FIRST Initiative Consultative Group

FIRST Technical Assistance to Malawi

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Introduction

- FIRST has been providing timely and invaluable intervention in Malawi starting with financial sector reform program in 2004.
- Results of 2004 survey underpinned need to undertake comprehensive financial sector development.
- Since then Malawi has followed consistent and comprehensive path towards this goal and
- FIRST has been instrumental in strengthening the regulatory and supervisory regime as well as developing regulation and supervision strategies in the country.
Overview of the Financial System in Malawi

- Consists of wide spectrum of market players: banks, insurance companies, capital market players (including the stock exchange), microfinance entities, pensions, discount houses, credit cooperatives, finance and leasing companies, development financial institutions and medical aid scheme.

- Insurance sector consists of eight non-life insurers; four life insurance providers; one reinsurer; nine insurance brokers and numerous agents.
Overview of the Financial System in Malawi (Cont’d)

- 15 listed companies on the Malawi Stock Exchange (MSE) as at end December 2010.
- One is a dual listed South African company while one local company is also listed on the London Stock Exchange.
- Total market capitalization as at the end of the period was US$8,477.98 million, of which only US$1,362.79 million was accounted for by local companies.
- The Malawi Stock Exchange has traded in negative territory since January 2009, largely due to the effects of the global financial crisis.
Overview of the Financial System in Malawi (Cont’d)

- micro-finance industry is still relatively underdeveloped.
- Existing service providers been operating under different Acts of Parliament and statutes including Banking, Trustees Incorporations, Cooperatives Societies, and Companies Acts, with different institutional forms.
- Institutionally, microfinance institutions (MFIs) in Malawi differ in size, source of funding, target group and areas of operations.
- Most MFIs privately or NGO owned; few government owned
Overview of the Financial System in Malawi (Cont’d)

- Regulation and supervision of entire financial sector carried out by RBM
- With FSA 2010 as umbrella law, RBM supervises the sectors using the following:
  - Banking Act 2010;
  - Insurance Act of 2010;
  - Microfinance Act 2010;
  - Securities Act, 2010 and
  - Financial Cooperatives Act of 2011
- Pension sector to be regulated by RBM after Pension Bill passed into law.
FIRST Funded Projects

Several projects have been funded by FIRST and these include:

1. Financial Sector Regulatory Reforms
2. Capacity Building for NBFI Supervision and Development
3. Financial Crisis Preparedness Framework
4. Financial Sector Development Strategy
5. Other projects
FIRST Funded Projects (Cont’d)

Financial Sector Regulatory Reforms

- Carmichael Consulting Pty Limited assessed the state of non-bank regulation in Malawi between 2004-2006 and concluded that
  - Financial sector relatively underdeveloped and bank centric with very low penetration of non-bank financial products
  - Need to institute measures to deepen and broaden the sector
The Consultants identified following challenges for RBM and Government:

- Need to introduce measures to enhance penetration of financial services in the country;
- Need to introduce measures to increase overall mobilisation of savings;
- Need to find ways to increase use of markets relative to financial institutions;
- Need to find means of increasing diversity of financial products available for diversification of risks.
FIRST Funded Projects (Cont’d)

Financial Sector Regulatory Reforms (cont’d)

- As response,
  - Deliberate policy drive to develop vibrant non-bank financial sector along side existing banking industry
  - Achieved through introduction of comprehensive regulatory reforms for the financial sector by
    - Modernizing existing legal frameworks (i.e. banking, insurance, and securities) and
    - Developing new laws for those sectors previously unregulated by the RBM (i.e. pensions, financial cooperatives and microfinance).
FIRST funded second phase of project in 2006, and Promontory Financial Group (Jeff Carmichael) again drafted amendments to RBM Act to centralize regulatory and supervisory powers and strengthen independence and accountability framework of RBM.

Consultants also drafted amendments to Banking, Insurance, and Securities laws to ensure consistence with changes made in RBM Act.
Consultants also drafted policy paper on pension reforms to assist Government decide on appropriate framework for pensions industry and also guide on choice of adopting a mandatory pension regime in Malawi.

Promontory Financial Group also provided assistance in drafting Retirement Funds Bill (now Pensions Act 2011).
In November 2006, FIRST Initiative and RBM entered into grant agreement for FIRST to provide TA under FCBNP.  

1st phase of project commenced September 2007 with recruitment of two consultants on residential basis, namely, Mr Rohan Michael Fernando on capital markets and Mr Niladri KUMAR Mohanty on microfinance.  

Mr Olivier Reichert, an expert on insurance, joined team later.
FIRST Funded Projects (Cont’d)

Capacity Building for NBFI Supervision and Development (cont’d)

- FIRST injected some US$600,000 for entire project.
- Request for third phase to complete unfinished areas not honoured to-date.
As direct consequence of 2008 FSAP, Malawi got TA from World Bank for design and development a Financial Crisis Preparedness Framework:

- to enhance practical tools for efficiently managing financial distress and potential systemic crisis through strengthening and formalizing relevant contingency plans.

- FIRST Grant of US$162,600 approved in May 2010.
FIRST Funded Projects (Cont’d)

**Financial Sector Development Strategy**

- Another T/A for a five year Financial Sector Development Strategy for 2010 -2015;
- Aimed to build a financial sector, which supports inclusive and sustainable growth;
- Achieved by aligning current financial system with real economy;
- Financial inclusion at the core of Strategy.
FIRST Funded Projects (Cont’d)

Financial Sector Development Strategy (cont’d)

- FIRST supported this project, which was completed in March 2010
- Resulting in the current IMF/World Bank funded FSTAP to the tune of US$28.2 million,
- To be used to implement the Strategy
Other FIRST funded projects include Enhancement of Central Bank Book Entry System (US$15,00) and Developing Country Action Plan for ROSC Accounting and Auditing.
Based on the *Capacity Building for NBFI Supervision and Development Project (FCBNP)*:

- Various levels of authority within RBM engaged during project design of FCBNP including vetting of the proposed consultants;
- RBM provided landscape of the financial sector;
- RBM dedicated staff to work closely with consultants throughout project duration;
- In addition, RBM at liberty to prioritize activities such as order of tackling directives.
Major Challenges of FIRST Funded Projects

Although the three consultants made substantial progress on set project’s targets, and quality of deliverables was commendable, major challenges were:

- TA was scheduled to commence during first quarter of 2007 but was prolonged until September largely because of procurement logistics thereby delaying implementation.

- Second phase was also delayed because of “administrative hurdles associated with hiring multiple consultants at the same time”.

Major Challenges of FIRST Funded Projects (cont’d)

- Another setback was when an identified pensions consultant from Canada could not pick up the job because of bureaucratic confirmation process from World Bank;

- Bottlenecks with another technical expert on pensions as he was operating from South Africa and could not make it to most scheduled meetings because of travel logistical challenges, thereby affecting output due to limited interaction;

- Project also stalled before conclusion on account of World Bank’s financial year coming to an end by June 2010.
Major Deliverables of FIRST Funded Projects (cont’d)

- Major outputs included
  - drafting of directives;
  - operational manuals;
  - training workshops;
  - on-site inspections;
  - numerous consultative discussions with respective industry executives, auditors, owners and other stakeholders;
  - refinement of legal bills and
  - on-the-job training to staff members.
Outstanding Work of FIRST Funded Projects (cont’d)

Following deliverables/outputs not met due to protracted procurement procedures by FIRST and abrupt discontinuation of T/A:

- On the job training relating to Registration of Securities was partially done
- Market Surveillance barely commenced
- Enforcement mechanisms
- Consumer protection
- Review of onsite & offsite examination of other market intermediaries-Investment Managers & CIS operators
Outstanding Work of FIRST Funded Projects (cont’d)

- Introduction of risk based supervision for capital markets
- Completion of operation manual for capital markets (a number of areas left uncovered)
- Draft operational manual for financial cooperatives;
- Provision of training to management and staff of MFI's and cooperatives
Impact on Financial Stability and Poverty Alleviation

- Project aimed at bringing in sub-sectors previously unregulated;
- Thus cash previously outside financial system now attracted into the system;
- In turn, facilitating implementation of monetary policy and reduction in interest rates;
- Regulation and directives tailored with promotive and developmental considerations;
- Once implemented, these should lead to the development of non-bank financial sector and
- In turn, sector to contribute positively in poverty reduction efforts.
Impact on Financial Stability and Poverty Alleviation (Cont’d)

- However, all laws just passed and assented to in 2010 (2011 for the Financial Cooperatives Act and Pensions Act);
- Apart from two directives, most drafted regulations and directives yet to be gazetted for them to be effective;
- Full impact on financial stability and poverty reduction efforts only tested once laws/regulations/directives are full operational.
Way Forward for FIRST Funded Projects

- Interactive approach provided desired output in duration within which technical experts were on the ground. However, FIRST needs to improve in following areas:
  - Stick to committed timeframes for desired full benefit of T/A;
  - Accelerate process of hiring identified consultants to avoid frustrating experts as was the case with pensions component of project;
  - Ensure to hire multiple experts in multifaceted areas like capital markets. Consultant on capital markets was probably most challenged of them all as he needed to be an all rounder at a time the market was undergoing dynamism manifested by the global financial crisis;
Way Forward for FIRST Funded Projects (cont’d)

- Should consider increasing coverage to building capacities of recipient countries through in-country comprehensive training to compliment introduced regulation;
- TA should also go towards building capacities of regulatory organizations and financial service providers to effectively complement financial sector reforms.
Thank You!
Directives Drafted

- Collective Investment Schemes Directive to provide for establishment of various types of investment institutions
- Broker and Dealers Directive to provide operational requirements of brokers & dealers
- Portfolio Managers directive to provide operational and minimum operational requirements for Portfolio/investment managers
- Investment advisers directive to provide for operational requirements for investment advisers
- Securities Representatives directive to provide for operational and licensing requirements for securities representatives
- MSE Clearing and Settlement directive to provide for clearing and settlement procedures at the stock exchange
- Transfer Secretaries directive to provide for operational requirements for transfer secretaries
- Capital and solvency for general insurers directive;
- Capital and solvency for life insurers directive;
- Capital and solvency for re-insurers directive;
- Financial reporting requirements for general insurers directive;
- Financial reporting requirements for life insurers directive;
- Financial reporting requirements for re-insurers directive;
- Premium payments to general insurance companies;
- Minimum standards on corporate governance for insurance companies directive;
- Ownership and management of insurance companies and insurance brokers directive;
Operational Manuals Drafted

- Draft operational manual for supervision of market intermediaries—**to be refined**
- Draft regulations for microfinance institutions to provide specific minimum requirements and operational guidelines to microfinance institutions;
- Draft regulations for savings and credit cooperatives to provide specific minimum requirements and operational guidelines to financial cooperatives.
- Draft operational manual for microfinance in order to guide examiners in the conduct of off-site and on-site examinations of MFIs, and
- Draft operational manual for financial cooperatives in order to guide examiners in the conduct of off-site and on-site examinations of cooperatives;
- Pilot examinations on MFIs and financial cooperatives.