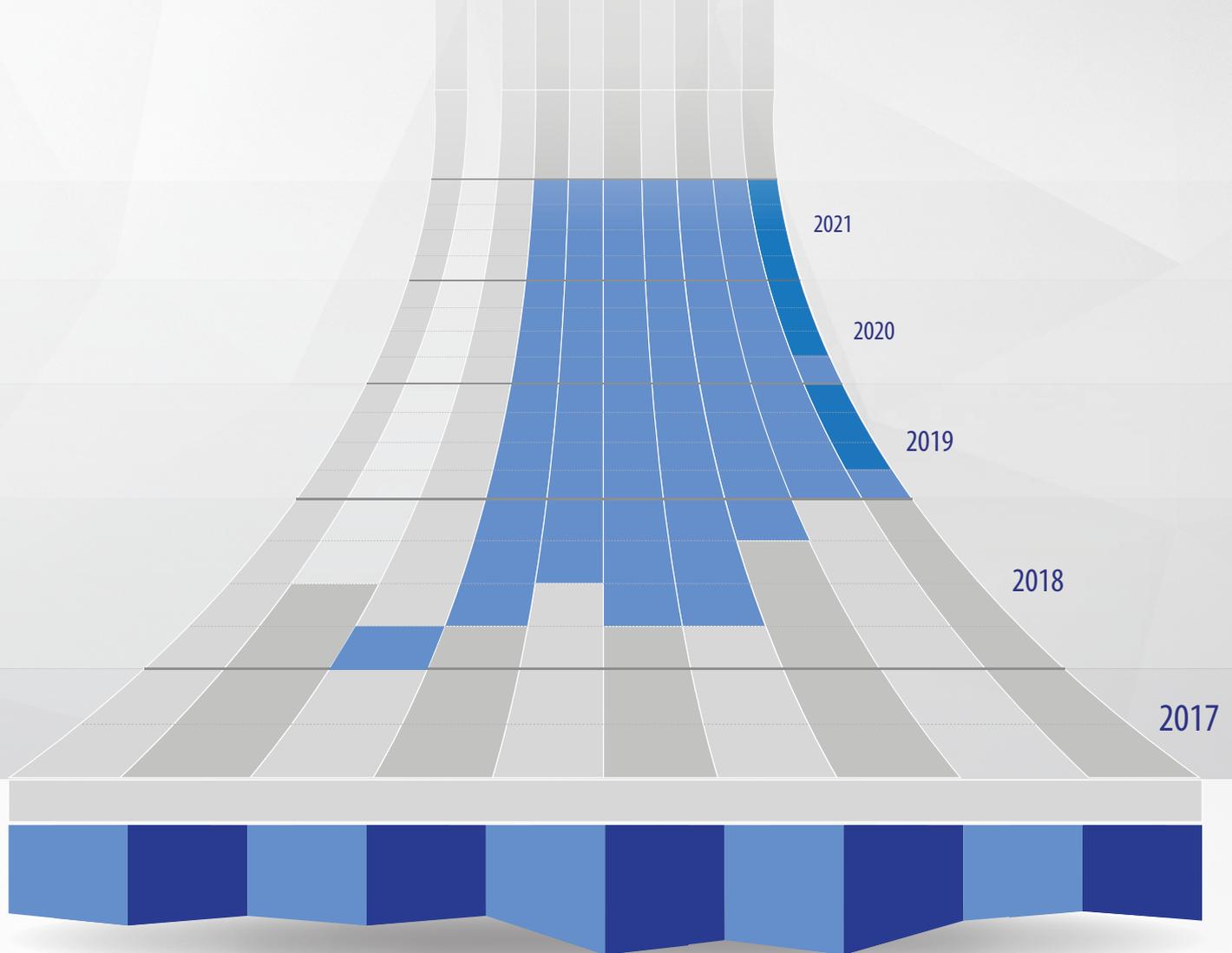


# GOVERNMENT OF MALAWI PAYMENTS ROAD MAP

A **FIVE-YEAR** PLAN TO **DIGITIZE**  
GOVERNMENT PAYMENTS IN **MALAWI**



BETTER THAN CASH  
ALLIANCE





# 1. What is this roadmap?

When joining the Better Than Cash Alliance in 2013, the Government of Malawi (GoM) pledged to digitize government payments in order to improve the accountability, efficiency and transparency of the payments system and advance their financial inclusion agenda. Since then, stakeholders in the Malawian financial sector have co-created, with facilitation by the United Nations Capital Development Fund, with financial support from the United States Agency for International Development, a plan to accelerate and organize existing efforts to deliver on the commitment.

**This roadmap is the result of that conversation.**

It lays out a tentative short-term, medium-term and long-term plan for digitizing government payments in Malawi and explains the background of the plan, setting the main targets for the coming years and sketching the route ahead.

The roadmap emphasizes projects to increase government use of digital financial services; pilots to increase merchant payments in areas of government payment digitization; projects to provide regulatory support; and projects to improve financial literacy, thereby accelerating a 'cashlite revolution' that will bring benefits to the broader Malawian economy.

**This roadmap thus champions the vision of a country in which**

Every Malawian is financially resilient. The public and private sectors work together to ensure all Malawians, especially those who live in rural areas, have access to digital financial service (DFS) that are easily accessible, affordable, reliable, transparent and secure. The Malawi policy, legal and regulatory environment works as an enabler to address payment infrastructure challenges and makes DFS a financially sustainable business to service providers.

The overall goal of the roadmap is to help GoM develop a pervasive digital payments ecosystem that will improve:



The roadmap further aims at improving access to DFS that are accessible, affordable, reliable and secure as well as creating a conducive policy, legal and regulatory environment for DFS. To achieve the goal of the roadmap, there is a need for concerted effort of a wide array of stakeholders.

This roadmap is aligned with the broader GoM development strategy, as enshrined in the Malawi Growth and Development Strategy and the Financial Sector Development Strategy, aimed at achieving financial inclusion and supporting the creation of a financial sector that stimulates sustainable economic growth. It also contributes to a number of initiatives supported by, among others, the Reserve Bank of Malawi (RBM) and the World Bank Financial Sector Technical Assistance Project (FSTAP) to further the digitization of all payments and promote financial literacy in the country. Moreover, it takes stock of assessments formulated by, among others, the Public Service Reforms Commission to improve the quality and transparency of public services, the Accountant General office, and the World Bank 'Financial Sector Technical Assistance Project,' along with the USAID-funded, FHI360-produced 'Mobile Money Regulatory and Policy Assessment.'

## 2. Why this roadmap?

### Government payments still heavy on cash.

In 2013, the Better Than Cash Alliance conducted a payment diagnostic exercise in Malawi, from which emerged a picture of a country heavily reliant on cash. According to the findings, only 0.30% out of 221,497,125 total monthly payments were electronic. A similar percentage captured the level of digitization for the 388,518 monthly government transactions. See table I for a summary of the key findings.

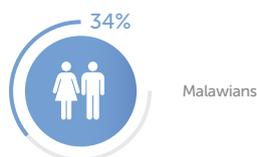
Table I  
Payments by payer (December 2013)

Payer	No. of payments per month	Percentage of volume electronic	Total value (MK mil.)	Total value (US\$ mil.)	Percentage of value electronic
Government	388,518	0.30%	MK 36,927	\$110.30	8%
Business	5,871,911	3.60%	MK 134,965	\$403.20	38%
Individuals	215,204,166	0.20%	MK 81,451	\$243.40	10%
Development partners	32,530	80.00%	MK 1,133	\$3.40	89%
Total per month	221,497,125	0.30%	MK 254,475	\$760.30	25%
Total per year	2,657,965,506	0.30%	MK 3,053,704	\$9 123.70	25%

Source: Jamie M. Zimmerman and others, Development Results Focused Research Program—Country Diagnostic: Malawi (Better Than Cash Alliance, March 2015). Source: Jamie M. Zimmerman and others, Development Results Focused Research Program—Country Diagnostic: Malawi (Better Than Cash Alliance, March 2015).

### DFS use rising quickly.

Since then, the number of active users of DFS (mostly mobile money) has risen from 1,000 active users (90 days) in 2012, representing less than 1% of the adult population, to approximately 1,436,778 as of August 2016, representing 14% of the adult population. Moreover, 100% of civil servant salary payments have been digitized and are currently paid via the Malawi Interbank Transfer and Settlement System, thus boosting the number of government transactions processed electronically.



have access to formal financial services



### Malawians still financially excluded.

Despite these recent strides, only 34% of Malawians currently have access to formal financial services. In rural areas, the rate is even lower (28%). At the moment, a mere 10% of the volume of government-to-person and person-to-government transactions (equal to 15% of the total value) is processed and funnelled through digital channels. Among the factors hindering the full digitization of government payments and the diffusion of DFS within the population, two stand out: the cost of government transactions and the low financial literacy and awareness of Malawians.

### A strategy with measurable objectives.

Against this background, the roadmap lays out a strategy to meet specific objectives, such as expanding financial inclusion to 55% of Malawian adults (45% in rural areas) by 2021. At the same time, it aims at increasing the rate of government payments processed through digital channels to 60% of the overall volume (equal to 90% of government-to-person and 80% of person-to-government payments) over the coming four years, while halving the overall cost. See table II for a summary of roadmap objectives.

Table II  
Roadmap objectives by 2021

Objective	Baseline	2021
Volume of digitized government payments increased to 60% from 10% by 2021 and value increased to 90% from 15% by 2021	10% / 15%	60% / 90%
Individual to government payment digitization volume increased to 60% from 10% by 2021 and value increased to 80% from 15% by 2021	10% / 15%	60% / 80%
Cost of transaction for government payments reduced by 50% by 2021	-	50%
Financial literacy and awareness improved with 50% of the population having meaningful awareness of DFS by 2021	-	50%
Active users of DFS increased to 25% of the adult population by 2021	14%	25%
Formal financial access increased to 55% from 34% by 2021	34%	55%
Formal rural access increased to 45% from 28% by 2021	28%	45%

### 3. What is the current landscape for digital financial services in Malawi?

Over the past 15 years, the Malawian payment landscape has gone through profound changes, becoming more regulated and diverse. RBM has been instrumental in facilitating these transformations, contributing to building a payment infrastructure that balances security concerns and accessibility needs. Its blueprint document, the National Payments System (NPS) Vision and Strategy Framework, weaves together policy, legal and regulatory frameworks to envisage an enabling ecosystem that addresses payment challenges, makes DFS a financially sustainable business to service providers, and ensures safety and efficiency of payment, clearing and settlement systems.

GoM is playing a proactive role in advancing a digital financial agenda. In recent years, it has digitized the salaries of all civil servants, 95% of pensioners' monthly payments through electronic fund transfers, social cash transfers to 160,000 ultra-poor beneficiaries and payments to 40,000 chiefs, and it is currently working on digitizing payments to 1.2 million beneficiaries under a public works programme. Furthermore, GoM has announced that, by mid-2017, it will stop using cheques for both receiving and making payments.

The GoM's commitment to digitize the payment space in Malawi resonates with a market offering a growing variety of DFS. It is worth reviewing the most relevant ones:



#### Mobile money:

The local mobile money industry has proven particularly dynamic; between 2013 and 2015, the total amount of transactions doubled to 40 million while the number of subscribers skyrocketed, leaping from 730,000 in December 2013 to 2,884,517 in August 2016 (899,353 of whom were active users). It features three players: two telecommunication companies, Airtel and Telekom Networks Malawi (TNM), which provide mobile wallet-based services (Airtel Money and TNM Mpamba), and an over-the-counter company, Zoono, which does not offer customers a wallet but uses a digital channel to enable its agents, recruited across Malawi, to send money to others.

#### Bank-led mobile payments:

A growing number of banks in Malawi offer their account holders the possibility to check balances, transfer funds from one account to another, buy airtime and pay utility bills. There were 463,566 linked customers of bank-led mobile payments by close of 2015, for a total of 15.1 million annual transactions. Examples of bank-led mobile money services are Easy Bank by NBS Bank, Mo626 by National Bank of Malawi and Banki M'manja by Opportunity International Bank of Malawi.



#### Automated teller machines:

Malawi had a total of 466 ATMs, through which an average of 22 million annual transactions were performed, by close of 2015.

#### Electronic fund transfers:

These transactions are transfers of money from one account to another within one financial institution or across institutions, within the country or outside it, with no direct intervention of bank staff and with no usage of cash. As mentioned above, this method is used by GoM to process most government payments.

National Switch Limited (NSL), launched in February 2015 by members of the Bankers Association of Malawi, allows interoperability among all ATMs and POS devices in the country and is about to include mobile money operators such as TNM Mpamba and Airtel Money. The ultimate purpose of NSL is to achieve a fully interoperable ecosystem encompassing banks, microfinance institutions, and mobile money and other financial service providers, driving down transaction fees and expanding the reach of service points across the country.

## 4.

# What are the critical success factors?

To achieve the target of creating an enabling environment for the uptake of digital payments, specific conditions have to be met by GoM. The roadmap recommends a multi-layered approach, consisting of conducive regulations and fiscal relief for relevant stakeholders, interventions to enhance interoperability and lay the groundwork for partnerships on an equal footing, and nationwide programmes to improve financial literacy and awareness. It also acknowledges the importance of learning from best practices from around the world. Figure I identifies the critical factors that would determine the success of the plan.

Figure I  
Roadmap critical success factors

Political commitment	Improved financial infrastructures	Improved digital financial ecosystem	Improved financial literacy and awareness	Learning from global experiences
Policies and regulations	Optimization of the payment infrastructure	Increased cooperation and partnerships between stakeholders	Beneficiary-level financial literacy and digital financial service awareness	Learning from the Consultative Group to Assist the Poor, the Better than Cash Alliance and other countries undertaking similar efforts
Taxation	Automated transfer system	Integrated payments systems between stakeholders	Organization-level awareness and leadership support	
Public political commitment to addressing critical success factors	National Switch Limited	Levelled playing field	Social responsibilities of organizations	
	Other infrastructures	Harmonized social protection payments systems		

**Political commitment:**

Expressed through the NPS Bill and the E-Money Regulations, it is critical to improve the transparency of the country’s payments system and to streamline digital payments. Incentives for the payment industry (for instance, through tax rebates and reductions of import duties on smartphones) would further encourage the shift to digital.

**Improved financial infrastructures:**

To increase interoperability in the local DFS landscape, GoM can support the role of the automated transfer system and of NSL—two platforms to process interbank payments, including from ATMs and POS devices, at a lower cost.

### Improved digital financial ecosystem:

Increasing the number of payments funnelled through the switch (for instance, digitizing social protection payments), addressing the issues of limited power and network coverage, and expanding a national ID system can build the value case for different stakeholders.

### Improved financial literacy and awareness:

Drawing from international experiences in financial literacy, GoM can support players engaged in financial literacy and with large outreach.

### Learning from global experiences:

Best practices in payment digitization from around the world can offer precious food for thought, helping GoM find solutions and anticipate obstacles as it implements the initiatives described in the roadmap.

## 5. Who are the main stakeholders and what are their roles?

Table III articulates the roles and responsibilities of various stakeholders in the payments ecosystem and highlights the need to harmonize and improve collaboration. To achieve the critical success factors and the roadmap projects (see table IV), there is a need for harmonized and clear stakeholder roles and responsibilities. The outlined responsibilities will have to be addressed within agreed timeframes if digitization of payments is to fully take off.

Table III  
Roadmap stakeholders and their roles and responsibilities

Stakeholder	Department	Responsibilities
Office of the President and Cabinet	Public Service Reforms Division	Provide leadership and political commitment
Ministry of Finance, Economic Planning and Development (MoF)	Office of the Minister of Finance	Provide leadership and political commitment
	Pension and Financial Sector Policy Division	<ul style="list-style-type: none"><li>Facilitate approval of regulations and bills</li><li>Lead in digitizing government payments and incentivize DFS players to invest in rural areas</li></ul>
	Revenue Policy Division	Review taxes affecting penetration of DFS

Ministry of Finance, Economic Planning and Development (MoF) (Cont.)	Pension and Financial Sector Policy Division and RBM	Build financial literacy and awareness through local councils and other organizations
	Economic Planning Division	Create national database for client data and streamline enrolment process for social protection clients
	MACRA and RBM	Ensure accountability of service providers – customer protection
	Pension and Financial Sector Policy Division, RBM and MACRA	Strengthen coordination with public sector and private sector, utilizing DFS Coordinating Group and other coordination groups
	Pension and Financial Sector Policy Division and MoF Human Resources	Build capacity of government staff involved in DFS
	Accountant General and Revenue Policy Division	Ensure full use of DFS for person-to-government and business-to-government payments
Reserve Bank of Malawi (RBM)	Microfinance and Capital Markets Supervision Department	<ul style="list-style-type: none"> <li>• Co-lead financial literacy and awareness creation campaigns</li> <li>• Improve customer service and consumer protection</li> </ul>
	NPS Department	<ul style="list-style-type: none"> <li>• Provide close monitoring and oversight of enabling environment for digitization of payments</li> <li>• Review regulations and monitor use of interest from trust funds for customer education</li> </ul>
	NPS Department, Banking Supervision Department and Microfinance and Capital Markets Supervision Department	<ul style="list-style-type: none"> <li>• Coordinate with public and private sector with respect to DFS</li> <li>• Provide supervision and monitoring of banks and mobile money providers</li> </ul>
Ministry of Home Affairs	National Registration Bureau	Increase ability of Malawians to be identified
Mobile money providers	<ul style="list-style-type: none"> <li>• Enhance quality of network coverage for agents and merchants in rural and semi-urban areas with reliable liquidity management</li> <li>• Offer products and services based on target segment needs and preferences</li> <li>• Improve customer experience</li> <li>• Invest in necessary infrastructure to improve connectivity</li> </ul>	
Malawi Communications Regulatory Authority (MACRA)	<ul style="list-style-type: none"> <li>• Supervise mobile network operators to ensure reliable network connectivity in all geographies</li> <li>• Incentivize DFS players to invest in and reach out to rural and semi-urban areas</li> </ul>	
National Switch Limited (NSL)	<ul style="list-style-type: none"> <li>• Integrate with different institutions involved in enabling/receiving payments</li> <li>• Increase use of NSL</li> <li>• Reduce cost of transactions</li> </ul>	
Malawi Revenue Authority (MRA)	<ul style="list-style-type: none"> <li>• Continue to upgrade MRA ICT platform to ensure digitization of revenue streams</li> <li>• Ensure full use of DFS for person-to-government tax payments and business-to-government payments</li> </ul>	
Development partners	<ul style="list-style-type: none"> <li>• Digitize their own programmes</li> <li>• Coordinate and align their support to help implement this roadmap</li> <li>• Support GoM and regulators in digitizing payments</li> <li>• Provide technical assistance and capacity-building support to MoF and other ministries needed to implement digital payments</li> </ul>	

## 6. What are the main projects so far?

Roadmap projects are those projects that are required for digitization of government payments. The actual digitization of payment streams is sequenced and will be tested and implemented. The proposed projects will be rolled out as pilots but be designed to be brought to scale. Table IV illustrates the proposed projects for this roadmap.

Table IV  
Roadmap projects

### Projects to increase government use of digital financial services

Pilot testing of bank-MMP integration to provide school teachers with access to salaries at agent outlets
<b>Objectives of the project</b>
Based on pilot results, roll out initiative to other geographies and to all civil servants
<b>Outcomes</b>
Roll-out of the bank-MMP integration to other school teachers in other geographies, to other civil servants across Malawi
<b>Support needed</b>
Technical assistance and capacity-building for proposed activities
Pilot testing or full scale implementation with three priority government payment streams (research, implementation and lessons learned)
<b>Objectives of the project</b>
Pilot test or roll out full digitization of three priority G2P payments that are currently being made in cash for the purpose of identifying practical lessons regarding implementation as well as real challenges that GoM might encounter in digitization of payments. Based on experiences from the pilot, customize and roll out systems to other geographies and to other payment streams. The three proposed are: <ul style="list-style-type: none"> <li>• Payments to 29,000 traditional leaders (chiefs) across the country that MoLGRD is making manually.</li> <li>• Social payments to 163,000 ultra-poor households that MoGCDSW is making, 90% of which in cash.</li> <li>• Public works payments to 1,200,000 Malawians under a labour-for-cash arrangement that the Department of Economic Development, under MoF, is making in cash.</li> </ul>
<b>Outcomes</b>
Successful digitization of payments in different geographies for different payment streams; improved delivery of public service; increased demand for digital financial services
<b>Support needed</b>
Technical assistance and capacity-building support for proposed activities
Pilot testing of tax payments through digital channels (research, implementation and lessons learned)
<b>Objective of the project</b>
Roll out to other geographies and other payments
<b>Outcomes</b>
Successful roll-out to all geographies with reduced dependency on cash payments
<b>Support needed</b>
Technical assistance and capacity-building support for proposed activities

## Projects to address merchant payments (point of sale and mobile)

Pilot testing of merchant payments using digital channels (research, implementation and lessons learned)
<b>Objectives of the project</b>
Promote and roll out regular usage of digital channels for merchant payments
<b>Outcomes</b>
Roll out to other payment streams (use lessons learned from pilot to scale up)
<b>Support needed</b>
Review of taxation on transactional devices by GoM; Technical assistance support for proposed activities

## Projects to build capacity and provide regulatory support

Increased support to collect and analyse digital financial service data
<b>Objective of the project</b>
Improve the ability of RBM to collect, manage and analyse data from DFS providers through data automation
<b>Outcomes</b>
Improved reporting templates and processes including automated data collection, analysis process and strategic dashboard
<b>Support needed</b>
Technical and financial assistance to support activities proposed

Technical support to National Switch Limited to maximize utilization
<b>Objective of the project</b>
Leverage NSL to increase interoperability amongst different institutions involved in the digital payment sector
<b>Outcomes</b>
Full interoperability between accounts held at banks and non-banks, including MMPs; All relevant digital payments routed through NSL.
<b>Support needed</b>
Technical assistance and funding to support activities proposed. (Note: this would support and complement ongoing work lead by RBM with assistance from the World Bank)

## Projects to improve financial literacy and awareness

Improvement of public awareness and financial literacy levels regarding digital payments
<b>Objective of the project</b>
Develop financial literacy and digital payment awareness modules and increase financial literacy levels on digital payments
<b>Outcomes</b>
Increased financial literacy and digital payment awareness which will help increase uptake and regular usage
<b>Support needed</b>
Technical and financial assistance support for proposed activities (Note: this would support and complement ongoing work lead by RBM on this topic)

## 7. What lies ahead?

A Steering Committee and a Technical Committee will oversee and spearhead the implementation of this roadmap, including resource mobilization and approval of proposed projects.

The Technical Committee on digitization will be chaired by the Director of the Pension and Financial Sector Policy Division at the Ministry of Finance and will report to the Steering Committee.

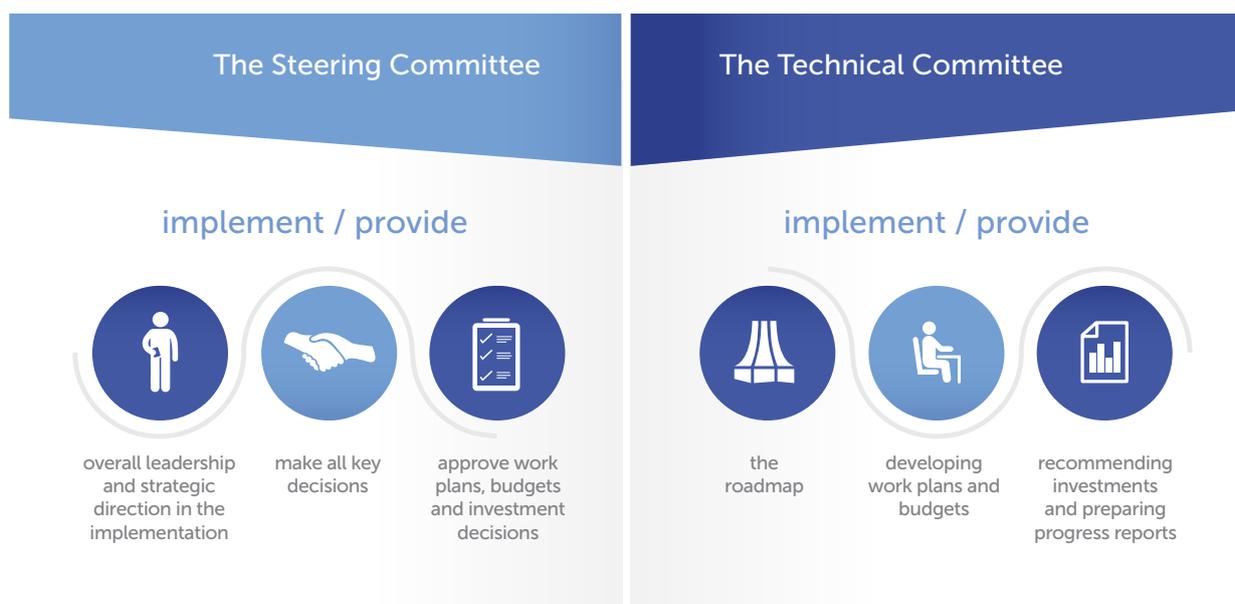
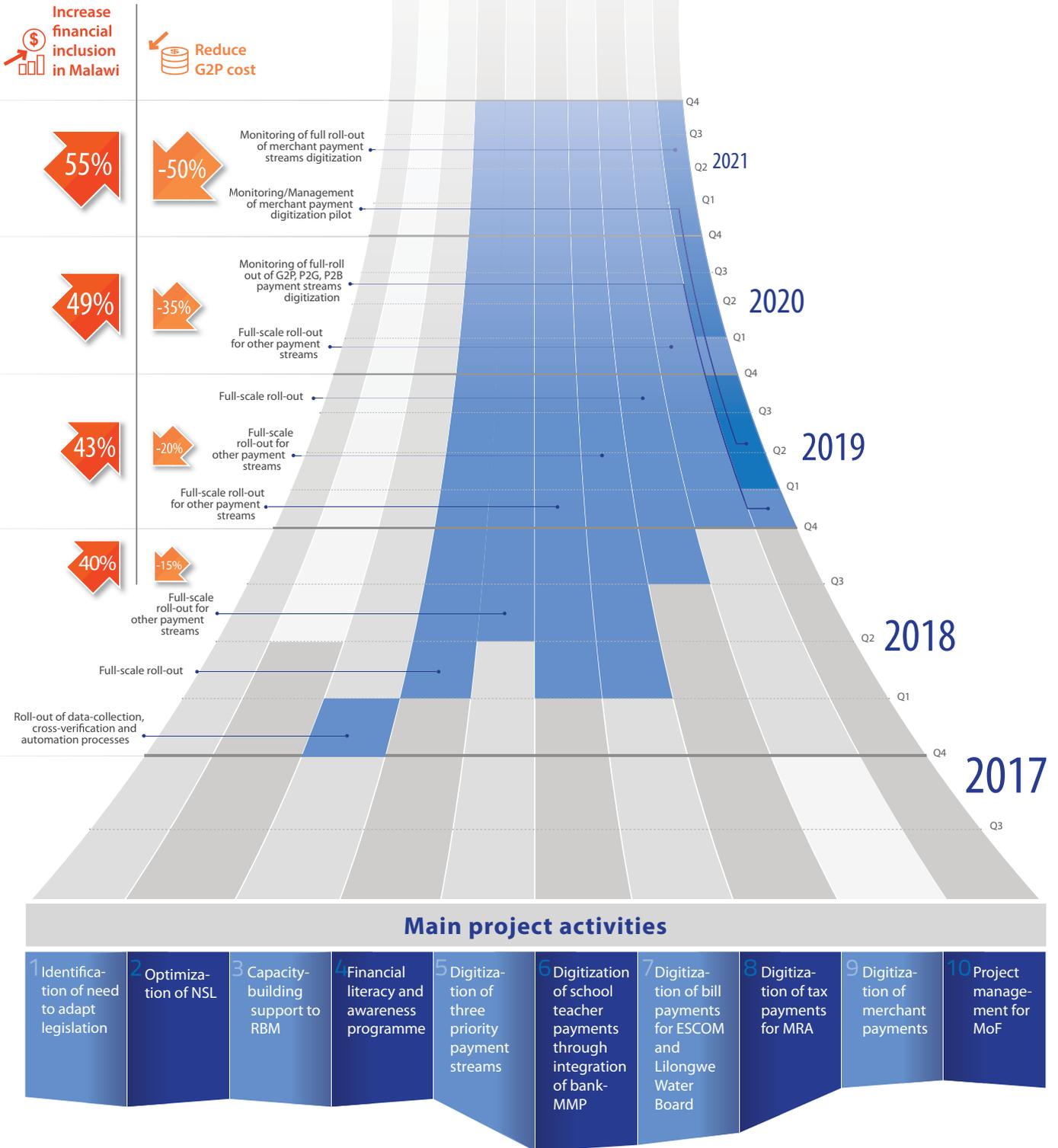


Figure II visualizes what lies ahead, including the roadmap objectives, activities and timeline.

Figure II  
Visual roadmap

# Visual roadmap for Malawi payments





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