

1. INTRODUCTION

An analysis of the situation of poverty in 1993 revealed that 60% and 65% of Malawi's population in urban and rural areas, respectively, lives below the poverty line. This situation of poverty has been confirmed by various other studies including the 1998 UNDP Human Development Report. There is great need, therefore, to put into place action that can reduce or even eradicate poverty in the country. One way of doing this is to promote income generation and employment creation among the poor. Increased access to credit, savings opportunities and other financial services will be crucial in this respect. The Government's Policy Framework for the Poverty Alleviation Programme developed in 1995 recognises this role and has, as one of its strategies, '*the improvement of access to credit facilities by deepening and broadening the financial sector to assist the poor to diversify their sources of income*'. Furthermore, the Vision 2020 recognises the importance of accelerating enterprise development as a strategy for attaining fair and equitable distribution of income and wealth. Specifically, one of the strategies is to make credit accessible to all levels of the population through a variety of lending institutions.

In Malawi access to credit, savings opportunities and other financial services still remains one of the major constraints to enterprise development. This is more so among micro-enterprises who form 96.4% of all micro, small and medium enterprises and in particular those owned by women. The formal financial sector does not cater for these enterprises because they do not have collateral and security guarantees. They are also believed to be high-risk clients who are unable to repay loans and the cost of delivering credit and saving services to them is said to be very high. In fact only 1.2% of MSMEs had received credit from formal financial institutions by 1992 (GEMINI Report, 1993). The formal financial sources have also been unable to satisfy the demand of these entrepreneurs.

The important contribution to poverty reduction by increased access to credit, savings opportunities and other financial services by low income clients has long been recognised in Malawi as evidenced by the development and implementation of programmes and schemes targeting this sector with micro credit. Government organizations have each provided and continue to provide microcredit to the poor. NGOs have also played their role. Special programmes and schemes have also been implemented, usually with donor support. To date available information suggests that only 122,000 micro entrepreneurs have been accessed with

loans amounting to K17 million.

Most of these schemes have had a positive impact on the lives of the recipients in terms of increased food consumption, increased self-employment, increased savings, access to other basic necessities and business expansion. Women who have accessed these schemes have been empowered while increased income has enabled recipients to have greater control over their lives.

The multiplicity of institutions, programmes and schemes providing microcredit to low income clients has led to diversity in lending policies with respect to repayment period, interest rates, repayment schedules, loan processing and conditionalities, credit recovery, methodology and client selection, among others. As a result of this diversity some schemes have adversely affected the performance of others. Others have been short-lived. This clearly indicates the need for harmonisation and promotion of best practices to ensure sustainability. Currently there is no policy to guide Government, practitioners and donors on the way forward.

In 1997, at the first National Forum on Microfinance held in Mangochi, Malawi adopted Microfinance as the way forward to increasing access to credit, savings opportunities and other financial services by low-income clients. Microfinance is a relatively new phenomenon in accessing the poor with financial services and Malawi is just coming onto the scene. Microfinance needs to be viewed as business activity and should not be treated as social initiative. It is therefore, imperative to have an environment that would facilitate and encourage the adoption of universally acknowledged best practices by those involved in providing this service. This further strengthens the need for a policy and regulatory framework within which all players operate to ensure sustainability and increased outreach.

2. DEFINITION OF MICROFINANCE

Microfinance refers to savings and credit services appropriate to and accessible by poor and low-income people who are generally denied access to the formal financial system on a sustainable basis following best practices. Best practices are those norms and operating modes derived from international experience by microfinance institutions (MFIs) which have been able to achieve significant outreach to the poor while covering operating costs and moving towards full financial sustainability.

3. OBJECTIVE OF THE POLICY

The purpose of the Policy Statement is:

To promote the development of a sustainable microfinance industry which provides credit, savings opportunities and other financial services to low-income people, which will create wealth and employment in Malawi.

4. The objective of the Policy Statement will be achieved by the pursuance of a strategy consisting of the following:

- *The creation of an enabling legal and regulatory environment as well as overall economic policies conducive to the development of microfinance;*
- *Improvement of capacity of implementing institutions and other key actors such as the microfinance practitioners; the Reserve Bank of Malawi and the Government;*
- *Promotion of best practices in the industry among MFIs, Government and the donor community;*
- *Increase the co-ordination among the various actors in the Microfinance sector.*

Improvement of Legal and Regulatory Framework

While recognizing that overall, the existing legal environment is not hostile to the development of microfinance in Malawi, Government, in collaboration with MFIs and the donor community, shall endeavour to improve the environment to make it more friendly through review, revision, amendment and even repeal if necessary of those laws and regulations that stand in the way of microfinance development.

For legal and regulatory purposes, the policy recognises the need to distinguish different kinds of institutions, based on the nature of their activities, scale and funding sources. Overall, the threshold for public intervention in the regulation and supervision of microfinance shall be crossed when an MFI begins to mobilize the intermediate savings from the general public. At the same time, however, it is recognised that other forms of supervision, including self-monitoring through a peer

organisation, may promote the aim of increasing the quality and transparency of implementing institutions that do not fall under the supervision of the public.

Capacity Building for the Microfinance Sector

The capacity of MFIs shall be enhanced in order to enable them to effectively deliver microfinance services to their clients. This shall be done in a manner that would meet the needs of a diverse group of practitioners, each of which have unique characteristics in terms of mission, scale and level of development. The capacity building approach shall focus on issues of quality, transparency and sustainability.

Capacity building efforts in the industry shall aim at building a local training facility to address the needs of local MFIs. Such a facility may eventually become a regional training centre.

Government's capacity for policy making and supervision shall be enhanced and effectively utilised, whereby there will be special attention for the role the Reserve Bank of Malawi will play in supervising MFIs.

Promotion of Best Practices

To achieve a maximum impact, there will be need to foster the adoption of best practices in all microfinance institutions. Microfinance institutions will be encouraged to adopt cost recovery interest rates, introduce voluntary savings, adopt aggressive collection of interest rates, introduce effective incentives to repay loans, and expand their outreach in order to reduce cost of their operations.

MFIs shall charge sustainable interest rates. Such rates shall take into account administration costs; loan losses, cost of funds including inflation and capitalisation for growth. Interest rates shall not be subsidised.

Increased co-ordination among the actors in the Microfinance sector

Government will orient its approach to the development of the microfinance sector through more active involvement of the Ministry of Finance and the Reserve Bank and all other concerned agencies such as the Ministry of Agriculture, Ministry of Commerce and Industry and others to ensure effective coordination.

Microfinance practitioners shall continue with their efforts to formalize the

Microfinance Network into an association (The Microfinance Association of Malawi) so as to serve as effective partners in a continuing policy dialogue and in the co-ordination of capacity building activities.

Donors will be encouraged to co-ordinate their capacity building efforts and other forms of assistance to MFIs to promote best practices and to work with the government to create an optimal policy environment.

ROLES OF KEY STAKEHOLDERS

Key stakeholders including Government, donors and practitioners shall uphold microfinance best practices considered desirable for the sustainable development of the microfinance industry in Malawi.

The Role of Government

Overall, a healthy MFI industry will consist of private and autonomous institutions operating according to widely accepted best practices, within a set of conducive policies enacted by Government. Any policies or actions that force MFIs to deviate from the said best practices would be considered undesirable to the development of the microfinance industry in Malawi.

In order for microfinance and the activities it supports to flourish, there will be need to maintain a stable macroeconomic and political environment and to develop a supportive infrastructure (transparency, communications and national identification system).

The Role of Reserve Bank of Malawi

The Reserve Bank of Malawi has an important role to play in designing an appropriate regulatory framework for the MFIs in Malawi in close coordination with the Practitioners to facilitate broadening and deepening of the financial system.

The Role of Practitioners

Microfinance institutions shall provide a high quality financial services to low-income clients on a sustainable basis adhere to universally accepted best practices and respect industry-wide code of conduct. The microfinance institutions will be encouraged and supported to develop capacity for self-regulation and, over time, to participate in a programme

for formal supervision by Reserve Bank.

Microfinance practitioners shall be encouraged and supported to create a microfinance association which will, among others, be responsible for promoting and monitoring compliance of universally acknowledged best practices, develop and disseminate industry-wide code of conduct and generally, to monitor practitioners' compliance in respect of self regulation.

Role of Donors

Donors shall draw up guidelines on their support for capacity building, best practices awareness and transparency. Their support to the sector shall reflect the appropriate balance of operational and technical support and loan funds with a preponderance of support in the former categories.