BETTER THAN CASH ALLIANCE | Empowering People Through Electronic Payments

Malawi Country Diagnostic

HIGHLIGHTS

April 2015

The Opportunities for Malawi's Transition Away from Cash

By Bankable Frontier Associates, under the supervision of Jamie M. Zimmerman[1]

Malawi is laying the groundwork for a transition away from cash toward digital payments. The Government of Malawi is committed to advancing digital payments, as its support of this research demonstrates. This diagnostic will help the Government and others to better understand the status of cash to digital payments and the transitioning opportunities. Though in the earliest stages of digitizing payments and with low levels of financial inclusion, publishing this baseline research offers a sound starting point to work with other stakeholders to advance digitization and promote financial inclusion.

As of 2013 when this research was conducted, just 0.3% of the 221.5 million payments made every month in Malawi were made digitally. However, the central bank and large businesses were leading a transition to digital payments, beginning with high-value payments such as inter-governmental transfers, salaries, social welfare payments, and supplier payments.

The Government of Malawi has made steady, if slow, progress on the development of its payments system infrastructure, particularly since the launch of the National Payment System (NPS) Strategy and Framework in 2001. The NPS Strategy laid out goals for creating safe, efficient, and appropriate payment services to improve access and use of financial services of individuals, as well as improve the efficiency of payments for businesses and government.

With limited resources to initiate a digital transition, at the time of the study, the Government of Malawi continued to rely on checks for nearly all of its payments. This presented some difficulties with transparency and security, but has increased the impetus to accelerate the shift to digital.

Development community donors eagerly supported the advancement of mobile money for all payments to individuals. In 2013, over 80% of donor payments, while small in volume and value, were digital payments. This strategy was enabled by growing mobile network penetration, which grew to 34% in 2013 from only 1% in 2003.

Payments to and by businesses (including supplier payments and some debit orders, such as pension contributions or loan repayments) had digitized more than any other type of payment, though these represented a tiny fraction of overall payments in the country by volume.

In the time since this study was conducted, the central bank, the Reserve Bank of Malawi (RBM), has launched a new national switch,[2] with assistance from the World's Bank's Financial Sector Technical Assistance Project (FSTAP). The new national switch should improve interoperability between existing digital payment systems, and could further accelerate digital payment uptake.

The next step for Malawi is scaling this progress to achieve a broader transition among the key payments drivers in the economy: Government, private sector and development organizations. While based on research conducted in 2013, this report is still helpful to reveal some of the opportunities for Malawi's transition, including:

1. **The Government of Malawi transitioning its centralized payment system to digital, with support from banks.**

2. **Development partners increasing use of digital payments.**

3. **Businesses pushing digital payments down their value chains and paying more employees by direct deposit.**

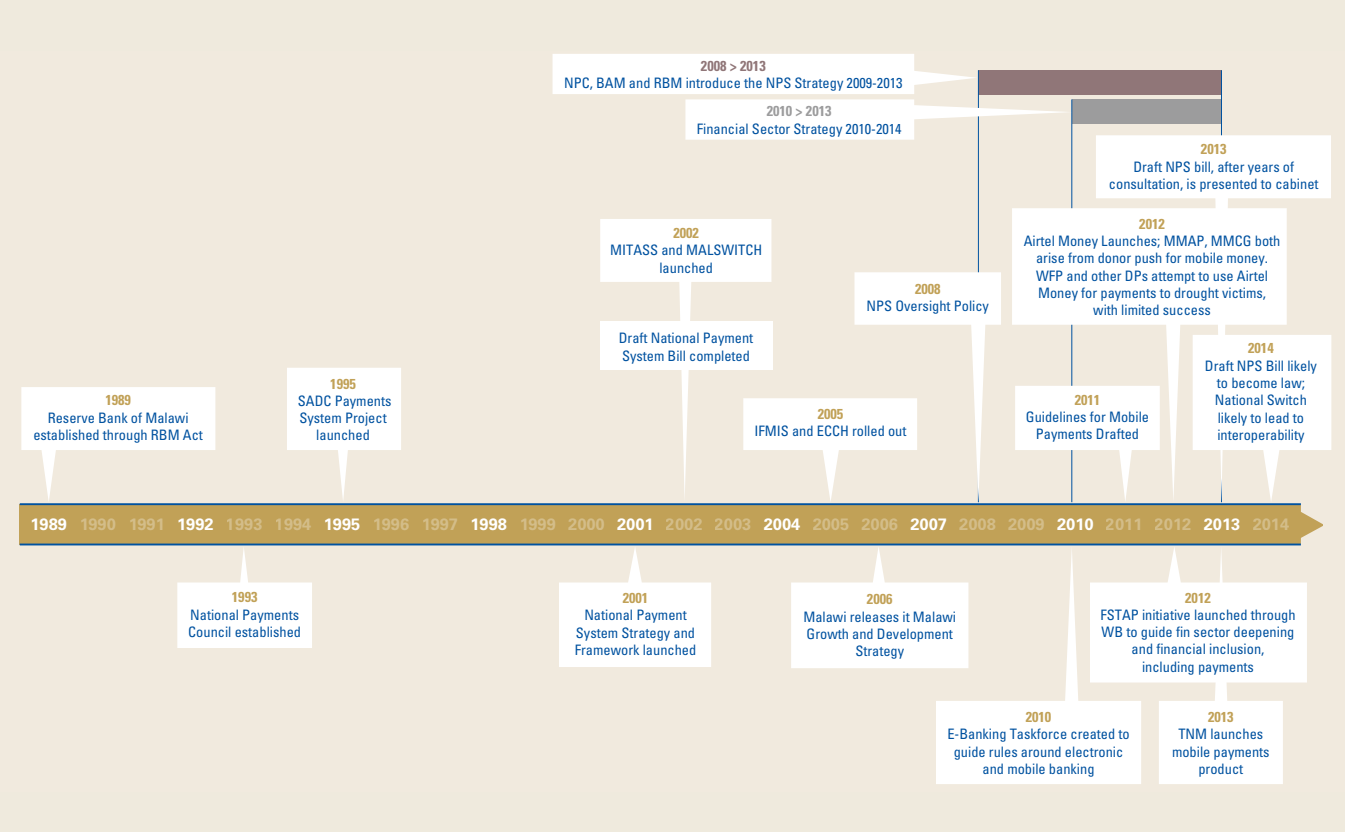
4. **Merchants accelerating digital payment acceptance (via mobile money and debit card) at the point of sale.**

Overview of Malawi's Payments Landscape

Figure 1 below shows the timeline of Malawi's transition to digital payments to date.

With a per capita GDP of US$268 in 2012 and only 17% of adults using formal bank accounts in the same period,[3] Malawi is just beginning the process of

FIGURE 1 **Timeline of key developments in Malawi**



moving toward a digital payments future. In 2013, over 99% of payments volume was initiated by individuals and businesses, and was overwhelmingly made in cash. Similarly, nearly all government payments were made by check or in cash. This is not surprising given Malawi's high poverty rates and largely rural population.

While low in volumes (just 4% of the total in the economy), the largest share of payments made digitally by value were by large business. Among payments made by businesses, 38% were digital and typically were businesses paying large suppliers by direct deposit.

A limited number of big businesses began to make digital payroll payments, but individuals nearly always cashed out due to lack of options for digital ways to pay other people, merchants, or the government.

This transition by large businesses (with little digitization reaching government or individuals) was a result of infrastructure that allowed for digital payments at the high end, particularly for payment of businesses' suppliers and creditors, and for individual insurance and pension contributions.

At the time of this study, the point-of-sale (POS) network was constrained by interoperability challenges. Many of Malawi's banks were not connected to global payment networks and each bank required a proprietary POS device to read the debit cards it issues. Therefore, merchants that accepted digital payment were rare; and those that did added high surcharges.

At the same time, there were fewer than three ATMs and only 20 bank branches in Malawi per 100,000 adults.[4] ATMs occasionally went offline or ran out of cash; queues at banks and ATMs were extremely long,

TABLE 1 **Payments by payer in Malawi**

Payer	No. of payments/month	% volume electronic	Total value MWK mil	Total value USD mil	% value elec.
Government	388,518	0.3%	36,927	$110.3	8%
Business	5,871,911	3.6%	134,965	$403.2	38%
Individuals	215,204,166	0.2%	81,451	$243.4	10%
Dev. partners	32,530	80%	1,133	$3.4	89%
Total per month	221,497,125	0.3%	254,475	$760.3	25%
Total per year	2,657,965,506	0.3%	3,053,704	$9,123.7	25%

particularly at the end of the month when payday occurs, leaving consumers with few better alternatives than carrying large amounts of cash on them, even for substantial purchases.

Mobile money may present an opportunity to leapfrog some of these obstacles and the slow pace of the bulk payer transition, but mobile network penetration was low in Malawi (34% in 2013[5]), even compared with similar LDCs. However, mobile money is gathering momentum, with support from development partners, and now that a second operator, TNM, has joined Airtel in the mobile money market.

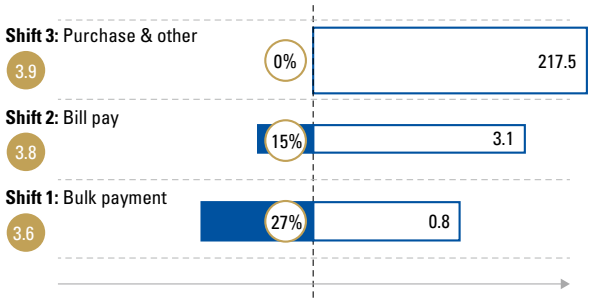
Malawi is still a largely cash heavy economy, but it has begun the first stage of the transition

Three typical phases in the shift away from cash have been documented by BTCA in a variety of country contexts:

1. **Bulk Payments**
2. **Bill and Tax Payments**
3. **Purchase & Other**

Figure 2 shows the trajectory of these three phases.

FIGURE 2 **Trajectories of the shift to electronic payments**



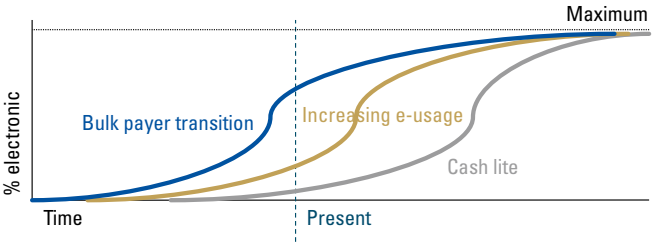
Legend: 3.8 is the trajectory score for the use case connected to each shift; where 1=full shift very likely; 3=slow upward progress; 5=shift unlikely; see Annex C & D.

Note: 15% is % of total number, in millions, of monthly payments in each shift (shown at end of bar) which are electronic as in 2012; see Annex B.

At the time the research was conducted, the first shift of bulk payments had yet to progress significantly, due to the persistence of checks. The second shift of bill payment is progressing for high-value pension contributions, insurance premiums, and loan repayments, but not yet for taxes. There was also progress among large business, only for B2B supplier payments.

Figure 3 shows an overview of Malawi's progress on each phase, including an analysis of the payment stream, the relative likelihood of each to influence the shift, and key findings.

FIGURE 3 **Stages and Shifts from the Journey to Cash Lite, with data from Malawi diagnostic**



1. Bulk Payments: Still Reliant on Checks

Bulk payments refer to the disbursement of funds from one entity to multiple individuals or firms through a single payment transaction (one-to-many). Some examples are:

- Disbursement of resources from federal government to state and municipal-level governments (G2G)
- Salary payments (G2P, B2P)
- Conditional cash transfers, or other social programmes and subsidies (G2P)
- Supplier payments (B2P, G2B)

In Malawi, most of these payments were made in cash or check. To make payroll, the Government of Malawi provided paper checks and a paper list of employees to banks. Government employees were all required to have bank accounts. Through the Integrated Financial Management Information System (IFMIS), run by the Accountant General's Department in the Ministry of Finance, the Government issued paper checks to banks to disburse into employees' accounts. The Government also made pension and supplier payments through IFMIS by paper check.

Government cash transfer payments, such as the Social Cash Transfer Program (SCTP), were still made manually by disbursing cash.

Most businesses used the same paper-based process to make payroll. A limited number of big businesses began to make digital payroll payments, but checks remained dominant.

In a limited number of instances, mobile money services were used to facilitate mass digital credits. TNM's mobile money service, for example, provides bulk salary payments to school supervisors. With the launching of the national switch, and several Malawian banks that handle bulk payments for the government and businesses connected to the switch, it may become easier to make more of these transactions digitally.

2. Bill and Tax Payments: Progressing for B2B Payments Only

Remote bill payments occur when the government or a business issues invoices to a large number of customers. Examples of this include:

- Collection of taxes (P2G, B2G)
- Utility payments (P2B, B2B, D2B, G2B)
- Collection of school fees (P2B)
- Credit card payments (P2B)
- Social security contributions (G2B, P2B, B2B)

As of 2013, most individuals paid their bills with cash or checks, and the Government of Malawi did not accept digital forms of payment for taxes. However, the transition to digital payments is progressing for some high-value pension and insurance contributions and loan payments, led by a small number of large businesses.

While several services enabled customers with bank or mobile money accounts to make remote bill payments, few were widely used within Malawi.

Some large businesses began paying large suppliers digitally. In fact, digital payments initiated by or paid to businesses, while still low in absolute terms, appeared to be the dominant form of digital payment in Malawi.

3. Purchase & Other: Almost Entirely Cash, Growing Opportunity for Mobile Money

The third shift will be consumers paying for goods or services digitally, using a debit or credit card or mobile money instead of cash.

In 2013, payments by individuals were made almost entirely in cash as a result of extremely limited infrastructure and low financial inclusion rates.

However, beginning in 2010, the Government of Malawi and development partners started to focus on mobile money. Mobile money was included in the FSTAP planning in 2010. Airtel Money launched in early 2012 and TNM launched a mobile money product, TNM Mpamba, the following year. In 2012, UNCDF launched a Mobile Money for the Poor (MM4P) programme to provide a mix of financial, technical, and policy support to build a robust digital financial services ecosystem in Malawi. That same year, USAID launched a Mobile Money Accelerator Project (MMAP) in conjunction with the RBM, the Ministry of Finance, the Bankers Association of Malawi, and major development partners like UNCDF.

Opportunities and Next Steps

Malawi's new national switch offers the potential to solve many of the interoperability challenges documented in this diagnostic (the research was conducted prior to its launch) and the utilization of the switch holds the promise of significantly boosting digital payments.

By launching the national switch, the RBM has created the potential to improve interoperability in the payment infrastructure. In addition, the Mobile Money Working Group, which is led by the RBM and draws membership from banks and MNOs, has been instituted as a permanent structure under the National Payments Council. Already, Malawi has accomplished much in preparing for a deliberate transition to digital payments, and there is now an opportunity to capitalize on this early progress:

1 The Government of Malawi could advance on digitizing its centralized payment system, IFMIS, with support from banks. This could include government salary, pension, and supplier payments. While the resources and political consensus for a wholesale digitization of government payments is still solidifying, there would be considerable benefits, including cost savings, increased transparency, safer and more efficient delivery of funds, greater financial inclusion, and economic development.

2 Development partners can increase the use and scale of digital payment options. Currently the MMAP, launched by USAID in conjunction with the Government and other development partners, focuses on a series of interventions and investments, including several pilots of mobile money products and services for different segments, including recipients of social transfers, low-wage earners, farmers, civil servants, and others. Additionally, the World Bank's FSTAP is providing support to strengthen the Ministry of Finance and encourage coordination among payment system-related stakeholders.

3 Businesses can push digital payments down their value chains and pay more employees by direct deposit. Malawian businesses could open accounts for their suppliers and distribute POS devices to their sales agents.

4 Merchants can accelerate digital payment acceptance via mobile money and debit card at the point of sale. The new national switch should help solve some of the interoperability challenges with POS devices.

When the various digital payments stakeholders come together in a context like this, it advances the creation of an ecosystem where all participants can send and receive payments efficiently and effectively. Barriers are addressed collectively in a way that accelerates the process for all stakeholders and in a manner that reduces the amount of risks and costs of making the shift.

Conclusion

The Government of Malawi's progress thus far, and its commitment to measurement through this diagnostic, is an example to other countries at the very early stages of a transition to digital payments. By establishing a baseline through the diagnostic study, the government now has a resource to begin discussions with other players to advance digital payments through an ecosystem approach.

The new national switch also offers the as yet not fully realized potential to significantly advance the payments ecosystem. Accelerating a bulk payer transition and adoption of mobile money will result in a digital payments ecosystem that works for everyone.

About the Better Than Cash Alliance

The Better Than Cash Alliance is an alliance of governments, private sector and development organizations committed to accelerating the shift from cash to electronic payments. The Better Than Cash Alliance is funded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID and Visa Inc. The UN Capital Development Fund serves as the secretariat.

1 This report was authored by BFA's Malawi country project team: Country Director: Jamie M. Zimmerman, Measurement Expert: Kristy Bohling, Payments Expert: Brian Le Sar, Country Analyst: Brian Loeb, and Country Support: Neil Nyirongo and Titus Kavalo.

2 Reserve Bank of Malawi. December 2008. Malawi National Payment System Vision and Strategy Framework for the Period 2009 to 2013. Available at http://www.rbm.mw/documents/payment_systems/NPS%20Vision%20%20Strategy%20Framework%20December%202008%20Final.pdf.

3 The World Bank Group; GDP per capita (current US$), 2013. Global Findex, 2011.

4 CGAP (2010), Financial Access 2010, available at http://www.cgap.org/data/financial-access-2010-database-cgap. Neither CGAP nor the World Bank's Global Findex have average data across all low-income countries.

5 GSMA Intelligence: https://gsmaintelligence.com/markets/2370.

To learn more, visit www.betterthancash.org and follow @BetterThan_Cash.