Introduction

The Government of Malawi has increasingly recognised that access to financial services can play an important role in poverty alleviation and in decreasing the vulnerability of poor people. As such, financial inclusion is acknowledged as an important part of the 2012 Malawi Growth and Development Strategy and to achieve the 2015 Millennium Development Goals (MDGs). However, limited access to finance has been identified as a major constraint in Malawi both for individuals as found in the 2008 FinScope Consumer Survey, and for small business owners according to the FinScope MSME Survey 2012.

The FinScope Surveys in Malawi not only enabled the assessment of the landscape of financial access, but also provided a benchmark for repeat surveys that will enable the impact of access related policy interventions to be assessed. This brochure summarises the findings of the repeat FinScope Consumer Survey 2014 and as such will address the information needs that would enable the Government of Malawi to develop and monitor evidence-based policies and regulations which will help extend the reach of financial services in Malawi.

FinMark Trust developed the FinScope Survey as a research tool to assess financial access in a country and to identify the constraints that prevent financial service providers to reach the financial un-served and under-served. The FinScope Survey is a nationally representative survey of how individuals source their incomes, and how they manage their financial lives. It also provides insight into attitudes and perceptions regarding financial products and services. It must be noted that it is a consumer perception study. Respondents are not asked to provide proof of accounts held, and figures are not based on supply-side numbers provided by financial institutions or regulatory authorities. To date, FinScope Consumer Surveys have been conducted in 18 countries.

Objectives

The FinScope Consumer Survey has the following objectives:

- To measure the levels of financial inclusion (i.e. the proportion of the population using financial products and services – both formal and informal)
- To describe the landscape of access (i.e. the type of products and services used by financially included individuals)
- To identify the drivers of, and barriers to the usage of financial products and services
- To compare survey results with the first FinScope Consumer Survey in Malawi (2008) and to provide an assessment of changes and reasons thereof (including possible impacts of previous interventions to enhance access)
- To stimulate evidence-based dialogue that will ultimately lead to effective public and private sector interventions that will increase and deepen financial inclusion strategies
Overview

Partnering for a common purpose

FinScope Malawi is designed to involve a range of stakeholders engaging in a comprehensive consultation process, thereby enriching the survey and ensuring appropriateness and buy-in. The survey was carried out under the auspices of the Ministry of Finance and fully funded by FinMark Trust.

A Steering Committee chaired by the Ministry of Finance was set up which comprised representatives from FinMark Trust, Reserve Bank of Malawi, Ministry of Industry and Trade, Ministry of Economic Planning and Development, Ministry of Agriculture, Ministry of Education, Ministry of Gender, Malawi Microfinance Association, UKAid/DFID, USAID, EU, World Bank, UNDP/UNCDF, AfDB, and FHI360.

Methodology

Following a multi-stage sampling process and a comprehensive listing exercise (listing almost 116 000 households in 503 Enumeration Areas), a total of 3005 face-to-face interviews were conducted by Millennium Consulting Group (MCG, from November 2013 to March 2014). The sample was drawn by MCG using the sampling framework provided by the National Statistical Office of Malawi.

The weighting of the data was conducted by Dr. Ariane Neethling. The sample is representative on national, urban/rural, and regional levels. Quality control and field checks were conducted by MCG, Steering Committee members, FinMark Trust, and the Local Project Coordinator.

Understanding the lives of Malawians

- 86% reside in rural areas
- 41% are under 30 years of age (FinScope Survey, defined as not economically active)
- 78% have primary education or lower
- 41% personally earn less than MK10 000 per month (1 USD = MK420)
- Farming remains the most important source of income (43%) and overall 91% of Malawian households are involved in farming (tobacco, maize and groundnuts bring most income for the 61% households that sell their produce)
- 10% only receive a regular salary

Total adult (16+) population 7.6 million

Urban/rural

- 86% Rural
- 11% Urban
- 3% Peri-urban

Gender

- 56% Female
- 44% Male

Education

<table>
<thead>
<tr>
<th>Education</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No formal education</td>
<td>14</td>
</tr>
<tr>
<td>Primary standard 1 – 5</td>
<td>30</td>
</tr>
<tr>
<td>Primary standard 6 – 8</td>
<td>34</td>
</tr>
<tr>
<td>Secondary 1 – 2</td>
<td>10</td>
</tr>
<tr>
<td>Secondary 3 – 4</td>
<td>10</td>
</tr>
<tr>
<td>Vocational training institute</td>
<td>1</td>
</tr>
<tr>
<td>University or other higher education</td>
<td>1</td>
</tr>
</tbody>
</table>
Understanding the lives of adult Malawians

Access to infrastructure

**Piped water**
Number of individuals with access to piped water (inside dwelling or yard/plot)
9.5% (= 723 thousand)

**Electricity**
Number of individuals with electricity (for cooking or lighting)
9.3% (= 708 thousand)

Sources of income

<table>
<thead>
<tr>
<th>Source</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming</td>
<td>43</td>
</tr>
<tr>
<td>Ganyu (piece-work)</td>
<td>43</td>
</tr>
<tr>
<td>Money from others</td>
<td>23</td>
</tr>
<tr>
<td>Own business</td>
<td>23</td>
</tr>
<tr>
<td>Wages or salary</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
</tr>
</tbody>
</table>

Personal monthly income

<table>
<thead>
<tr>
<th>Income Level</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No income</td>
<td>8</td>
</tr>
<tr>
<td>MK1 – 10 000</td>
<td>41</td>
</tr>
<tr>
<td>MK10 001 – 20 000</td>
<td>10</td>
</tr>
<tr>
<td>MK20 001 – 50 000</td>
<td>12</td>
</tr>
<tr>
<td>MK50 001 – 250 000</td>
<td>2</td>
</tr>
<tr>
<td>MK250 001 or more</td>
<td>1</td>
</tr>
<tr>
<td>Refused/Don’t know</td>
<td>26</td>
</tr>
</tbody>
</table>

1 USD (average) MK420 (at the month of March 2014 during the analysis period)
Financial inclusion

Analytical framework

**Total adult population** = 16 years and older in Malawi
(18 years and older wherever the 2008 and 2014 surveys are compared)

**Financially included** = adults who have/use financial products and/or services – formal and/or informal

**Financially excluded** = do not have/use any financial products and/or services – neither formal nor informal

**Formally served** = have/use financial products and/or services provided by a formal financial institution (bank and/or non-bank). A formal financial institution is governed by a legal precedent of any kind and bound by legally recognised rules

**Informally served** = have/use financial products and/or services which are not regulated and operate without legal governance that would be recognised, e.g. Chipereganyu or Katapila

**Banked** = have/use financial products/services provided by a bank, regulated by the Reserve Bank of Malawi

**Served by other formal financial institutions** = have/use financial products/services provided by other regulated (non-bank) financial institutions, e.g. a loan by a micro-finance institution or insurance products
Overview

- 40% of adults (16 years and older) are formally served, including both banked and other formal (non-bank) financial products/services (= increased considerably, 26% in 2008)
- 33% are banked (= increased significantly, 19% in 2008)
- 24% have/use other formal (non-bank) products/services (= increased, 15% in 2008);
- 28% have/use informal mechanisms to manage their finances (= increased slightly, 25% in 2008)
- 46% have/use no financial products/services to manage their finances. If they save, they keep their money at home, and if they borrow they only rely on family and friends (= decreased, 55% in 2008)

What drives the use of other formal (non-banking) products?

- Remittances
- Savings
- Mobile money
- Credit
- Insurance

What drives the use of informal products?

- Savings
- Credit
- Remittances

Overlaps

Consumers generally use a combination of financial products and services to meet their financial needs – someone could have a bank account and also belong to a burial society.

- Only 10.8% of adults rely exclusively on banking services
- 6.4% use a combination of bank, other formal (non-bank) and informal mechanisms to manage their financial needs, thus indicating that their needs are not fully met by the one sector alone

1 Please note that in 2008 adults aged 18 years and older were included in the survey, while in 2014 adults aged 16 years and older are included. However, for comparison purposes, the base of 18 years and above is used whenever the 2008 and 2014 surveys are compared.
In constructing this strand, the overlaps in financial products/services usage are removed, resulting in the following segments:

- Financially excluded adults, i.e. they do not use any financial products/services – neither formal nor informal – to manage their financial lives (46%)
- Adults who have/use informal mechanisms only but NO formal products/services (14%);
- Adults who have/use formal non-bank products/services but NO commercial bank products (7%) – they might also have/use informal mechanisms
- Adults who have/use commercial bank products/services (33%) – they might also have/use other formal and/or informal mechanisms

**Key findings**

Comparing the Access Strand by location, gender, and sources of income reveals that levels of financial inclusion (including product uptake of both formal and informal products/services) are higher:

- Among adults residing in urban areas (78%) compared to adults residing in peri-urban (59%) and rural areas (50%)
- Among males (55%) compared to females (51%)
- Among adults receiving a wage/salary (88%), compared to adults with other main income sources which are more irregular of nature, such as farming (50%) and ganyu (40%)
Banking

Banking status
- The banked population has increased since 2008 – from 19% (about 1 153 809 million) in 2008 to 33% (about 2 390 605 million) in 2013
- Banking is largely driven by transactional products/services
- The level of indirect access to banking remains high in Malawi – 24% of banked adults make use of bank accounts that are not registered in their names (compared to 22% in 2008)

How many adults (18 years or older) are banked?

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of banked adults in Malawi</th>
<th>No. of previously banked adults in Malawi</th>
<th>No. of never banked adults in Malawi</th>
<th>No. of unbanked adults in Malawi</th>
<th>Total population size</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>1 153 809 (19%)</td>
<td>165 086 (3%)</td>
<td>4 734 251 (78%)</td>
<td>4 899 337 (81%)</td>
<td>6 053 146</td>
</tr>
<tr>
<td>2014</td>
<td>2 390 605 (33%)</td>
<td>399 690 (5%)</td>
<td>4 447 200 (62%)</td>
<td>4 846 890 (67%)</td>
<td>7 266 495</td>
</tr>
</tbody>
</table>

Base: 18 years or older

Banking figures improved, mainly due to an increased uptake of the following products:
- Savings account with ATM: 640 thousand to 1.1 million
- Receive income into bank account: 273 thousand to 578 thousand
- The Makwacha card PIN protected online debit card allowed 500 thousand cardholders to buy goods at the merchants stores

33% of adults are banked

Drivers
- Banked people opened their bank accounts mainly to:
  - Receive salary/deposit money from an employer (20%)
  - Keep money safe from theft (17%)
  - Receive money from others who deposit into the bank (15%)

Barriers
- Banked population have done the following activities with their bank accounts in the past 12 months prior to the survey:
  - Withdrawn cash from bank account (47%)
  - Deposited cash into bank account (37%)
  - Received transfers from someone else into their bank account (36%)
  - Requested statements (14%)
  - Used cashpoint to pay bills (11%)

67% of adults are not banked

Drivers
- Only 4% reported that banks are too far away or transport is too difficult despite the fact that Malawians take on average 77 minutes to reach the nearest bank branch (accessibility to bank branches has improved – in 2008 it took on average 83 minutes to reach the nearest bank branch). However, the cost to travel to the nearest bank branch could be integrated into the affordability issue.

Barriers
- Main barriers to banking relate to monetary reasons (affordability):
  - Insufficient income to justify it (63%)
  - Income coming in, but insufficient balance after expenses (21%)

Banking status
- The banked population has increased since 2008 – from 19% (about 1 153 809 million) in 2008 to 33% (about 2 390 605 million) in 2013
- Banking is largely driven by transactional products/services
- The level of indirect access to banking remains high in Malawi – 24% of banked adults make use of bank accounts that are not registered in their names (compared to 22% in 2008)
Overview 2008

Savings and investments

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank products</td>
<td>17%</td>
<td>14%</td>
</tr>
<tr>
<td>Other formal (non-bank)</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Informal</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Save at home</td>
<td>26%</td>
<td>48%</td>
</tr>
<tr>
<td>Not saving</td>
<td>54%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Overview 2014

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank products</td>
<td>14%</td>
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</tr>
<tr>
<td>Other formal (non-bank)</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Informal</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>Save at home</td>
<td>26%</td>
<td>48%</td>
</tr>
<tr>
<td>Not saving</td>
<td>54%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Base: 18 years or older

Savings Strand

In constructing this strand, the overlaps in savings product/services usage are removed:

- 54% of adults in Malawi do not save [= increased, 26% in 2008]
- 14% keep all their savings at home, i.e. they do not have/use formal or informal savings products or mechanisms [= decreased significantly, 40% in 2008]
- 13% only rely on informal mechanisms such as savings groups (they might also save at home, but they do not have/use any formal savings products) [= decreased, 17% in 2008]
- 2% have/use other formal non-bank savings products (they might also have/use informal savings mechanisms and/or save at home, but they do not have/use savings products from a commercial bank) [= decreased, 3% in 2008]
- 17% have/use savings products from a commercial bank (they might also have/use other formal and/or informal mechanisms, and/or save at home) [= increased, 14% in 2008]

Credit Strand

In constructing this strand, the overlaps in credit/loan product/services usage are removed:

- 68% of adults in Malawi claimed that they did not borrow or took goods on credit in the past 12 months [= decreased, 80% in 2008]
- 9% only rely on friends and family, i.e. they do not have/use any credit products (neither formal nor informal) [= increased, 7% in 2008]
- 17% rely on informal mechanisms such as VSL groups (they might also borrow from friends and family, but they do not have any formal credit products) [= increased, 6% in 2008]
- 4% have/use formal non-bank credit products (they might also have/use informal mechanisms, but they do not have/use credit products from a commercial bank) [= increased, 2% in 2008]
- Only 2% have/use credit/loan products from a commercial bank (they might also have/use other formal and/or informal mechanisms, or borrow from friends and family) [= decreased, 5% in 2008]
Insurance and risk management

- 97.8% of adults in Malawi do not have any kind of financial product covering risk
- 2.2% (= about 171,000 individuals) have some financial product covering defined risk
- The absolute number increased slightly by about 8,000 individuals
- BUT the proportion of the adult population that have/use insurance decreased slightly from 2.7% to 2.2% due to population growth
- Increase in life insurance, decrease in medical insurance

Remittances

Incidence of remittances

- 23% (1.7 million up from 1.6 million in 2008) of adults in Malawi either sent or received money to or from family members, parents, and children usually on a monthly basis
- 39% (675 thousand) of adults who sent or received money to or from people living outside of Malawi

Main risks to livelihoods

<table>
<thead>
<tr>
<th>Risk</th>
<th>2008</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theft</td>
<td>27</td>
<td>22</td>
</tr>
<tr>
<td>Illness within the household</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Drought</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Rise in prices</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Death of income earner</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Loss of employment</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Natural disaster</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Increase in household size</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Loss of land or access to land</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Death of family member</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Death or illness of livestock</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Remittance channel

<table>
<thead>
<tr>
<th>Channel</th>
<th>2008</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Other formal (non-bank)</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>Informal</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Relative/friend</td>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td>Do not remit</td>
<td>73</td>
<td>77</td>
</tr>
</tbody>
</table>

Most costly events

<table>
<thead>
<tr>
<th>Event</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illness or medical emergency for self or family</td>
<td>44</td>
</tr>
<tr>
<td>Funeral</td>
<td>33</td>
</tr>
<tr>
<td>Wedding</td>
<td>11</td>
</tr>
<tr>
<td>Birth of child</td>
<td>8</td>
</tr>
<tr>
<td>Engagement</td>
<td>2</td>
</tr>
<tr>
<td>None of the above</td>
<td>2</td>
</tr>
</tbody>
</table>

Medicine expenses are also a main reason for savings (13%) and borrowing (15%)

2% of adults have insurance

Drivers

- Life insurance
- Motor vehicle insurance
- Medical insurance

98% of adults do not have insurance

Barriers

- Lack of awareness/knowledge
- Affordability
Mobile money

- 20% (1.5 million) know about mobile money, but only 4% (325 thousand) actually use it – either as registered user (3%) or using another person’s mobile account (1%)
- Every second adult in Malawi (50%) owns a cellphone

Landscape of Access

The Landscape of Access is used to illustrate the extent to which financially included individuals have/use financial products/services (excluding those borrowing from family/friends and those who save at home/hiding in secret place).

2008
Base: 18 years or older

2014
Base: 18 years or older

4% of adults use mobile money services
96% of adults do not use mobile money services

Drivers
- Malawians mainly use mobile money services to:
  - Purchase air time (32%)
  - Withdraw cash (25%)
  - To send (14%) or receive (12%) money

Barriers
- Malawians do not use mobile money services mainly because:
  - They are not aware of mobile money (80%)
  - They do not have enough information about mobile money (9%)
Minor changes in the population profile
- Increase in rural population from 84% to 86%
- Increase in female population from 52% to 56%
Small improvements in education: percentage of people with formal education increased from 80% to 86%
Small improvements in access to infrastructure:
- Access to piped water increased from 8.7% to 9.6%
- Access to electricity (for cooking or lighting) increased from 8.8% to 9.3%
- Average time taken to reach a bank branch reduced from 83 minutes to 77 minutes
Farming remains the most important source of income (although it decreased from 60% to 43%)
Financial inclusion increased by 9 percentage points from 45% (2008) to 54% (2014) mainly due to the increase in the formally served

Summary

Malawians are more likely to save (46%) than to borrow money (32%), despite low levels of income (41%) earn less than MK10,000 a month (1 USD = MK420)
Malawians save and borrow for similar reasons: living expenses, farming and medical expenses
Importance of informal mechanisms, community, friends and family when dealing with finances – formal financial institutions are not the preferred place to store savings or to borrow money from (BUT decrease in investing through livestock, farming equipment, and business)
Remittance: decreased by 4 percentage points from 77% to 73% (BUT remittances through formal channels increased)
Although 20% know about mobile money, only 4% actually use it

Key reasons for financial exclusion:
- Lack of income and affordability of financial products/services
- Lack of awareness of financial products (especially insurance)

FinScope Malawi 2014 showed that there have been a number of improvements compared to 2008, including the following:

<table>
<thead>
<tr>
<th>Category</th>
<th>Changes (2008 to 2014)</th>
<th>Drivers</th>
<th>Barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>Increased by 14 percentage points</td>
<td>To receive money and to save</td>
<td>Affordability: Low/insufficient income</td>
</tr>
<tr>
<td></td>
<td>From 19% to 33%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings and investments</td>
<td>Decreased by 28 percentage points</td>
<td>Saving for living expenses and medical</td>
<td>Affordability: Low/insufficient income</td>
</tr>
<tr>
<td></td>
<td>From 74% to 46% (mainly those who save at home) BUT increase in formal savings from 16% to 19% and surge in VSL usage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowing and credit</td>
<td>Increased by 13 percentage points</td>
<td>Borrowing for living expenses, developmental purposes (farming, business, education and medical)</td>
<td>Fear of indebtedness/inability to pay it back</td>
</tr>
<tr>
<td></td>
<td>From 20% to 32%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance and risk management</td>
<td>Increased in absolute numbers by 8 thousand, but slight declined by 0.5 percentage points from 2.7% to 2.2% due to population growth (increase in life insurance, decrease in medical insurance but still important)</td>
<td>Mainly life, medical and motor insurance Illness = main risk and most costly</td>
<td>Lack of awareness/knowledge Affordability</td>
</tr>
</tbody>
</table>

Lack of income and affordability of financial products/services
Lack of awareness of financial products (especially insurance)
FinMark Trust, an independent trust based in Johannesburg, South Africa, was established in 2002 and is funded primarily by UKaid from the Department for International Development (DFID) through its Southern Africa office. FinMark Trust’s purpose is ‘Making financial markets work for the poor, by promoting financial inclusion and regional financial integration’. This is done by promoting and supporting financial inclusion, regional financial integration, as well as institutional and organisational development, in order to increase access to financial services for the un-served and under-served. In order to achieve this, FinMark Trust commissions research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. Thus, FinMark Trust developed the FinScope tool, including both the FinScope MSME Survey and the FinScope Consumer Survey.

FinScope footprint

FinScope Consumer Surveys have been completed in 18 countries. This allows for cross-country comparison and sharing of findings which are key in assisting on-going growth and strengthening the development of financial markets.

FinScope Malawi 2014 contains a wealth of data based on a nationally representative sample of the adult population of Malawi.

Contact

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