement digital competition policy	MoFEA, RBM, CFTC	2024 – 2028
	Establish comprehensive regulatory framework for DFS providers	RBM, MoFEA	2024 – 2027
	Adopt comprehensive legal measures for data protection and privacy	MoFEA, RBM, MoJCA, MACRA	2024 – 2028
	Enable DFSs providers to expose and use APIs	MoFEA, RBM, MoI	2024 – 2028
	Adopt legal measures to enable Open banking	RBM, MoJCA, MoFEA	2024 – 2028

Objective	Actions	Responsibility	Time frame
Digital Risks free environment	Enhancing Capacities (technical knowledge/equipment, infrastructures, human resources) of some specific institutions that deal with financial crimes prevention, investigations and prosecutions.	MoFEA, RBM, FIA, MoJCA	2024 – 2028
	Private and Public institutions to enhance their capacities in terms of preventing, controlling and mitigating against supply and demand risks.	MoFEA, RBM	2024 – 2028
Enhanced digital financial environment	Develop and implementing the digital finance road map.	MoFEA, RBM, MoI	2024 – 2027

Payment Systems and Mobile Banking

Objective	Actions	Responsibility	Time frame
To increase uptake of digital payments in both rural and urban parts of the country	Enhance public knowledge and awareness on electronic payments for consumers, merchants and billers, with emphasis on the advantages of using electronic payment instruments	RBM MoFEA	2024 – 2028
	Increase accessibility of digital payments through affordable costs, increased connectivity and interoperability	RBM, National Switch, MoFEA	2024 – 2028
	Protect customers and the public from digital financial abuse and fraud	RBM, MoFEA, MACRA, CFTC	2024 – 2028

Objective	Actions	Responsibility	Time frame
	Develop, adopt and implement a guiding regulatory framework for electronic payments (law, directives and regulations)	RBM, MoFEA, MoJCA	2024 – 2028

PILLAR IV: Promoting Competition in the Financial Sector

Objective	Actions	Responsibility	Time frame
To promote healthy competition in the financial sector	Discourage uncompetitive behaviour among financial institutions	CFTC, RBM, MoFEA	2024 – 2028
	Create conducive environment that encourages competition among existing institutions through product diversifications and innovation	RBM, MoFEA	2024 – 2028
	Encourage entry of new financial institutions with different business models	MoFEA, RBM	2024 – 2028

PILLAR V: Financial Inclusion

Objective	Actions	Responsibility	Time frame
To increase access to financial services	Develop, adopt and implement enabling policies and strategies	MoFEA, RBM	2024 – 2028
	Fully support interoperability of commercial banks, microfinance providers, MNOs and other financial	RBM, NatSwitch	2024 – 2028

Objective	Actions	Responsibility	Time frame
	institutions' systems for seamless and straight through processing of Payments		
	Fully operationalise and utilize Collateral Registry System for movable assets	Administrator General, MoFEA, RBM, MoTI	2024 – 2028
	To implement land tenure system that supports the financial inclusion agenda including promotion of communal areas to qualify as collateral	MoL, MoFEA	2024 – 2028
	To develop a National Physical Plan	MoL, MoFEA	2024 – 2028
	Fully implement National ID system	MoHS/NRB	2024 – 2028
	Promote financial inclusion through application of risk based Anti-Money Laundering legislation and practices	RBM, MoFEA, MoJCA	2024 – 2028
	Provide customer credit data to credit reference bureaus in order to support building of a comprehensive credit profile of individuals. (homogeneity in credit reference data) and quality improvement required.	RBM, OPC, CRBs, Merchants, FSPs (Financial services providers)	2024 – 2028

PILLAR VI: Enhancing Participation of the Financial Sector in Critical Growth Sectors

Objective	Actions	Responsibility	Time frame
To increase capital flows to the critical growth sectors	Develop, adopt and implement directives requiring banks to channel 30 percent of their total loan books to agriculture sector	RBM, MoFEA, MoJCA	2024 – 2028

Objective	Actions	Responsibility	Time frame
	Establish specialized Financial Institutions	MoFEA, RBM	2024 – 2028
	Set up Public Private Partnerships (PPPs) projects in critical sectors	MoFEA, PPPC, MoA, MoTI	2024 – 2028

PILLAR VII: Financial Literacy and Customer Protection

Objective	Actions	Responsibility	Time frame
To protect consumers from deceptive and unfair practices in the financial services industry	Develop, adopt and implement enabling policies, laws and regulations aimed at protecting customers from sector's abuse and malpractices	RBM, MoFEA, CFTC	2024 – 2028
	Establish a financial ombudsman to settle disputes between businesses providing financial services and their customers	MoFEA, RBM, OPC	2024 – 2028
To have a financial literate population	Fully incorporate financial education in school curricula for different ages throughout the schooling years (Primary, Secondary, Tertiary and Adult Literacy Institutions	MoE, RBM MoFEA	2024 – 2028
	Provide financial education to the masses on finance management (savings and loans), cash flow management and management of relations with lenders. (Including running quarterly financial literacy weeks)	RBM, MoFEA, MoE	2024 – 2028

Objective	Actions	Responsibility	Time frame
	Financial Literacy resource materials to also be developed electronically and distributed for easy access and as also a cost-effective means	MoE, MoFEA, RBM	2024 – 2028
	Educate consumers on their rights, obligations and redress mechanisms	RBM, CFTC, MoFEA, MoTI	2024 – 2028
	Undertake financial literacy surveys to measure financial capability, inclusion and consumer protection	RBM, MoFEA, NSO	2027 – 2028

11. Monitoring and Evaluation (M&E) Framework

PILLAR I: Developing and Deeping Financial System

Banking Sector						
	Expected Results	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions (A) / Risks (R)
Outcome 1	Increased ratio of private sector credit in the economy	Ratio of private sector credit by banks as a percentage of GDP	0.35	0.25	Annual Economic Report, RBM Financial and Economic Review	Fiscal discipline
Output 1.1	Government domestic borrowing kept low	Level of annual Government domestic borrowing as percentage of GDP	0.1	0.611	MoFEA, and RBM report	Fiscal discipline, Political will to support the implementation of the Strategy
Output 1.2	Policy rate reduced to support credit growth to private sector	Level of policy rate	Below 12%	0.22	Monetary Policy Reports from RBM	Stable macroeconomic environment (A)

Banking Sector						
	Expected Results	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions (A) / Risks (R)
Output 1.3	Collateral Registry for movable assets fully operationalized and utilized	Level of lending due to Collateral Registry System	0.5	0	Reports from Registrar General and Financial Lending Institutions	Willingness by banks to accept the concept of collateral registry
Outcome 2	A more resilient banking sector in line with international standards in place	Number of new different categories of regulatory frameworks established	10	7	RBM, Reports	Availability of technical expertise
Output 2.1	Enhanced methods of regulating and supervising banks adopted and implemented	A consolidated supervision framework in place	7	0	Reports from RBM	Cooperation from banks MoU with other Supervisory Regulatory bodies in the region
		Macro prudential supervision framework finalized and adopted	1	0	Reports from RBM	Technical expertise availability
		Mortgage finance regulatory framework finalized and adopted	1	0	Reports from RBM	Technical expertise availability

Banking Sector						
	Expected Results	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions (A) / Risks (R)
		Domestically systemic assessment framework finalized and adopted	1	0	Reports from RBM	Cooperation from financial institutions
		Maintain global best practice by adopting Basel III	Various	Various	RBM Reports	Technical expertise availability Political will
	Heightened institutional capacity	Number of well-trained banking examiners	25	12	RBM Staff Training Profile	Funding availability, Staff turnover
		Number of well-trained Financial Sector Policy officers at MoFEA	All	5	MoFEA, Staff Training Profile	Funding availability Staff turnover
		Number of well-trained legal officers on financial issues at MoJCA	5	2	MoJCA Staff Training Profile	Funding availability Staff turnover
		Number of vacant positions filled and staff promoted	All		MoFEA, MoJCA, RBM	Political will

Capital Market						
	Expected Results	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
Outcome 1	A vibrant and active capital market with higher turnover, liquidity and intermediation, and higher domestic market capitalization exceeding 30 percent of GDP by 2021	Turnover ratio, market liquidity ratio, and market capitalization	Turnover ratio, liquidity ratio, and domestic market capitalization >30% of GDP	0.229	MSE Annual Report	Active MSE to attract new listings, Willingness of the companies to list
Output 1.1	Malawi Stock Exchange restructured	Phased and structured pull-out of Government divestiture in ownership of MSE	0.3	0	MSE Annual Report	RBM's readiness to disinvest shareholding in MSE
Output 1.2	New initial public offerings (IPOs) enhanced	Number of new IPOs	4	0	MSE Annual Reports	Active MSE to attract new listings, Willingness of the companies to list

Capital Market						
	Expected Results	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
Output 1.3	Public float of already listed companies increased	Percentage of public shareholding of listed companies	0.2	0.1	Annual reports from MSE and listed companies	Willingness of listed companies to dilute shareholding
Output 1.4	Trading of Government Securities on MSE enhanced	Number of Government Securities	5	2	Annual Reports from MSE	Availability of equally rewarding investment alternative at the MSE
Output 1.5	Investor awareness Increased	Size of investor Base	80000	40000	Annual Reports from MSE	Funding for awareness
Output 1.6	Market infrastructure improved	An upgraded Central Securities Depository (CSD) Systems in place	1	0	Reports from MSE and RBM	Funding and technical expertise
		Surveillance System in place	1	0	Reports from RBM	Funding and technical expertise
		Electronic Trading (ET) system in place	1	0	Reports from RBM	Funding and technical expertise
Output 1.7	Corporate debt market developed	Long term Yield Curve developed	1	0	Reports from RBM	Active trading
		Annual Issuance Calendars in place	5	0	Reports from RBM, MoFEA	Fiscal discipline

Capital Market						
	Expected Results	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
		Credit rating obtained	All issued bonds rated	0	Reports from RBM	Funding
Output 1.8	New institutional vehicles and products developed	Number of Venture Capital Funds	2	0	Reports from RBM	Sound macroeconomic environment
		Number of Investment Trusts	5	2	Reports from RBM	Sound macroeconomic environment
Output 1.9	New approach to regulation adopted	Risk based supervision framework in place	1	0	Reports from RBM	Technical expertise and funding
		Regulatory framework for Commodity Exchange (products and derivatives) in Place	1	0	Reports from RBM, MoFEA, MoIT	Technical and funding expertise

Insurance Sector						
	Expected Result	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
Outcome	Increased insurance penetration and coverage	Ratio of insurance premium as a percentage of GDP	0.035	0.015	RBM reports	
		Percentage of adult population with access to insurance products	>5%	0.02	FinScope Survey	
Output 1.1	New innovative products developed and supported	Percentage of Islamic Insurance premiums as percentage of total premiums	0.1	0	Annual reports from RBM and Insurers	Regulatory framework being in place
		Number of micro insurance products	10	4	Annual reports from RBM and Insurers Including MNOs	Regulatory framework being in place
Output 1.2	Third party motor accident compensation fund to improve compensation and coverage of third-party motor vehicle claims established	Third party motor accident compensation fund in place	1	0	Annual reports from RBM, MoTPW and MoFEA	Legislation in place Political will

Insurance Sector						
	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
	Depositor and Policyholder Protection Scheme with an aim of protecting depositors and policyholders created	Depositor and Policyholder Protection Scheme established	1	0	Annual reports from RBM and MoFEA	Legislation in place, Political will
	Mortality tables for Malawi developed	Mortality tables in place	1	0	Annual reports from RBM and NSO	Funding availability, Mortality and mobility data availability
	A rolling five-year strategy for the insurance sector developed and adopted	Strategy document for the insurance sector in place	1	0	Annual reports from MoFEA and RBM	Funding availability
	Medical Aid Scheme regulatory framework developed and adopted	Medical Aid Scheme regulatory framework in place	1	0	Annual reports from RBM, MoFEA and MoH	Legislation being in place
	Actuarial science and other related insurance courses introduced in training Institutions	Number of training institutions having introduced actuarial science and other related insurance	4	2	Annual reports from training institutions and MoEST	Funding availability, technical expertise

Microfinance and Financial Cooperatives Sector						
	Expected Result	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
Outcome	Broadened and deepened microfinance sector that meets the varying needs of low-income Malawians	Number of new innovative products and services developed	10	0	Reports from RBM, MAMN, MUSCCO and BAM	Supportive regulatory framework
Output 1.1	Distortions in the financial market eliminated and level playing ground for microfinance gradually removed	Amount of finance dedicated to creating the wholesale fund	K10.0 billion	0	Reports from MAMN, RBM and MoFEA	Political will
Output 1.2	Sanitization of MFIs on lowering interest rates	Number of MFIs offering lower interest rates	All	0	Reports from MAMN, MUSCCO, MoFEA, RBM,	Willingness of MFIs to cut costs of their operations
Output 1.3	Innovation fund/apex fund or wholesale funds established to channel microfinance sector for onward lending to target clientele	Number of innovation Fund/Apex fund established	1	0	Reports from MoFEA, RBM, MAMN	Resource availability, Political will, Sustainability
		Number of Development Focused Microfinance Service	All	0	Reports from MoFEA, MAMN	Resource availability (A), Political will (A)

Microfinance and Financial Cooperatives Sector						
	Expected Result	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
		Providers accessing funding from apex fund				
Output 1.4	Academic, technical and other tertiary institutions offering specialised programmes in microfinance encouraged	Number of academic and research institutions offering microfinance programmes	5	2	Reports from MAMN	Buy in from academic institutions (A), Availability of personnel with relevant expertise
Output 1.5	Connectivity of MFIs to the Hub facilitated	Number of MFI connected to the MFI-Hub	All	0	Microfinance, RBM Reports	Resource availability (A)

Pensions Sector						
	Expected Result	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
Outcome 1	Coverage of Pensionable workforce increased	Coverage of Contributory pension as a percent of workforce	0.2	0.08	Annual reports from RBM, MoFEA	

Pensions Sector						
	Expected Result	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
Output 1.1	Government pension scheme compliance with the Pensions Act	Percentage of civil servants on defined contribution scheme	1	0.656	Annual reports from MoFEA	Resource availability, Political will
Output 1.2	Voluntary pension drive targeting the informal sector spearheaded	Percentage of informal sector workforce n voluntary pension scheme	0.05	0	Annual reports from RBM	Financial literacy, People's willingness to do voluntary pension
Output 1.3	An independent pension regulator for improved supervision of the pension sector established	An independent Pension Regulator in place	1	0	Annual reports from RBM, MoFEA	Resource availability, Political will
Outcome 2	Viable long term investment avenues for growing pension funds established	Number of new investments avenues for growing pension fund established	4	0	Annual reports from RBM, MoFEA	Uptake by fund managers
Output 2.1	Long term debt instruments including infrastructure bonds issued on the market	Number of long-term instruments including Infrastructure bonds issued	5	0	Annual reports from MoFEA, RBM	Political will, Uptake by Fund managers

PILLAR II: Creating an Enabling Policy, Legal and Regulatory Environment

	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
Outcome 1	Strengthened legal and regulatory framework that support the development, safety and soundness of the financial sector	Number of new legal and regulatory frameworks developed	5	0	Reports from RBM and MoFEA	Availability of resources
Output 1.1	Crisis Management Plan developed, adopted and operationalised	Crisis Management Plan in place	1	0	Reports from RBM and MoFEA	Political will
Output 1.2	Sound macro-prudential supervisory framework developed, adopted and implemented	Macro-Prudential Supervisory Framework in place	1	0	Annual reports from RBM	Technical expertise
		Domestic Systemic Important Financial Institutions (DSIFI) Framework in place	1	0	Annual reports from RBM	Technical expertise

	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
Output 1.3	Amendments to financial services laws that provide for least cost resolution options of problem institutions and empower the regulatory authority to enforce supervisory actions with minimal legal obstructions from shareholders enacted	Amendment to the FSA enacted	1	0	Annual reports from RBM	Technical expertise

PILLAR III: Digital Finance

	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
Outcome 1	Increased access to formal digital financial services and products	Proportion of the population accessing formal financial services and products	0.9	0.74	FinScope surveys	
Output 1.1	Enabling policies and strategies developed, adopted implemented	Digital Financial Policy (strategy) Implemented	1	0	Annual reports from MoFEA, and RBM	Funding availability

	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
		2nd Digital Financial Road Map developed	1	0	Annual reports from MoFEA	Political will Funding availability
Output 1.2	Improved and increased digital eco-systems and infrastructures	Increased number of eco-systems and infrastructures (Malawi switch centre, Automated Transfer system, Real-Time Gross Settlement System (RTGS), Central Securities Depository, National Switch Ltd, Visa National Net Settlement System, Cross-border Payment systems)	12	8	Annual Reports from the FSDS Secretariat and also RBM and Min of finance	Availability of resources
Outcome 2	Enhanced interoperability of commercial banks, MFIs, MNOs and other institutions for seamless and straight through processing of payments	Number of institutions connected to the National Gateway Payment System	All	14	Annual reports from RBM and NatSwitch	Availability of enabling infrastructure in the respective institutions

	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
Output 2.1	Sufficient Power supply	Number of hours with black outs	0	4	Reports from ESCOM	
	Un Intermittent network signal and outages	Reduced Number of signal outages			MACRA Reports	
Outcome 1.2b	Seamless Payment System (SPS)	National Gateway Payment System in place	1	0	Reports from RMB	Availability of resources
Outcome 2	Secured financial services and products	Number of Trained Personnel in specialized preventative, control and mitigation against digital attacks or risks from different institutions (FIA, RBM, MPS, ACB, commercial Banks etc.)	100	20	Annual Reports	Availability of resources
Outcome 3	Fair competition by allowing new entrants	Number of new entrants in DFS space	15	10	Reports RBM	

	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
Output 3.1	Partnerships between non-banks and banks or other licensed entities that offer the DFSs.	Number of new partnerships between non-banks and banks or other licensed entities that offer the DFSs established	10	0	Reports from RBM, MoFEA	
Output 3.2	Granting some specialized license for digital financial service provisions	Number of new DFS providers licenced	10	0	Reports from RBM	
Output 3.3	Granting licenses to offer financial services and products under existing non-financial business	Number of new DFS providers licenced to offer financial services and products under existing non-financial business	5	0	Reports from RBM/MACRA	

PILLAR IV: Promoting Competition in the Financial Sector

	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
Outcome 1	A competitive financial sector that promotes innovation	Number of new legal and regulatory frameworks that promote competition and innovations developed	3	0	Reports from RMB, MoFEA, CFTC	Availability of resources
Output 1.1	Uncompetitive behaviour among financial institutions discouraged	Number of cases resolved by Competition and Fair-Trading Commission (CFTC)	All	9	Reports from CFTC	Complaints lodged by traders and consumers
Output 1.2	Conducive environment that encourages competition among existing institutions through product diversifications and innovation created	An enabling policy that encourages competition among existing financial institutions in place	1	0	Annual reports from the MoTI/CFCT, MoFEA	Technical expertise availability
Output 1.3	Entry of new financial institutions with different business models encouraged	An enabling policy that Encourages entry of new financial institutions in Place	1	0	Annual reports from the MoTI/CFCT, MoFEA	Technical expertise availability

PILLAR V: Financial Inclusion

	Expected Result	Performance Indicators	Target	Baseline 2021	Data Source (Means of Verification)	Assumptions/ Risks
Outcome 1	Increased access to formal financial services	Percent of the adult population accessing formal financial Services	>90%	0.74	FinScope surveys	
Output 1.1	Enabling policies and strategies developed, adopted implemented	Financial Inclusion Policy (strategy) formulated and implemented	1	0	Annual reports from MoFEA and RBM	Funding availability
Output 1.2	Enhanced interoperability of commercial banks, MFIs, MNOs and other institutions for seamless and straight through processing of payments	Number of institutions connected to the National Switch	All	14	Annual reports from RBM and NatSwitch	Availability of enabling infrastructure in the respective institutions
Output 1.3	Collateral Registry for movable assets fully operationalised and utilised	Percentage of low-income adult population accessing credit through Collateral Registry System	0.5	0	Reports from Registrar General and Financial Lending Institutions	Financial literacy, Willingness by financial institution to accept the concept of collateral registry

	Expected Result	Performance Indicators	Target	Baseline 2021	Data Source (Means of Verification)	Assumptions/ Risks
Output 1.4	Land tenure system that supports the financial inclusion agenda including promotion of communal areas to qualify as collateral developed, adopted and implemented	Land Bills passed and enacted	4	0	Reports from MoJCA and MoLHUD	Political will, Public Support
	Develop National Physical Plan that complement to financial inclusion	National Physical Plan in place	1	0	Min of Lands and Housing Development	Political will Funding availability
Output 1.5	National ID system fully implemented	Number of eligible Malawians with national IDs	All	5000	Annual reports from National Registration Bureau	Funding availability
Output 1.6	Financial inclusion through application of risk-based Anti-Money Laundering legislation and practices promoted	Anti-Money Laundering and Terrorist Financing Law review		0	Annual reports from RBM, FIU	Political will
Output 1.7	Customer credit data to credit reference bureaus in order to support building of a comprehensive credit profile of individuals provided.	Credit profile of individuals in place	0.7	0	Reports from CRBs	Full cooperation from all key stakeholder (including utility companies, merchants, financial institutions etc)

	Expected Result	Performance Indicators	Target	Baseline 2021	Data Source (Means of Verification)	Assumptions/ Risks
	Good quality homogenized credit reference data captured	Homogenized Credit Reference Data Capturing Form(s) developed	1	0	Reports from Credits Reference Beuarex	Full cooperation from all key stakeholder (including utility companies, merchants, financial institutions etc)

PILLAR VI: Enhancing Participation of the Financial Sector in Critical Growth Sectors

	Expected Result	Performance Indicators	Target	Baseline 2021	Data Source (Means of Verification)	Assumptions/ Risks
Outcome	Increased capital flow to the critical growth sectors	Domestic credit to the private sector as a percentage of GDP	0.3	0.123	Annual reports from RBM and MoFEA	Funding availability Political will
Output 1.1	A policy direction requiring banks to channel 30 percent of their total loan books to the agriculture sector developed, adopted and implemented	Directive on lending to the agriculture sector in place	1	0	Annual reports from RBM and MoFEA	Political will

	Expected Result	Performance Indicators	Target	Baseline 2021	Data Source (Means of Verification)	Assumptions/ Risks
	Specialized Financial Institutions established	Agriculture Cooperative Bank in place	1	0	Annual reports from MoFEA and RBM	Funding availability, Political will
		Development Bank in place	1	0	Annual reports from MoFEA and RBM	Funding availability Political will
	Public Private Partnerships (PPPs) projects in critical sectors set up	Number of PPPs set up in critical growth sectors	10 (these are at various stages in the PPP Life Cycle)	5	Annual reports from PPPC and critical sector ministries	Funding availability

Payment Systems and Mobile Banking						
	Expected Results	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
Outcome 1	A vibrant and active capital market with higher turnover, liquidity and intermediation, and higher domestic market	Turnover ratio, market liquidity ratio, and market capitalization	Turnover ratio, liquidity ratio, and domestic	22.9 % of GDP	MSE Reports	Active market both on-demand and supply side.

Payment Systems and Mobile Banking						
	Expected Results	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
	capitalization exceeding 30 percent of GDP by 2021		market capitalization >30% of GDP			
Output 1.1	Malawi Stock Exchange restructured	Phased and structured pull-out of Government divestiture in ownership of MSE	0.3	0	MSE Annual Report	RBM's readiness to disinvest shareholding in MSE
Output 1.2	New initial public offerings (IPOs) enhanced	Number of new IPOs	4	0	MSE Annual Reports	Active MSE to attract new listings, Willingness of the companies to list
Output 1.3	Public float of already listed companies increased	Percentage of public shareholding of listed companies	20% on average	15% on average	Annual reports from MSE and listed companies	Willingness of listed companies to dilute shareholding
Output 1.4	Trading of Government Securities on MSE enhanced	Number of Government Securities	5	2	Annual Reports from MSE	Availability of equally rewarding investment alternative at the MSE
Output 1.5	Investor awareness increased	Size of investor base	80000	40000	Annual Reports from MSE	Funding for awareness

Payment Systems and Mobile Banking						
	Expected Results	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
Output 1.6	Increase use of improved Market infrastructure	New Applications introduced by MSE	1	0	Reports from MSE	Technical expertise
		Surveillance System in place	1	0	Reports from RBM	Funding and technical expertise
	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
	All payment systems connected to Gateway Payment System	Government connecting all payment systems to Gateway Payment System	All	0	Reports from RBM	Funding and technical expertise
Output 1.7	Corporate debt market developed	Maintenance of Long-term Yield Curve	Permanence	Intermittent	Reports from RBM	Active trading
		Continued Annual Issuance of Calendars	Continuity	Intermittent	Reports from RBM, MoFEA	Fiscal discipline
		Credit rating obtained	All issued bonds rated	0	Reports from RBM	Funding

Payment Systems and Mobile Banking						
	Expected Results	**Performance Indicators**	**Target**	**Baseline 2022**	**Data Source (Means of Verification)**	**Assumptions/ Risks**
Output 1.8	New institutional vehicles and products developed	Number of Venture Capital Funds	2	0	Reports from RBM	Sound macroeconomic environment
		Number of Investment Trusts	5	2	Reports from RBM	Sound macroeconomic environment
Output 1.9	New approach to regulation adopted	Risk-based supervision framework in place	1	0	Reports from RBM	Technical expertise and funding
		Regulatory framework for Commodity Exchange (products and derivatives) in Place	1	0	Reports from RBM, MoFEA, MoTI	Technical expertise and funding
Outcome 1	Increased adoption of digital payments in the country	Volume of digital payments	0.6	0.2	Annual reports from RBM, MoFEA, BTCA diagnosis	Funding availability, public willingness to embrace digital payments
		Value of digital payments	0.8	0.65	Annual reports from RBM, MoFEA, BTCA diagnosis	Fun ding availability public willingness to embrace digital payments

Payment Systems and Mobile Banking						
	Expected Results	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
Output 1.1	Public knowledge and awareness on electronic payments by consumers, merchants and billers enhanced	Number of subscribers of Digital payments services	0.2	0.05	Annual reports from RBM, MoFEA	Funding availability, public willingness to embrace digital payments
Output 1.2	Guiding regulatory framework for electronic payments (law, directives and regulations) developed and adopted	Payment System Act assented to	1	0	Annual reports from RBM	Political will
		Number of directives and regulations issued	8	0	Annual reports from RBM and MoFEA	Technical expertise

PILLAR VII: Financial Literacy and Customer Protection

	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
Outcome 1	Adequate consumer protection and effective complaint redress mechanism	Number of consumer protection and effective complaint redress mechanisms established	2	0	Annual reports from MoFEA and RBM	Funding availability

	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
Output 1.1	Enabling policies, laws and regulations aimed at protecting customers from sector's abuse and malpractices developed, adopted and implemented	Consumer Protection policy in place	1	0	Annual reports from MoFEA	Funding availability
	Consumer protection and Complaints Handling Directives implemented	Consumer protection and Complaints handling directives	6	0	Annual reports from RBM	Smooth bureaucratic process
Output 1.2	A financial ombudsman to settle financial disputes between financial services/products providers and customers established.	A financial ombudsman in place	1	0	Annual reports from MoFEA Finance and RBM	Funding availability
	Market Conduct functions RBM to continue carrying them out	Number of market conduct supervisions conducted	4	2	Annual reports from RBM	Availability of resources
Outcome 2	Increased financial literacy among the population	National financial literacy rate	0.7	0.57	RBM reports, FinScope survey, financial literacy survey	

	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
Output 2.1	Financial education fully incorporated in school curricula at different levels throughout the schooling years	Financial education incorporated in primary, secondary schools and tertiary institutions including adult literacy schools	2		Annual reports from MoEST	Funding availability
Output 2.2	Financial education to the masses provided (about savings, loans, insurance, etc, cash flow management and management of relations with lenders)	Percentage trained in financial education	0.7	0.57	RBM reports	Funding availability
Output 2.2b	Quarterly Financial Literacy weeks	Percentage reached with financial education	0.85	0.5	RBM reports	Funding availability
Output 2.3	Consumer education on their rights, obligations and redress mechanisms provided	Number of financial institutions undertaking consumer education programs	All	0	Reports from RBM and financial institutions	Enforcement
Output 2.4	Repeat financial literacy surveys to measure financial capability, inclusion and	Number of repeat national financial literacy surveys	2	1	Survey reports from RBM	Funding availability

	Expected Result	Performance Indicators	Target	Baseline 2022	Data Source (Means of Verification)	Assumptions/ Risks
	consumer protection undertaken	Number of Repeat primary, secondary and tertiary school surveys to measure financial literacy and capability among teachers and students	2	1	Survey reports from RBM	Funding availability

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