



MNSSP Review Brief – Micro-Finance Programme Stakeholder Review

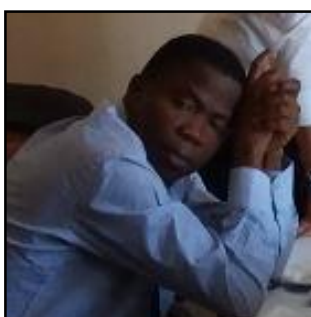
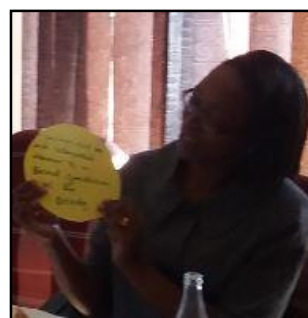


What is the most important or interesting fact about the programme?

- Outreach
- Variety of products and service providers provided by MFI
- Achieving a 100% repayment rate in rural areas
- Reaching out in an integrated manner to a broad spectrum of the poor
- Creating opportunities for access to financial services for rural communities

What are the successes of the programme over the last years?

- Regulation – MFI regulation framework was created
- Transformation of livelihoods
- Service uptake due to client-oriented products
- Regulation of MFIs
- MAMN managed to visit many MFIs and MCAs



What are the issues that did not go well?

- Government involvement in MFI sector and closure of government-run MFIs
- Excessive focus on credit and less on other services
- Inflation rate affects businesses, CRBS not functional
- Sometimes clients have to borrow to repay loans
- No proper tools to collect and analyze data of MFIs
- No MFI and financial sector policy
- No M&E framework for MFIs

How do you feel about the programme? Pessimistic or optimistic? Why?

- Optimistic
- Optimistic and passionate
- Optimistic
- Optimistic - It is a very useful tool for financial inclusion and development
- Optimistic



What has been learned?

- MFI sometimes resist regulation but regulation of the sector is key
- To clients access is more important than price of service
- The poor have the capacity to save
- Understanding the need of the client is key
- Integrating the social performance aspect into financial sector programs, MFIs learned to track clients' progress out of poverty;
- Microfinance is more than credit
- Balancing financial sustainability and social concerns is difficult
- Collaboration is very important

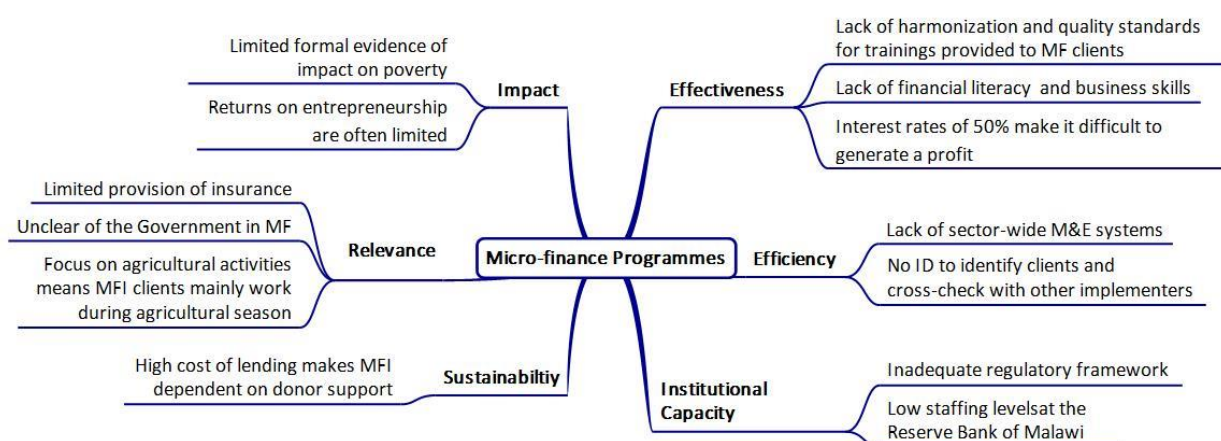


MNSSP Review Brief – Micro-Finance Programme Stakeholder Review

This brief summarizes key discussion points and recommendations made at the MNSSP Review workshop on Micro-finance Programmes, held at Crossroads hotel on the 12th of May 2016 in Lilongwe.

The purpose of the workshop was to evaluate the progress made by micro-finance programmes against the MNSSP results matrix and facilitate a critical discussion amongst programme implementers on the relevance, effectiveness, efficiency, institutional capacity, and sustainability of micro-finance programmes under the MNSSP.

Summary of key challenges observed



Traffic Light Evaluation of Micro-Finance Programmes: Strategic outcomes

Strategic outcomes, indicators, baseline values and targets for microfinance							
Outcome	Indicator	Baseline	Source	Target	2016	Source	Comments
Employment & self-employment created	Number of businesses created	TBC	MAMN	50% increase			MAMN does not collect such data
	Number of people employed in MFI financed businesses	TBC	MAMN	50% increase			<p>Stakeholder comments</p> <p>What types of businesses were created using microfinance institutes' (MFIs) loans? Do they provide mostly formal or mostly informal employment, and what is their size? Could a distinction between employment and self-employment be helpful? Should the indicator focus on businesses or employment? It needs to be clear what exactly is being tracked.</p> <p>The more pressing question seems to be whether these originally small businesses manage to grow over time. Do MFIs fund businesses with the potential to eventually expand? It is difficult to generalize what types of businesses take off.</p> <p>Several examples of business expansion are known to MFIs. Most of them, however, do not systematically collect the data needed to assess these indicators. They tend to focus on eliciting data relevant to their core operations, i.e. loan performance or cash flow projections. Even if data on business performance are gathered, the tools used and the intervals at which this is done differ across MFIs.</p> <p>So far, 'graduation' has not been frequently observed. Repeat loans occur, but clients do not move on to larger lenders. Checking whether loans help clients is difficult. Some MFIs check the profitability of proposed ventures or whether repeat clients ask for larger loans over time, but many do not.</p>



							<p>This might be a role for regulators, who could elicit what happens with MFI loans. They could also put in place certain minimum requirements on client information which MFIs need to record. Regulators are actually trying to put this in place. It was noted, however, that the data entry point is the MFI, not the regulator. Thus, regulators can provide direction, but data collection itself should lie with the MFIs.</p> <p>Given the high MFI interest rates, business ideas need to be very profitable to enable repayment. In light of that, should MFIs review their clients' business plans? Since monitoring is costly (and reduces MFI profitability), it may not be worth it for small loans (MK 10,000 and below). For larger loans, some MFIs do not begin pay-out without a business plan in place.</p> <p>There also needs to be clarity on whether MFIs are basically small banks or whether they are aimed at poverty alleviation. Most registered MFIs are somewhat of a mix, whereas most unregistered ones are purely for-profit.</p> <p>Most for-profit MFIs look for a mature market. They do not want to train people in business skills, but simply provide loans with reliable repayment prospects. They also provide loans purely for consumption. Most registered non-profit MFIs aim to get people to that level, thus focusing on a different population. They tend to provide loans only for revenue-generating activities and engage in activities such as compulsory saving. Regulating both at the same time is difficult. Clients are also not always able to distinguish what type they are dealing with.</p> <p>Best practice guidelines about to come out, which include social performance indicators (such as business growth or employment creation). These should improve data availability, since they focus more on what happens with the loans as opposed to, for example, the loan size. This should sensitize MFIs to the broader impacts of their work.</p> <p>Also, MFIs usually provide funding for small businesses (instead of large ones). If someone has a small business and starts another one, that does constitute business growth, which should be tracked and measured. Abrupt jumps in business size due to MFI involvement should not be expected.</p>
Access to affordable financial services increased	Proportion of persons who received a loan or credit during the last 12 months	12%	IHS, 2010	20% - (60% increase)	25%	Finscope consumer survey	
	Proportion of persons who received a loan or credit during the last 12 months in district with lowest proportion	1.1%	IHS, 2010	10% - (100% increase)	4%	Finscope consumer survey	<p>Stakeholder comments</p> <p>If someone comes back for a new loan year after year, are they counted as a new client or not? The way these data are tracked needs to be clearer. What does access to finance mean? Is the number of outstanding loans a good indicator? Those with access to finance but without outstanding loans are missed, as are those who save (which is also finance) but do not take out loans. Regulators are currently reviewing core reports. They are working on capturing and differentiating between repeat clients, new clients, and active clients.</p>
	Number of MFI clients	TBC	MAMN	60% increase	24%	Finscope consumer survey	<p>Whether loans increase in size over time should be tracked.</p> <p>A few years ago, there were one million clients. Now, there are two. That is not reflected in the indicator.</p> <p>It is important to make sure that outreach targets grow with demand. Otherwise, pushed loans could become an issue.</p> <p>Many potential MFI clients opt for VSL instead, since that program is available and well-known. Is the target group of MF the same as that</p>



							<p>of VSL? There seems to be some overlap, since several VSL beneficiaries are also MFI clients. However, VSL has an informal element. With MFIs, loan repayment is more regulated. Pay-out timing is stricter. MFIs are also more regulated than VSL groups.</p> <p>Across MFIs, growth in terms of outreach and portfolio is noticeable. Tracking systems differ across MFIs. Therefore, it happens that people who are clients to several MFIs (which is frequent) are counted more than once. This inflates the number of MFI clients. This also means that clients use a loan from one MFI to repay another. Usually, however, MFI agents know that their clients have multiple loans. Some MFIs are partnering with Innovations for Poverty Action (IPA) to establish fingerprinting or other biometric ID procedures. This helps reduce multiple borrowing. Having a national ID would also help.</p>
	Number of people who have used other financial products, i.e. insurance, transfers	TBC	MAMN	100 % increase	46%	Finscope consumer survey	MAMN does not collect such data
	Average APR across MFIs	TBC	MAMN	5 % point decrease			MAMN does not collect such data
Increased level of savings at household level	Number of persons with savings accounts with member institutions	TBC	MAMN	5% growth rate per annum	5%	Finscope consumer survey	MAMN does not collect such data because there isn't such a provision in the call report
	Volume of savings accumulated by persons with savings account with member institutions	TBC	MAMN	5% growth rate per annum			<p>MAMN does not collect such data because there isn't such a provision in the call report</p> <p>Stakeholder comments</p> <p>Based on Finscop, the number of Malawians who have savings accounts decreased over recent years. However, there are no data on this indicator.</p> <p>Most MFIs focus on loan facilitation, although they also do savings facilitation. Most are not deposit-takers however. They only facilitate between banks and their own clients. There are some MFIs which require compulsory saving as a precondition and collateral for loans.</p> <p>There is a possibility for linkages between VSL groups, which enable members to build up collateral for a loan, and MFIs, which provide larger loans and can facilitate between VSL groups and commercial banks, so that groups can deposit excess funds in interest-bearing accounts.</p> <p>Commercial banks usually do not provide savings accounts to ultra-poor, since the cost of providing the account is larger than the amount of savings. In recent years, however, commercial banks with MF departments have also scaled-down and started providing services to the very poor.</p> <p>An apex fund would be helpful for refinancing. MFIs currently refinance using bank loans, which is costly. Even though they get business-to-business loans, rates are high because MFIs' client base has little collateral.</p> <p>Regulators suggest adopting the model of Ghana. There, all MFIs have by law become deposit-takers. All MFIs include an element of deposit-taking, which may get out of hand when it is not regulated. Also, if MFI loans create profitable businesses, depositing the savings incurs a high transaction cost if no banks are available in the operating area. A problem here could be that most MFI clients want to make deposit for a short time. At banks, clients usually make long-</p>



							term deposits. Also, even though MFIs are already taking deposits (especially collateral savings), these usually cannot be mobilized. Allowing mobilization would help move towards more widespread deposit-taking by MFIs. Especially branch-less MFIs may find it easy to engage in deposit-taking. Taking savings might raise operating cost, which would push interest rates up. Once MFIs engage in widespread deposit-taking, regulators need to ensure that those deposits are safe.
							Most MFIs want to go into deposit-taking and then become a microfinance bank (MFB). Once MFIs become MFBs, interest rates might decrease, since the aggregate business risk might be reduced. It is FINCA which is a deposit-taking institution with others planning to go in that direction
Number of MFIs offering voluntary savings services	TBC	MAMN	6 more	1			
Number of social support beneficiaries targeted by MFIs	TBC	MAMN	20% of social support beneficiaries	30% of social support beneficiaries	Ministry of Finance		

1) How relevant are Micro-Finance Programmes?

What is Micro-Finance?

Financial sector development and financial inclusion is considered as an important tool for economic development and poverty reduction by the Government. Financial inclusion is delivery of banking services at an affordable cost to disadvantaged and low income groups that are often excluded from (formal) financial services. The Government of Malawi considers it essential in increasing agricultural productivity and production, expanding micro and small enterprises, creating employment, increasing household income and smoothing consumption.

The NSSP considers MF to play a key “role in promoting the poor to move out of poverty, by increasing their access to finance, thereby enabling expansion of their income earning opportunities”. The MNSSP focusses on 1) strengthening the outreach capacity of poverty-focused MFI and, 2) strengthening of the operations and management capacity of MFI to improve efficiency of microfinance services.

Evidence discussed by stakeholders

Coverage of financial services	40% of adults are formally served, including both banked and other formal financial services (2008: 26%). 33% are banked (2008: 18%), 28% use informal mechanisms (2008: 25%) and 46% use no financial services (2008: 55%).
Access to credit	Given Malawi's agricultural economy, having access to credit or savings at specific agriculturally sensitive times can have large impacts on food security and poverty.
Demand for loans	Highly seasonal and very dependent on agriculture.
Geographical coverage	Whereas traditional moneylenders and banks predominately service urban Malawians, NGO-MFIs often deliberately target the rural poor.
Entrepreneurship and productivity	MF can provide access credit for investments towards improved productivity, income and the diversification livelihoods.
Diversification of livelihoods	Given declining yields and the volatility of agricultural investment, there is a need to diversify income generating activities, savings and access to credit provided support that
Insurance	98% of adults do not have any kind of financial product covering risk.



Key questions on the relevance of MF

- **Agricultural credit:** Most Malawians work in the agricultural economy and demand for credit is heavily dependent on the agricultural season.
 - Are there credit modalities that are aligned with the agricultural cycle (timing and value)?
- **Volatility of agricultural investments:** A common reason not to borrow (formally) is the volatility of agricultural production in Malawi and the fear of falling into debt.
 - Is there a way to address respond to these, very reasonable, concerns?
- **Geographical coverage:** Given the need to be cost-effective and the high transaction costs of lending, is MF adequately serving the most vulnerable?
 - Are there reforms to ensure that microfinance organizations adequately focus on the rural poor?
- **Insurance:** There seems to be very limited and declining emphasis on insurance. Why is this?
 - Given the common financial emergencies, does the limited focus on insurance make sense?
 - Are there reforms that could make insurance products more popular with stakeholders?

Stakeholder discussion

Opening the workshop, stakeholders discussed the various financial services provided by MFI and in particular why there is so little insurance provision. Given the prevalence of idiosyncratic and covariate shocks, forms of micro-insurance could conceivably have significant positive impacts on resilience.

It was suggested that there is little insurance provision because the cost to the insurer is high, since the risk of shocks materializing is large. However, stakeholders did not consider the cost of insurance to be prohibitive and the profitability/sustainability of micro-insurance models was mainly seen to rest on getting the numbers right. If a lot of people were to be insured, for certain insurance products, the cost would decrease.

Theoretically lots of areas could be insured but premium collection and designing insurance terms is very complex. Further, in many settings it can be hard to verify that insurance applies (for example in the case of a weather index insurance) despite the technology to verify such events now being in place. A key challenge here is imperfect information sharing. Potential clients are often not aware of the portfolio of existing products and in cases where insurance has not been triggered, despite adverse events taking place, people may feel that they are paying for nothing.

It was stated that commercial banks are now moving towards insured loans. In that context, and the insurance context more generally, MFIs could facilitate between clients who need insurance and commercial insurers rather than providing insurance products themselves.

The discussion then turned to the prevalence of agricultural credit in Malawi. A challenge of lending to smallholder framers is that for many agricultural products, farmers do not know how to use them other than for own consumption or selling them directly to end consumers. There is little value-addition and processing facilities are not in place. Farmers often have very little contact with money, which results in them struggling to repay loans, sometimes even despite increased output and productivity.

Stakeholders briefly discussed the issues of lacking collateral, which makes it difficult for farmers to access credit. Putting a warehouse receipt systems in place was considered a promising solution. Under such a system, farmers deliver their produce to a warehouse, where they get a receipt. The receipt can then be used as collateral. However, it is difficult to design such as system for highly perishable goods (e.g. tomatoes).

Stakeholders further observed that a strong focus on agricultural activities means MFI clients will only work for about 40 days and then cannot find productive activities for the rest of the year. It was suggested that they have to be enabled to either farm all year round or develop additional revenue-generating activity for the rest of the year.



It was recognized that financing agricultural production is a challenge, MFI cannot fulfill all of the demand for agricultural financing and commercial banks often do not provide agricultural finance to smallholder farmers. In fact, 80% of agricultural production is at the subsistence level but loans make sense mostly for commercial and larger-scale agriculture.

While demand for agricultural loans is very high, few MFIs provide them. Instead, most loans offered are trading loans (i.e. for buying and selling), which are seen as less risky than agricultural loans.

Loans for the adoption of agricultural productivity enhancing techniques, such as drip irrigation kits, could be a 'game changer' if they can get smallholder farmers to two or three harvests a year, allowing them to move from subsistence to small-scale commercial farming. It was discussed whether there should be dedicated products for financing these, perhaps even including training grants.

MFIs present at the meeting expressed interest in developing such 'products' in the future. Developing very concrete business cases could stimulate demand for irrigation and loans for it. It was agreed that this is an area that deserves further investigation.

Sometimes MFIs also provide food security loans combined with business loans, where the former should be repaid using the profits from the latter. Loans for fertilizer are usually not provided.

Stakeholder recommendations

- 1) **Consider the development of loans for small-scale irrigation systems and agricultural productivity enhancing techniques**

2) What is the impact of Micro-Finance Programmes?

Evidence discussed by stakeholders

Limited global evidence	International evaluations suggests that microcredit has positive impacts on investment in self-employed activities, but no significant impact on consumption or income. However, several studies find an impact on profits for pre-existing businesses or for businesses in the upper tail of profitability Internationally, studies find that loan take-up is limited amongst the poor, as households often do not have a project with a sufficient rate of return or prefer to borrow from friends, relatives, or money lenders due to the greater flexibility those sources provide, despite costs such as higher interest (from moneylenders). Microcredit appears to have no discernible effect on education, health, or women's empowerment.
Limited evidence in Malawi	Very limited evidence base on microfinance (credit, savings or insurance) in Malawi. Evidence that the provision of individual savings accounts led to higher savings in the months prior to the next agricultural planting season and raised agricultural input usage in that season. 2014 study also finds positive impacts on crop sale proceeds and household expenditures.



Key questions on the impact of MF

- **Limited returns from entrepreneurship:** Limited (international) evidence suggests that participants do not have increased incomes based on entrepreneurial activities
 - Does this apply to Malawi?
 - How can participants be better prepared to successfully invest savings and manage a successful business?
 - How can the sustainability of returns to investments be improved?
- **Target group:** Limited evidence suggests that microcredit has higher returns on investment on larger pre-existing businesses.
 - Should microcredit focus on the poor and vulnerable or rather provide credit to those with a small but viable business?
- **Insurance:** Microcredit has the potential of creating 'debt traps' if consumers are unable to pay back a loan.
 - With respect to the volatility of Malawi's agricultural economy, would it not make sense to focus more on insurance?
- **Role of the Government:** What is the role of the Government in improving impacts of MF?

Stakeholder discussion

It was suggested that the core assumption of pro-poor MF is that most people, even the poor, have some productive potential, such as land, time, or even a small business. Based on these resources, rural populations are able to support each other through informal social safety nets. MF financing enables beneficiaries to use their existing resources more effectively.

Stakeholders cited EU and USAID impact evaluations done in Malawi, which analyzed the impact of microfinance. The evaluations have pointed to increased incomes of MF clients and increased profitability of investments over time. Nutritional advances have also been reported. However, it was recognized that the findings of such evaluations are often not widely shared or published.

The overall impact of MF was considered to be positive, despite not just focusing on some highly profitable businesses. Instead MF was asserted to have positive influences across the board, ranging from female empowerment to small-scale business create of the poorest.

Stakeholders further discussed which social impacts are measured by MFI. Apparently, these include the number of jobs created and the impact on female entrepreneurship and the vulnerable. However, information sharing was recognized to be inadequate. One of the impacts of MF observed by many MFI was the acquisition of livestock by clients. Stakeholders also suggested that MF beneficiaries often prioritize sending their kids to school.

While stakeholders are confident in the positive impacts of MF in Malawi, there is little formal evidence to testify to that. As rigorous impact evaluations are very expensive, it was suggested that improvements to organization' M&E systems could be a first step in ensuring a better understanding of the functioning of MF in Malawi.

The discussion then turned to the question of how the impact of MFI can be enhanced and what could be done differently in the future.

A key challenge of MF is that returns on entrepreneurship are often quite limited. Given the high cost of credit, this makes it difficult for beneficiaries to repay their loans. With interest rates of around 50%, beneficiaries need to find business opportunities that generate at least 50% percent profit, which is not easy in any environment.

Maybe one way to address this would be to provide improved business trainings for beneficiaries, including examples of highly profitable business cases.

To this end it was suggested that training offered by MFIs should be standardized and Government should ensure it is of high quality. As of now, implementers provide very different training packages, with different focus areas



and different levels of depth and quality. It was agreed that there should be best practice guidelines with regards to the minimum level of training provided to beneficiaries. The responsibility for developing and enforcing these lies with the Government regulators. However, the MFI network should contribute to their development to ensure that the guidelines are focus on the competences and knowledge needed by beneficiaries.

Stakeholder recommendations

- ✓ **Develop a standardized sector-wide training curriculum that should be provided to micro-finance clients:** Government, together with the sector, should develop a standardized training package that should be provided to MF beneficiary. It should include skills development components on financial literacy, accounting, and business skills.

3) How effective are Micro-Finance Programmes?

Evidence discussed by stakeholders

A "service delivery" perspective

Coverage	51% of Malawians are financially excluded, only 2% have some form of insurance.
Geographic coverage	Only 21% of rural Malawians are banked.
High transaction costs	Many MFI work in rural areas, where low population density and weak infrastructure result in high operating costs. Poor infrastructure significantly increase transaction costs and restrain expansion and outreach strategies.
High interest rates	Inflation and interest rates are high, making it difficult for beneficiaries to repay loans.
Literacy and limited understanding of modalities	Low literacy levels affect the understanding of the lending modalities by beneficiaries. Limited understanding of microfinance terms vis-a-vie informal arrangements (VSL, etc.).
Capacity challenges	Lack of entrepreneurial, financial and technological competences of target populations leading to defaults.

Key questions on the effectiveness of MF

- **Limited coverage:** What are Malawi's strategies on financial inclusion?
 - What are the drivers and barriers towards greater financial inclusion?
- **Geographic coverage:** How can rural Malawians be included?
- **High transaction costs:** What reforms are needed to reduce the transaction costs?
 - What role, if any, could the Government/Donors play in reducing transaction costs?
- **High interest rates:** Are there any mechanism that could potentially reduce interest rates?
 - Do potential customers fully understand the nature of interest rates and their implications?
 - What role, if any, could the Government/Donors play in reducing transaction costs?
- **Literacy and limited understanding of modalities:** How can customers' understanding of modalities be improved?
- **Capacity challenges:** How can the entrepreneurial, financial and technological competences of target populations be improved?

Stakeholder discussion

There was a consensus that investment in literacy needs to be increased but stakeholders also asserted that this is beyond the capacity or mandate of an MFI. However, MFI can play a strong role in promoting financial literacy. This starts with ensuring that potential beneficiaries fully understand the terms and conditions of a loan.

Financial literacy goes beyond understanding of terms and conditions and also promote an understanding of the importance of saving, that loans should only be taken for productive investments, how to recognize a potentially profitable business and how the performance of one's business could be improved. This conceptualization of financial literacy includes strong elements of business trainings.



High interest rates in the MF sector are a key challenge and all implementers recognize that. Generally speaking an interest rate of 50% percent is made up of 5% risk cover, 20% inflation, and about 25% lending and operating costs. It was suggested that reducing interest rates might work via making MFIs more efficient (for example using mobile money or e-transfers). The ID system is also expected to reduce the cost of lending.

MFIs offer a wide variety of products, among which interest rates differ widely (although they all tend to be high). More competition due to new market entrants should also drive down rates.

It was further suggested that the sector, under Government leadership, could develop a system of certification for loan officers in order to ensure minimum professional standards, including the capacity to assess appropriate financial products for various group of beneficiaries.

Stakeholder recommendations

- 1) **Ensure that the to-be-developed training curriculum has and adequate focus on financial literacy and business skills training**
- 2) **Develop a system of certification for loan officers in order to ensure minimum professional standards**

4) How efficient are Micro-Finance Programmes?

Evidence discussed by stakeholders

A "systems" perspective

Diversity of services	High diversity in the types and sizes of MFI, range of products and terms under which they offer their service.
Inadequate information management systems	Fragmented data management systems and slow progress in development of shared IT hub due to high investment costs.
Capacity challenges	Limited capacity of some implementers to perform adequate and efficient loan tracking.
Lack of cooperation	Absence of integrated work program and plan by collaborating partners.
Lack of coordination	Infrequent meetings of the MF TWG.
Lack of national ID system	Challenge to the extension of financial services as most financial institutions fail to uniquely identify their customers.

Key questions on the efficiency of MF

- **Cost of implementation:** What are the required set-up and support costs of VSL implementation?
 - Beyond the initial set-up costs and trainings, do VSL group require further support?
- **Inadequate information management systems:** How was the information management system be improved and harmonized?
- **Capacity challenges:** How can the technical financial management capacity of implementers be improved?
- **Lack of cooperation:** What institutional arrangements need to be made to improve cooperation and coordination at all levels?

Stakeholder discussion

The provision of Malawi's first national ID was unanimously agreed to be as a 'game changer' for the provision of MF services in Malawi. The ID will be tremendously useful in identifying beneficiaries and cross-checking with other implementers whether an applicant has outstanding loans. This is expected to reduce instances where people receive a number of loans from various MFI without their knowledge. Through easier identification of beneficiaries, stakeholders expect the cost of credit to go down a bit.



If the national ID rollout happens as planned, the ID will be linked to an online account (e-account). However, it was suggested that people will eventually want actual cash (instead of e-cash). Ideally, cash should be accessible where people live, not just in the nearest city or regional hub. MFIs could act on these linkage points, where infrastructure investment might be needed.

Remote areas are less well reach with MF than more central and connected areas of Malawi. It was agreed that this is primarily due to limited access and infrastructure and not due to lack of potential for productivity.

The cost of implementing MF was discussed, and in particular the question whether MFIs are working in a financially sustainable manner. Do MFI pay their operating cost or are donors and NGOs covering them? Is the operational cost incorporated into interest rates charged to beneficiaries?

MFIs in Malawi are very heterogeneous and financial policies vary. However, donors usually pay the set-up cost and sometimes also support a proportion of operational costs. Donors often fund or contribute to new investments in technology or infrastructure. If MFIs were required to be fully financially self-sufficient, stakeholders would expect interest rates to rise.

Lack of sector-wide M&E systems are another challenge. Stakeholders discussed the prospects of developing a harmonized M&E system for the sector. Apparently, regulators are currently developing a unified information system called the Microfinance Processing Hub (MPH). It will be available to all players and it was suggested that all MFI should be requested to take-up this MPH.

Is there a lack of cooperation among MFIs? In terms of discussion fora, there is the annual MFI meeting facilitated by MAMN. In addition, the Microfinance Working Group (MWG) meets quarterly. It was suggested to extend the membership of the MWG to all MFI in Malawi (and not just those currently associated with the NSSP).

Stakeholder recommendations

- 1) **Develop strategies on how the introduction of the national ID system can improve service and outreach and reduce cost of lending**
- 1) **Develop sector-wide standards for monitoring and evaluation system.** Ensure that all MFI have in place adequate M&E system and are able to track loan performance, as well as the impacts of MF investments.
 - a. Ensure that all implementers join the Microfinance Processing Hub (MPH) once it's developed.
- 2) **Strengthen basis for cooperation through regular and sector-wide discussion fora.**

5) What is the institutional capacity of Micro-Finance Programme Implementers?

Evidence discussed by stakeholders

Leadership and management	Inadequate leadership project management competences, limited political ownership and support at national level. Inadequate leadership and management capacity and the absence active leadership (limited to district outreach services) at district level.
Policy, strategy and legislation	Limited awareness and knowledge of relevant legislation, developmental strategies, and knowledge of micro-finance policies and guidelines at all levels. Lack of regulator's capacity for the regulation of MF activities.
Institutional framework and coordination mechanisms	Ineffective coordinating mechanisms, inadequate understanding of roles and responsibilities, ineffective communication, high membership turnover, absence of policy planning and review dialogue forum at all levels. Competing and conflicting roles and responsibilities, unclear guidelines for collaboration with partners at district level.
Human resources	Inadequate staffing levels in the umbrella body; inadequate knowledge in programme management, absence of HRD strategy at national level. Inadequate staffing levels, limited training of staff and beneficiaries, lack of entrepreneurial, financial and technological skills of beneficiaries.



Key questions on the institutional capacity of MF

- **Lack of coordination and collaboration:** How can coordination and collaboration between implementers be improved?
 - What institutional arrangements need to be established to facilitate this process?
- **Lack of harmonization:** How can MF implementation be harmonized?
- **Government support:** What should the role of the Government be in the implementation of MF?
 - Should it focus on providing an adequate regulatory framework or get directly involved in MF?
- **Inadequate staffing levels:** How can staffing levels be improved?
- **Inadequate skill levels and competences:** How can implementers be better trained in financial management and business skills?
- **Operational support infrastructure:** What is the necessary investment cost of putting in place adequate operational support infrastructure is in place?

Stakeholder discussion

Should the government only coordinate and regulate, or is there space for a more active role? There was a consensus amongst stakeholders that direct involvement of Government in the provision of MF has not been very positive. Direct engagement is quickly politicized, lead to frequent defaults, apparently, and created a “culture of defaulting”. The role of Government, as seen by stakeholders present, should be that of a regulator, providing and enforcing sector-wide guidelines.

While it was agreed that implementation guidelines and best practice guidelines are needed, the sector asserted that the current regulatory framework is adequate and does not require changes.

However, regulators suggested that there is room for improvement, which is why MF regulations are currently being reviewed. A key challenge in providing an adequate regulatory environment is low staffing at the Reserve Bank of Malawi. Current personnel capacity is at maybe 60-70% of what's required.

Stakeholder recommendations

- 1) **Government to focus on creating an appropriate regulatory framework and work with the sector in harmonizing implementation through best practice guidelines.**

6) How sustainable are Micro-Finance Programmes?

Evidence discussed by stakeholders

Donor dependency	The implementation of MF programmes is heavily dependents on donors and NGO. 2015 RBM report finds that NGO-MFI operations continued to rely on largely donor support in form of loans with soft terms and grants. Current levels of donor funding raise sustainability concerns: Government contribution to the MF programmes is mainly on non-financial terms, leaving the programme vulnerable to changes in donor priorities.
Fragmentation	Limited Government leadership results in a fragmented and uncoordinated, which leads to confusion and duplication, undermining effectiveness and sustainability.

Stakeholder discussion

Aside from providing regulation and guidelines, the Government should work towards improving rural infrastructure, as should the donor community. This includes physical infrastructure, especially access-related infrastructure, such as roads, but also institutions such as the national ID system.

In terms of sustainability it is key to reduce the cost of lending so that MFI will be self-sufficient and can function without donor support.



Key questions on the sustainability of MF

- **Role of the Government:** What role should the Government play with respect to MF?
 - Should the Government play a regulatory role?
 - Ensure the financial sustainability of MF schemes?
 - Work on improving conditions and outreach?
 - Actively implement MF schemes?
- **Limited financial sustainability:** Are there any reforms that could make the programme more financially sustainable and attractive to Government?

Stakeholder recommendations

- 1) **Develop strategies to reduce the cost of lending to improve financial sustainability of MFI**
- 2) **Government and donors to increase investments into institutional and physical infrastructure.**
Examples are improved access to rural communities and the national ID system.

Traffic Light Evaluation of Micro-Finance Programmes: Strategic interventions, outputs, and activities

Strategic interventions, indicators, baseline values and targets for microfinance							
Intervention	Indicators	Baseline	Source	Target 2016	Actual 2016	Source	Comments
Establishment of Apex fund for microfinance institutions targeting the poor	Amount lent from Apex fund / Outstanding loans from MFIs	0%	MAMN	30%	0%	Ministry of Finance	Unavailability of funds to roll out Apex Fund
Capacity building for MFIs	Existence of institution offering microfinance training	No	MAMN	Yes	Yes	MAMN	Lilongwe University of Agriculture and Natural Resources (degree) MAMN (short courses)
	Percentage of core microfinance staff certified in microfinance	TBC	MAMN	80%			
	MFIs operating on CGAP best practices	TBC	MAMN	100%			There are some MFIs (especially the DTI & NDTIs) which follow but it is difficult to give the absolute figures
Capacity building for clients on entrepreneurship and financial literacy	Client retention rate	TBC	MAMN	80%			MAMN does not collect such data because there isn't such a provision in the call report
	Loan default rates (i.e. PAR>30 Days)	10%	MF Sector Assessment - FIMA	5%			
	% of clients trained by MFIs	TBC	MAMN	100%			No data
	% of clients involved in manufacturing	TBC	MAMN	15%			No data
Infrastructure development for microfinance institutions	Proportion of rural persons who received a loan or credit during the last 12 months	7.9%	IHS, 2010	20% (60% increase)			



	Number of MFI access points in rural areas	TBC	MAMN	At least 100% increase				No data – mapping exercise yet to be conducted
Develop clear coordination framework for government ministries	Framework developed and adopted	Not adopted	Ministry Finance	Adopted	Adopted	Ministry of Finance		Pro-Poor Microfinance Technical Working Group coordinating microfinance

Strategic Outputs and Activities		
Strategic Output Target 1: Creation of Apex fund		
Strategic Activity		Comments
Conduct advocacy meetings/workshops with various stakeholders on the need for establishment of an APEX fund.		Creation of Apex Fund discussed during a few meetings but workshops have not yet take place
Develop a business plan (including feasibility study evaluating committee), legal framework and guiding principles for the administration and management of the fund.		Unavailability of funds
Establish and support a body for administration and management of Microfinance Fund.		Unavailability of funds
Provide funding for the Apex Fund.		Unavailability of funds
Ensure Apex Fund extends loans to Microfinance institutions through quarterly investment committee meetings.		Apex fund not yet in place
Conduct annual survey of fund recipients to ensure targets are met.		Apex fund not yet in place
Annual audit of APEX fund.		Apex fund not yet in place
Strategic Output Target 2: Strengthened operations and management of Microfinance Institutions		
Recruit and pay staff within research unit within MAMN (head of unit + statistician).		Unavailability of funds
Recruit and pay staff within training unit within MAMN (Head of training + 2 training officers + training coordinator).		Unavailability of funds
Organise annual meetings of the Microfinance Forum.		Unavailability of funds
Organise quarterly meetings for the Microfinance Forum committees (Committees: financial inclusion, resource mobilisation, capacity building, insurance, enabling environment)		Meetings and forums have taken place although not adequate
Strengthen supervisory capacity (within Reserve Bank, MAMN and MUSCCO) to enforce the Microfinance Act and Financial Cooperatives act and to support compliance.		Unavailability of funds
Develop and manage IMS in the Reserve Bank and support compatibility with MFIs IMSs.		Unavailability of funds
Conduct training needs assessment for MFI staff.		Unavailability of funds
Conduct stakeholder workshops with institutions of higher learning on the need for development of Microfinance related courses.		Unavailability of funds
Develop Curriculum for Microfinance Course at institutions of higher learning.		Unavailability of funds
Fund short-term Microfinance training courses.		Unavailability of funds
Fund 4 year Bachelor's degrees in Microfinance.		Unavailability of funds
Conduct annual impact assessment of Microfinance.		Unavailability of funds
Create a business plan for a credit reference bureau for MFIs (once National ID introduced).		Unavailability of funds
Establish and support the bureau.		Unavailability of funds
Strategic Output Target 3: Increased number of well managed and stable businesses		
Conduct training needs assessment.		Capacity needs assessment of Microfinance Institutions conducted
Develop training guidelines.		Unavailability of funds
Identify and select implementing agencies such as MFIs, NGOs, community based organizations, and government agencies involved in adult literacy activities.		Unavailability of funds
Conduct training workshops for implementing agencies.		Unavailability of funds
Provide financial support to implementing agencies to train clients.		Unavailability of funds
Monitor MFI training programs.		Unavailability of funds
Strategic Output Target 4: Increased presence of MFI services in rural areas.		
Survey MFIs to identify where MFIs are non-existent or have limited operations, and ask why this is the case.		Ministry of Finance is in the process of conducting mapping exercise
Produce questionnaire of why MFIs are not in these areas.		
Act to remove constraints or provide appropriate incentives for microfinance service providers to expand to these areas (e.g. Infrastructure, hardship funds).		
Provide information to MFIs on beneficiaries of other social support programs.		Ministry of Finance has linkages and referral mechanisms
Strategic Output Target 5: Development of Microfinance Policy		
Organise a workshop for relevant government ministries.		Done
Develop policy framework.		Done but vet to be finalised

