



An Assessment of Digital Financial Inclusion of Micro, Small and Medium Enterprises (MSMEs) in Malawi

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List of Acronyms

BoP	Bottom of the Pyramid
DFS	Digital Financial Services
FINCOOP	Financial Cooperative
FSTAP	Financial Sector Technical Assistance Project
GDP	Gross Domestic Product
GoM	Government of Malawi
MAIIC	Malawi Agriculture and Industrial Investment Corporation
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MEDF	Malawi Enterprise Development Fund
MICF	Malawi Innovation Challenge Fund
MITC	Malawi Investment and Trading Centre
MSMEs	Micro, Small and Medium Enterprises
NSFI	National Strategy for Financial Inclusion
POS	Point of Sale
RBM	Reserve Bank of Malawi
SACCO	Savings and Credit Cooperative
SMEAM	Small and Medium Enterprises Association of Malawi
IoT	Internet of Things
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Fund



Executive Summary



This study analysed digital financial inclusion and access to financial services among 98 micro, small and medium enterprises (MSMEs) in Lilongwe, Malawi. The majority of MSME owners are men, especially in retail and wholesale, with common businesses selling groceries, hardware materials, and agricultural products. Most MSMEs operate informally, with only 30% registered.

Many owners perceive their businesses as too small for registration, lack awareness of its importance, and are hesitant due to perceived low profits and taxation concerns. MSMEs are often located in trading centers or marketplaces.

Urban MSMEs have better access to financial inclusion products than their peri-urban counterparts. Urban areas benefit from greater awareness and availability of these products. Medium enterprises have higher access compared to micro and small enterprises, attributed to their larger scale and profitability. Males are more likely to access financial inclusion products than females, reflecting the gender disparity in MSME ownership and limited efforts to empower and educate women on financial inclusion.



Lack of awareness is a significant gap; most MSMEs are unaware of available financial inclusion products and their potential benefits. Strict protocols in financial institutions pose a challenge, discouraging MSMEs from acquiring financial products due to perceived complexity and stringent processes. Respondents commonly cite an unstable economy as a major challenge, impacting both business operations and the ability to adopt financial products due to frequent changes in prices or rates.

The key findings are:

Demographic Profile

Majority of MSMEs were located in peri-urban areas (63%) and the retail/wholesale sector (35%). Most owners had a high school education (29%). Sixty-seven percent (67%) were engaged full-time and 53% of founders were youth. Sixty-nine percent (69%) operate informally without registration due to cumbersome procedures.

Digital Financial Services

Ninety-four percent (94.9%) use mobile phones but only 36.7% have internet access, indicating a reliance on basic mobile services. Mobile money (87.8%) and bank accounts (46.9%) were the main payment channels. Use of online systems for trade was low.

Key barriers were lack of awareness of digital financial services (86%) and high costs (8%).

Credit and Investment

Only 20.4% had accessed loans, mainly from microfinance institutions. Forty percent (40%) used loans for start-up capital. Thirty-three-point-seven percent (33.7%) made business investments, focused on fixed assets (66.7%). Eighty-nine point-three-percent (89.3%) cited inadequate cash flow as a barrier. Eighty-five-point seven percent (85.7%) had savings plans but mainly using basic bank accounts.

Insurance and Pensions

Only 6.1% had insurance, primarily vehicle insurance. Main barriers were lack of awareness (45.7%) and high costs (20.7%). Ninety-five-point-nine percent (95.9%) did not offer pensions due to lack of knowledge of products.



94.9% use mobile phones but only 36.7% have internet access, indicating a reliance on basic mobile services.

Key Recommendations



Addressing these gaps and challenges involves raising awareness among MSMEs about the benefits of financial inclusion, simplifying access protocols, supporting the development of tailored digital financial products, and considering economic stability in the design of financial products. Additionally, efforts should be made to empower and educate all MSME owners, regardless of gender, to promote more inclusive participation in the digital financial ecosystem.

Statistics Summary

This statistics summary is based on the key findings from the report

Demographic Profile

- 63% of MSMEs located in peri-urban areas
- 35% in the retail/wholesale sector
- 70% of owners are male
- 29% of owners have a high school education
- 67% of owners engaged full-time
- 53% of founders are youth aged 18-35
- 69% operate informally without registration

Digital Financial Services

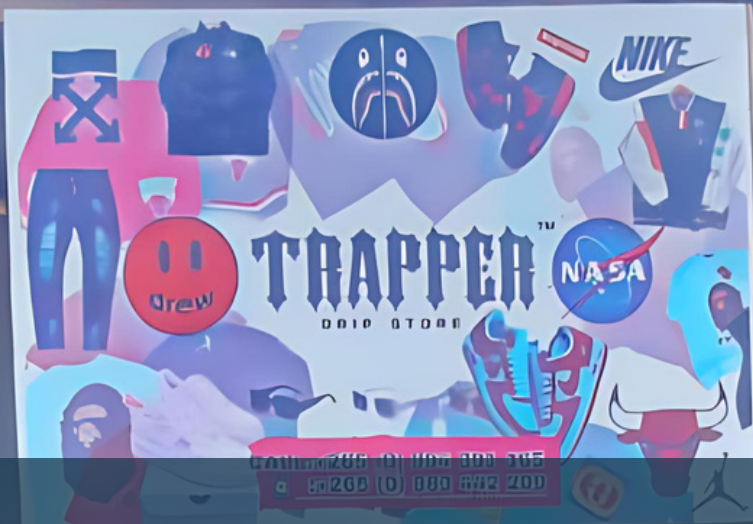
- 94.9% use mobile phones
- 36.7% have internet access
- 87.8% use mobile money
- 46.9% have bank accounts
- 52% use WhatsApp for business
- 86% reported no barriers to using digital financial services
- 8% cited high costs as the main barrier

Credit and Investment

- 20.4% accessed loans
- 40% used loans for start-up capital
- 33.7% made business investments
- 66.7% invested in fixed assets
- 89.3% cited inadequate cash flow as a barrier to investing - 85.7% have savings plans

Insurance and Pensions

- 6.1% have insurance
- 45.7% cited lack of awareness as a barrier to insurance
- 20.7% said insurance is too expensive
- 95.9% do not offer pensions
- 43.6% were unaware of pension products



1.0 INTRODUCTION





In the past decade, financial inclusion for both men and women in Sub-Saharan Africa (SSA) has significantly increased. Fifty-five per cent (55%) of the SSA population now has an account with a bank or other financial institution, compared to 23% in 2011 (Demirgüç-Kunt, Klapper, Singer, & Ansar, 2022). The use of mobile banking has boosted bank penetration rates, which have increased nearly fourfold. In spite of this progress, it is crucial to recognize that this progress is being made against a backdrop of high inequality and poverty. There is a high percentage of unbanked individuals in Africa, estimated at 57% (Nwankwo, 2022), underscoring the significant challenge of financial inclusion on the continent. Financial inclusion of bottom-of-the-pyramid (BoP) communities in Sub-Saharan Africa (SSA) is crucial for the region's development (Shobande & Lanre, 2018). BoP communities represent a significant proportion of the population in the region and are often marginalized. When included in financial systems, they are empowered to better manage their finances, access formal economic activities, and mitigate risks associated with health, agriculture, and natural disasters. Financial inclusion also fosters social inclusion and empowerment among BoP communities.

Conversely, financial exclusion exacerbates poverty, reinforces power imbalances, and hinders development progress in SSA (Chikalipah, 2017) (Asuming, Osei-Agyei, & Mohammed, 2018) (Okello, Ntayi, & Munene, 2018) (Anarfo, Abor, & Osei, 2020). The BoP population is often excluded from the formal financial system due to factors such as lack of documentation, low levels of financial literacy, and limited physical access to financial institutions.

Research has shown that financial inclusion plays a vital role in driving economic growth and stability in Africa. A study conducted across 57 African countries from 2004 to 2015 revealed that financial inclusion has led to increased economic growth and stability in the region (Shobande & Lanre, 2018). The findings suggest that efforts to bank the unbanked population, particularly through the intensification of initiatives by central banks, are crucial for achieving sustained development in Africa. This highlights the importance of addressing the barriers to financial access and promoting inclusive financial systems to harness the potential for economic advancement in the region.



The advancement and accessibility of financial systems play a crucial role in stimulating economic progress and evolution (Christopoulou & Tsionas, 2004). In most developing countries like Malawi, financial systems remain thin and tend to serve a small segment of the population with the majority of the population relying on informal financial systems for financial services.

Financial Inclusion in Malawi

Financial inclusion as defined by the World Bank, implies that individuals and businesses have access to useful and affordable financial products and services that meet their needs like transactions, payments, savings, credit, and insurance delivered responsibly and sustainably. This definition includes three dimensions: access, usage and quality (Nkuna, Banda, & Chirwa, 2021). Financial inclusion is a major challenge in Malawi, with a significant portion of the adult population lacking access to formal financial services. About 60% of adults in the country do not have a bank account or any access to financial products and services, while only 14%

actively use formal financial services (UNDP, 2023). This might be due to high levels of poverty, slow urbanization, high financial illiteracy and perceived high risk. This situation is a significant barrier to economic growth and development, as it limits access to credit, savings, and insurance. To tackle this challenge, a multifaceted approach is required, which includes creating an enabling environment for financial inclusion, promoting financial literacy, and fostering innovation in the financial sector.

The GoM recognizes the importance of financial inclusion as a vehicle for achieving inclusive and sustainable economic growth. Over the years, GoM has made efforts to enhance financial inclusion. Among the efforts included; the development of the first National Strategy for Financial Inclusion (NSFI) for 2010-2015; the institution of the Financial Sector Development Strategy in 2010; and the implementation of the Financial Sector Technical Assistance Project (FSTAP) for 2011–2017.





To promote financial inclusion, the GoM launched the 2016-2020 National Strategy for Financial Inclusion to ensure that all Malawians regardless of their geographical disposition are reached with financial services in an economy that is predominantly a cash-based society (Kabambe, 2017). The Micro Finance Policy, Financial Sector Development Implementation Plan and the National Strategy for Financial Inclusion aim at enhancing financial inclusion in Malawi.

The World Bank through the International Development Association in August 2020 appraised the Financial Inclusion and Entrepreneurship Scaling Project as equivalent to 86 million USD. The project development objective is to increase access to financial services and promote entrepreneurship and capabilities of MSMEs in Malawi including addressing COVID-19 implications. Relatedly, to enhance access to finance for MSMEs, in 2019, the GOM launched the Malawi Agriculture and Industrial Investment Corporation (MAIIC) as a development Bank. One of MAIIC's objectives is to "Fill the long-term funding gap for SMEs and large transformative projects" (MAIIC, 2022). The government's efforts are beginning to yield positive results.

A study on the role of commercial banks in financial inclusion

in Malawi revealed that there has been an expansion of ATMs and agent banking, but there are still perceived barriers such as customer fees, distance to bank outlets, and low literacy levels (Nkuna, Lapukeni, Kaude, & Kabango, 2018). Furthermore, the introduction of mobile money services, such as Khusa M'manja, Mpamba, (Madise, 2014) and Airtel money has been seen as an effective means of ensuring the financial inclusion of the unbanked population in Malawi.

Digital Financial Inclusion in Malawi

The GoM has ambitious plans for development that place the digital economy at the forefront of efforts to decrease poverty and boost economic growth. In pursuit of this, Malawi introduced the National ICT Master Plan in 2014 as a practical step towards implementing the National ICT Policy from 2013. Further advancements in 2019 included the adoption of both a national broadband strategy and a cybersecurity strategy. Despite these efforts in establishing ICT-related policies, plans, and strategies, Malawi still lacks a comprehensive digital economy ecosystem. Malawi has yet

to fully adopt the second and third industrial revolution while the rest of the world is moving towards the fourth industrial revolution. In a recent move, the government launched the Digital Economy Strategy 2021-2026 to foster a robust digital environment.

Digital Financial Inclusion according to the World Bank involves the deployment of the cost-saving digital means reaching the currently financially excluded and underserved populations with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers. Mobile financial services are gaining prominence in Malawi and could be a possible avenue for fast-tracking financial inclusion (Matita & Chauma, 2019). Banks offer various banking products and services, and they are increasingly partnering with mobile network operators due to technological advancements. TNM and Airtel, two mobile network operators, have successfully provided banking services to remote areas through mobile money wallets. However, cash is still the primary payment method despite the rise in mobile money accounts.

Financial literacy influences the use of mobile financial services in Malawi, and the likelihood of using mobile financial services increases with increasing levels of financial literacy, type of employment, and peri-urban residence (Matita & Chauma, 2019).

The GoM has been working to promote digital financial inclusion through various measures. These include the establishment of a legal framework to regulate digital financial services (Mader, Duvendack, & Macdonald, 2022), efforts to improve financial literacy, and initiatives to expand access to mobile financial services, especially in rural areas. Additionally, the government has been involved in debates over mobile money taxation, which can impact the adoption of digital financial services (Gibson, Lupo-Pasini, & Buckley, 2015).

Projects like the Malawi Financial Sector Technical Assistance has successfully enabled the transition of financial services to digital platforms, providing a range of opportunities for inclusive growth for banks, microfinance institutions, and saving and credit cooperatives. This transformation has been instrumental in optimizing the digital space, thereby creating a positive impact on the financial sector (World Bank, 2021).



Through this initiative, there was a growth in mobile money banking users even in rural areas and the introduction of online banking services, and the number of adults using the financial institutions rose from 19% at the start of the project in 2011 to 40% at the closing in June 2018. The Financial Inclusion and Entrepreneurship Scaling Project, which received approval in August 2020 in the amount of \$86 million, represents a continuation of previous successes. Building upon the previous achievements, the project aims to enhance financial inclusivity and stimulate entrepreneurship and capabilities of (MSMEs) in Malawi, including addressing the implications of Coronavirus Disease 2019 (COVID-19).

Recently in August 2023 UNDP Malawi in collaboration with FINCOOP SACCO launched “Fin Mobile” a revolutionary digital banking application. Introduced through the Innovative Finance Window of Malawi Innovation Challenge Fund (MICF), this mobile application specifically targets micro, small and medium-sized enterprises that have long faced financial exclusion owing to perceived high risk. Micro, Small and Medium Enterprises in Malawi An enterprise is defined as an

organisation or business that works to provide goods and services to a market. These enterprises are in different categories micro, small and medium enterprises, and each category has its characteristics according to the Malawi Micro, Small, Medium Enterprises (MSMEs) Policy formulated by the Malawi Government which started during the late 1970’s and early 1980’s. The policy was developed with the aim of ensuring that Malawi can have a healthy economic environment for all enterprises to realise their potential, (GoM, Micro, Small and Medium Enterprise Policy Statement, 2012). In Malawi the largely informal micro-enterprises are a major part of the private sector and they are also crucial to the economy because these are enterprises that produce majority of the agricultural products in the country. The 2019 Malawi FinScope MSME Survey estimates that there were almost 1.6 million MSME’s in the country, employing about 1.8 million people in total. About three in four enterprises (74%) are micro enterprises, 23% are small enterprises and only 3% are medium enterprises.



It is estimated that the MSME sector contributes about 40% of the GDP and 24% of the employment; and that about 21% of the country's adult population derives their livelihood from the sector (Chilima, 2022). The GoM has accorded a high priority to the development of micro, small and medium enterprises in recognition of the

crucial role they play in employment generation, poverty alleviation rural development, and overall economic development. The definition of enterprise according to the 2019 Malawi MSMEs policy is based on three parameters: maximum assets, number of employees, and annual turnover.

Table 1: Definition of MSMEs in Malawi

Enterprise Size	Employment (number of employees)	Annual turnover (Malawi kwacha)	Maximum assets (exclude land and buildings – for manufacturing enterprises)
Micro	1-4	Up to K 5,000,000 (US\$4,536.89)	K 1,000,000 (US\$907.38)
Small	5-20	Above K 5,000,000 - K 50,000,000 (US\$45,368.80)	K 20,000,000 (US\$18,147.50)
Medium	21-99	Above K 50,000,000 - K 500,000,000 (US\$453,689.00)	K 250,000,000 (US\$226,844.00)

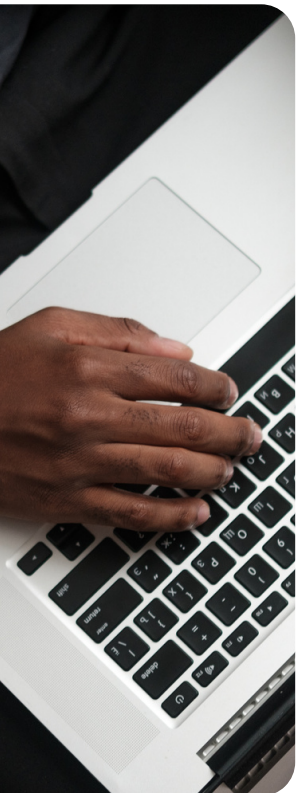
Exchange rate as of 28 September 2023, when the survey was first deployed

To stimulate economic expansion, alleviate poverty, and promote the creation of quality jobs, the GoM has identified the private sector as the primary driver of the nation's economic development and poverty reduction efforts. This approach is reflected in all of GoM's economic policy documents, including the Malawi Vision 2063, the Micro, Small and Medium Enterprises (MSME) Policy 2019, the National Industrial Policy, the National Trade Policy, the National Export Strategy, the National Employment and Labour Policy, and sector-specific policies such as the National Agricultural Policy, the Financial Sector Development Strategy, and the National Financial Inclusion Strategy, among others.

The GoM is promoting MSMEs through the Malawi Implementation Plan 1 (MIP-1) a short-term plan for Malawi Vision 2063 by prioritising MSME development as the key to ensuring the full participation of Malawians in various industries and creating a robust middle class. To develop a vibrant MSME, the MIP-1 aims to create a structured and resourceful MSME sector; improve access to finance for businesses and entrepreneurship; and improve the quality of products in Malawi.

In the reporting period of the 2022 MIP-1 report, domestic credit to the private sector as a percentage of GDP shrank from 10.5% in 2020 to 7.2% in 2022. The decline is mainly attributed to the economic slowdown due to COVID-19.

Despite the GoM recognising the importance of MSMEs in the economy of Malawi, the MSME sector in Malawi faces several challenges, and the level of financial inclusion, particularly digital financial inclusion, significantly impacts its operations and growth prospects. Access to formal financial services is a significant obstacle for many MSMEs in Malawi, particularly those in rural and peri-urban areas. Often, they have no choice but to rely on informal financing sources such as money lenders. This is due to factors like distance from bank branches, high transaction costs, and strict collateral requirements. However, these informal sources often come with exorbitant interest rates, which can hinder the growth and productivity of MSMEs (Wati, Isprihayadi, Nisa', & Lutfi, 2020), (Jiya, Opoku, Nketsia, & Dogbe, 2021). Another challenge is the low level of financial literacy among MSME owners and operators.





They may lack the necessary knowledge and skills to navigate formal financial systems, understand financial products, and make informed financial decisions. This lack of financial literacy can limit their ability to access and use financial services effectively, ultimately hindering their growth potential (Sudiyani, Sawitri, Putri, Putri, & Geriada, 2022), (Abrari, 2023). Compliance and registration requirements are making it challenging for MSMEs in Malawi to access finance. To achieve formal registration, small businesses in Malawi must complete three steps: (1) register the business at the Department of the Registrar General (DRG) to obtain a BRC; (2) register the business at the Malawi Revenue Authority to obtain a TPIN; and (3) register at the local City Council to obtain a business license.

Although these three institutions operate independently, having a BRC is a prerequisite for obtaining a TPIN. The costs associated with the formalization process include time, an application fee of MK10,000 (equivalent to 13.5 USD, 2020) (GoM, 2020), transportation costs, lodging costs in cases where one stays far from the Registrar General's office, and human resources. To address this issue, the Government of Malawi has made efforts to reduce informality by making business registration more accessible.

According to the World Bank's Doing Business 2020 report (World Bank, Malawi Doing Business, 2020), To address this issue, the Government of Malawi has made efforts to reduce informality by making business registration more accessible.

According to the World Bank's Doing Business 2020 report (World Bank, Malawi Doing Business, 2020), Malawi is ranked 109 out of 190 economies. The process of registering a business can be done both online and offline, and there are different avenues for registration, including the Registrar General's office in the three regions and the one-stop service center desk at the Malawi Investment and Trading Centre (MITC). The MITC reports that formal company registration in Malawi takes 10 working days.

Despite the digitalization of the registration process, most MSMEs continue to operate informally due to a lack of information, limited internet access, illiteracy, the need to evade taxation, related high costs, and no perceived profits from registration. Additionally, navigating the bureaucratic procedures involved in compliance and registration can be daunting for MSME owners, leading to delays and frustrations. Informal operations prevent MSMEs from opening a business bank account accessing loans from banks and other formal lenders, building a reputation with customers, and taking advantage of government assistance programs.

To encourage the formalization of small businesses in Malawi, it is crucial to make business registration costless and to carry out financial literacy awareness and education (Campos, Goldstein, & McKenzie, 2019).

Malawi has made progress in expanding digital infrastructure coverage: 30.8% of the population lives within 10kms and nearly all of the population lives within 50km of fibre nodes; 88% of people have access to either 3G or 4G signals and the introduction of smart biometric identity for its citizens (World Bank, 2021). Digital financial services can be a solution to some of the challenges faced by MSMEs, such as access to finance and financial literacy (Wati, Isprihayadi, Nisa', & Lutfi, 2020). However, there are various barriers to digital financial inclusion in Malawi that need to be addressed. These barriers include limited infrastructure (see Figure 1), such as internet connectivity and mobile network coverage, low levels of digital literacy, concerns about cybersecurity (swim swap) and data privacy, and the high cost of digital transactions for small-value transactions, limited electricity supply and network coverage issues, especially in rural areas, high mobile money user fee, resistance from merchants to accept DFS, for fear of business taxes, lack of fintech companies and innovation, slow

turn-around-times (TAT) for transaction corrections, and inaccessibility to finance has been an important business growth constraint for MSMEs in Malawi.





Figure 1: Malawi key country digital financial services statistics as of 2020: Source IFC, World Bank

In this report, we evaluate the state of financial inclusion for MSMEs in Malawi assessed across traditional and digital forms of inclusion. The report is based on the findings from the survey that focused on urban and

peri -urban MSMEs in Lilongwe, Malawi. The objective of the survey was to measure financial inclusion across four dimensions which are availability, usage, barriers and compliance.

2.0 METHODOLOGY



The survey uses the classification of MSMEs according to the Ministry of Trade and Industry in Malawi to identify the target enterprises based on the convenience quota sampling and consensual participation of the enterprises. Additionally, the data collected will feed into the expansion of the SIVIO Institute Financial Inclusion Index (SI-FIndex) which can be used to understand and compare how MSMEs interact with financial products and services in different countries. The index will be multidimensional in its approach focusing on areas such as the use of banks, mobile money transfer platforms, access to funding, and insurance just to mention a few.

2.1 Study Area and Research Design

The study adopted a cross-sectional study design with a quantitative approach incorporating face interviews between the study participants and the researchers. The study utilised SIVIO’s pre-designed survey that was deployed using Survey Monkey.

2.2 Study Population and Area

This survey was conducted in Lilongwe, Malawi. The target population for this study were individual MSMEs operating their business in the peri-urban and urban areas.

Table 2: Survey location in Lilongwe

Urban	Peri-urban
Area 18	Chigwiri
Area 47	Likuni
Area 15	Mtandire
Area 3	Dzenza

2.3 Sample Size Determination

The sample size was based on convenience quota sampling. The target sample for Lilongwe was 100 enterprises. Micro, small and medium enterprises were selected according to the 2019 Malawi

MSMEs policy definition based on three parameters: maximum assets, number of employees, and annual turnover, see Table 1. The sample size is broken down as per the table below:

Table 3: Sample size distribution

	Urban		Peri-urban	
	Minimum calculated sample Size	Total sample size recruited	Minimum calculated sample size	Total sample size recruited
Micro	30	22	30	38
Small	15	12	15	22
Medium	5	5	5	2

2.4 Sampling Procedure

Markets were conveniently selected. However, enterprises were randomly sampled. Several markets were sampled based on the localities. All types of MSMEs (female, male, retailer, wholesaler,

selling any type of merchandise) were selected to participate in the study. The survey was conducted at different times of a typical day (morning, lunch, evening) and on different days of the week.

3.0 FINDINGS



Section 1: Demographics

Characteristics This section describes the socio-demographic characteristics of the MSMEs in Lilongwe. This study was carried out in the capital city of Malawi, Lilongwe. The respondents were represented from the urban and peri-urban areas. The calculated sample size was 100 and total of 98 MSMEs participated in the survey and the information was used for analysis.

3.1.1 Location

Different geographic locations imply different access to infrastructure, services and access to customers as well as suppliers.

Urban areas tend to be more developed than the peri-urban however peri-urban areas tend to have more MSMEs since they act as the middle markets for agricultural produce. Moreover, Malawi still has a long way to go in terms of urbanization, with only 20% of the population residing in the urban area. Peri-urban areas in Malawi are characterized by high population density, and hubs for diverse economic activities including a mix of traditional rural activities such as agriculture alongside emerging urban activities like small-scale businesses, trading, and services. In this survey, the majority of the enterprises are based in the peri-urban area (63%), as shown in Figure 2.

Location

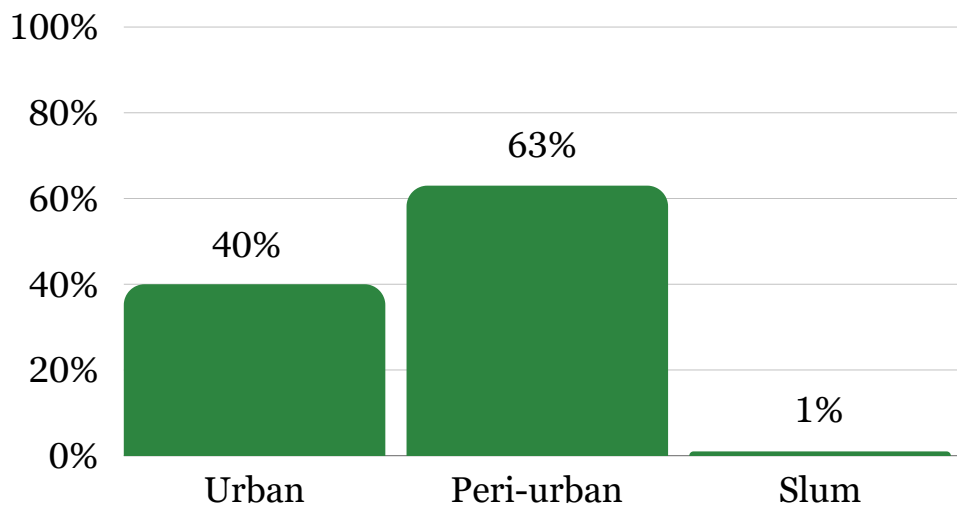


Figure 2: Location of enterprises

3.1.2 Industry represented

As shown in Figure 3, the study established the industries in which the MSMEs operate. The results indicate that 35% of the MSMEs are in retail and wholesale (including butcheries), whereas 12% of the MSMEs are operating in the agriculture, forestry, hunting, and fishing industries. The textile, apparel, and leather industry

support 9% of the MSMEs, and the vending (tuck-shop/flea market/trading) industry has 9% of the MSMEs. These findings almost mirror the sector contributions to the Malawi’s GDP. The agriculture, forestry, hunting and fishing sector contributes a higher percentage to GDP followed by the Retail and wholesale.

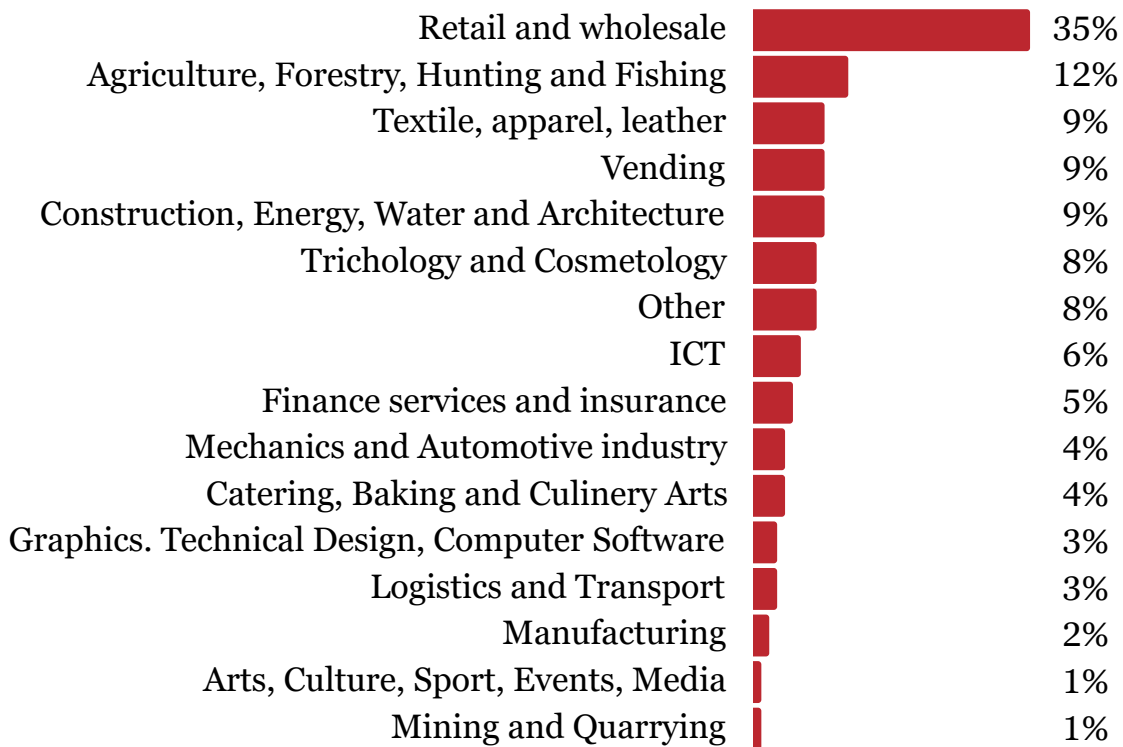


Figure 3: Industries represented by respondent enterprises

3.1.3 Distribution of individual MSMEs owners by gender

The study collected information on the gender of the owner/founder, their level of education as well as how much time they put into their business. An analysis of the ownership of the MSMEs across gender indicate that females composed a relatively small number of MSMEs in Lilongwe, (30%) and males were at 70% (Figure 4). Taking into account that the national adult population consists of more females (51%) than males (49%),

this indicates that females have a lower probability of owning a business. This might be attributed to women facing several challenges in entrepreneurship due to traditional gender roles, lack of resources such as finance and education, discriminatory practices, limited access to financial services, and unpaid care responsibilities. Women entrepreneurs also lack networking and mentorship opportunities.



Figure 4: Gender distribution of enterprise owners interviewed

3.1.4 Level of education of business owners

As indicated in Figure 5, the majority of the MSME owners/founders have achieved a high school level of education (29%), followed by those with a bachelor's degree (28%). Additionally, 21% of the owners have attained primary school. Males are more likely to be educated than females.

Entrepreneurs who have received formal education or specialized training are in a favourable position to capitalize on opportunities and make sound business decisions. Numerous research studies indicate a noteworthy and substantial impact on the profitability of a business when its owner has an additional year of education.

Education Level

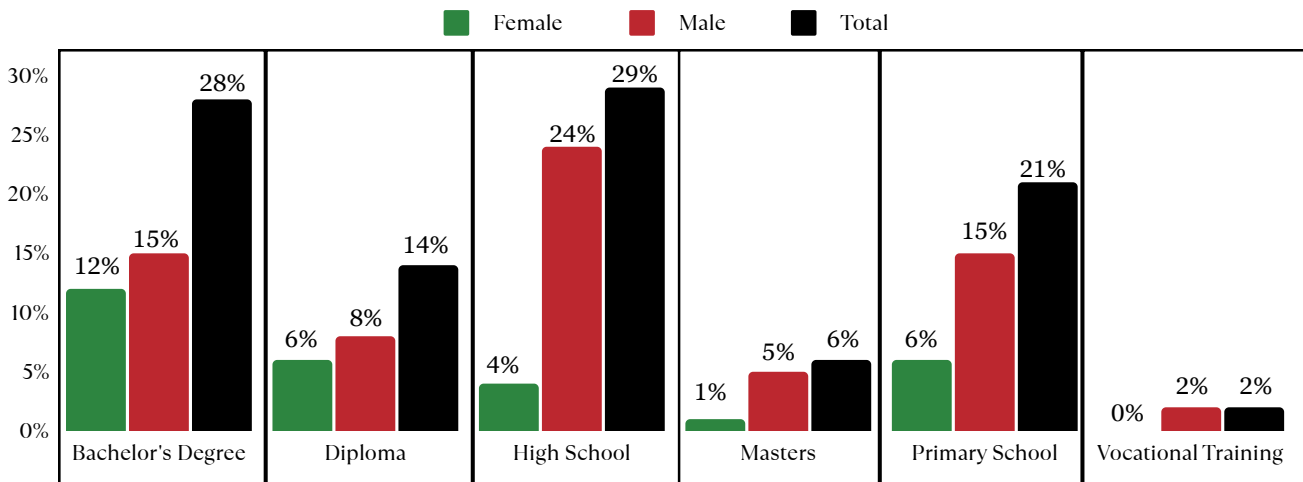


Figure 5: Education level of enterprise owners

3.1.5 Level of engagement in the business by the enterprise owner

In this study, 67% of the respondents indicated that they are engaged in the business full time, Figure 6. The level of engagement of an enterprise owner in Malawi, as in any other location, can vary based on several factors. The extent of an owner's involvement in the business can be influenced by the type and size of the enterprise, personal preferences, market conditions, and cultural factors. In many cases, MSMEs in Malawi may have owners who are highly engaged in day-to-day operations. SMEs often require hands-on management to ensure success.

Is the owner engaged in the business on a full-time basis?

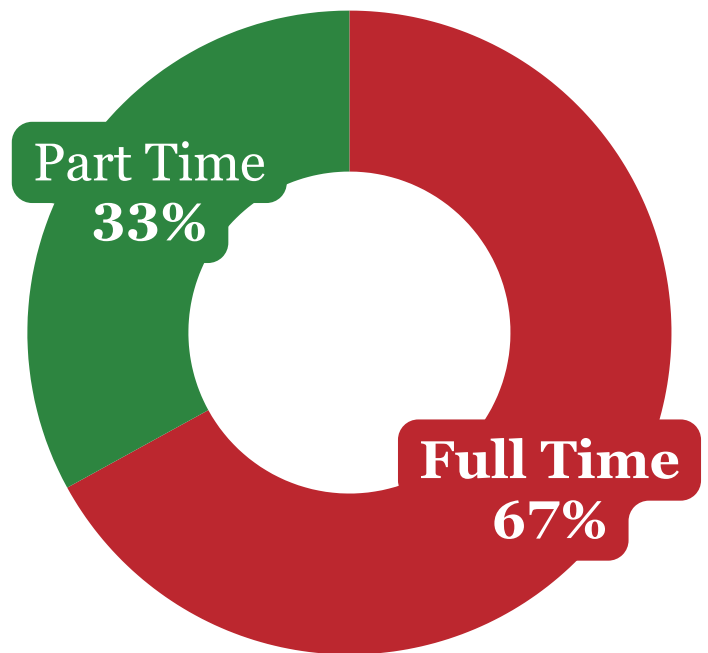


Figure 6: Engagement in the business-by-business owners

The business owners with lower education levels, primary school, (100%, 21 out of 21) and high school (61%, 17 out of 28) are likely to be involved in the business full time, see Figure 7.

Men are slightly more likely to dedicate their full time to the business (47 out of 69, 68%) than women (19 out of 29, 66%). Twelve (12) of the business owners had another full-time job as 16 of them had another part-time job (Table 4).

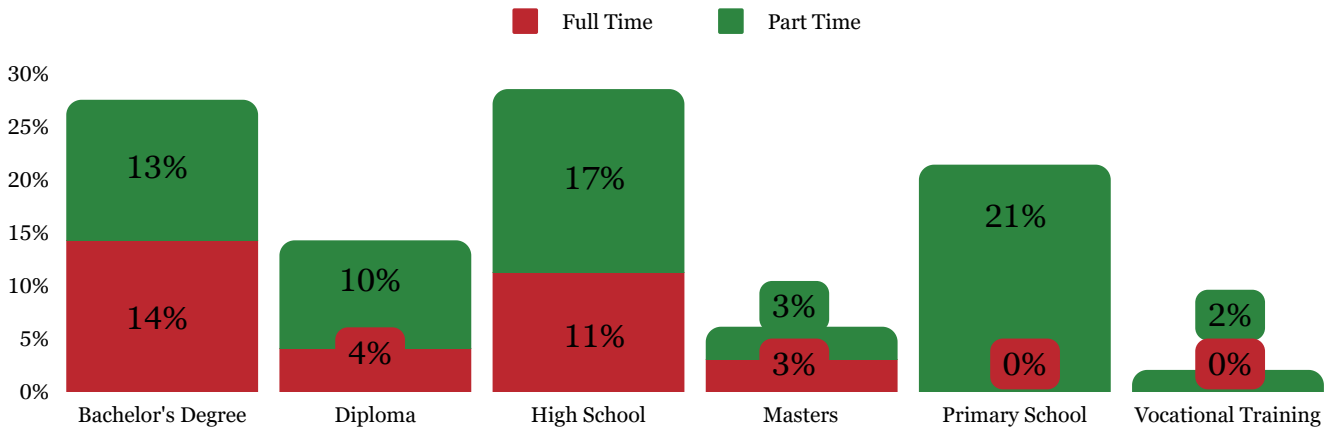


Figure 7: Education level of business owners and full-time participation

Table 4: Level of Involvement in the Business by Gender of Business owner

Involvement in the Business	Male	Female	Total
Full Time	47	19	66
Another full time job	6	6	12
Another part time job	13	6	16
Is a parent	0	1	1
Also a student	1	0	1

3.1.6 Founders: age and main objective of starting the business

The study investigated the age of the business founders and the objectives for establishing the business. Fifty three percent (53%) of the founders are the youth in the age ranges of 18-35 (23.47% + 29.59%). Malawi’s population is youthful with a median age of 17 but with high unemployment rates.

Youth participation in businesses has potential to contribute to the creation of own employment opportunities, reducing the overall unemployment rate and fostering economic resilience which is in line with GoM’s development goals. Thirty percent (30%) of the founders fall in the age category of 36 -45, 13.27% of the founders were aged 46-65. A few founders (1%) are in the pensioners age categories of 66 and above, (Figure 8).

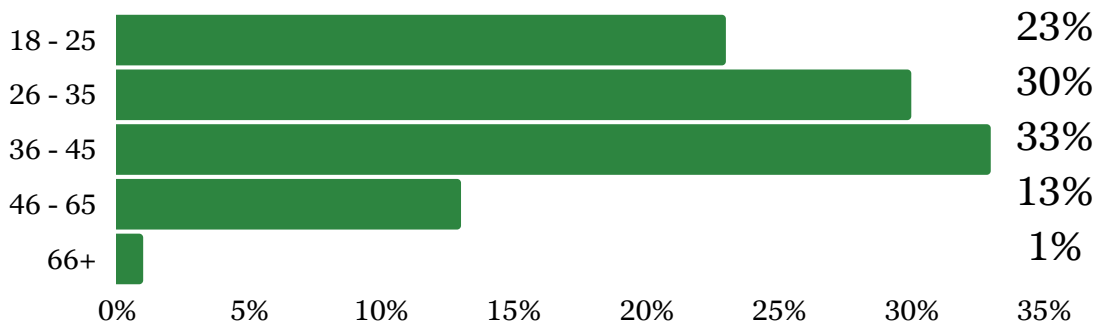


Figure 8: Age of founders

Further investigations showed that the majority (58.16%) of the founders established the business for financial rewards, whereas 15% of the founders wanted to be entrepreneurs. Additionally, 12.24% of the founders opened their businesses because they failed to secure employment (Figure 9). Studies have indicated that the entrepreneurial mindset plays a crucial role in the sustained growth and survival of small businesses. Research findings highlight that enterprises initiated by individuals with an entrepreneurial

orientation tend to out perform those established by individuals merely seeking a livelihood through small business ownership. The evidence underscores the significance of an entrepreneurial mindset in fostering the success and longevity of small businesses. The motivations for starting a business can be broadly divided into three categories: Entrepreneurial, Desperate, and Other. Recognizing these categories offers valuable insights into the multifaceted nature of entrepreneurial endeavors.

Why did you start your enterprise?

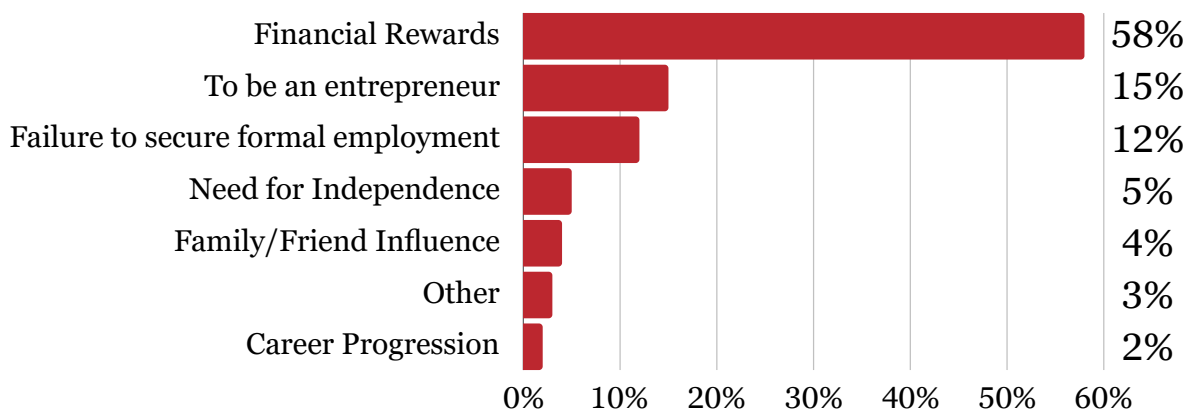


Figure 9: Main objective of starting the business

3.1.7 Gender and enterprise industry

The study conducted a cross tabulation of the gender and the enterprise industry to determine which industries are more likely to be preferred by the business owners.

The study results show that females (14 out of 29, 48%) are more likely to participate in the retail and wholesale industries than in the rest of the industries, Figure 10.

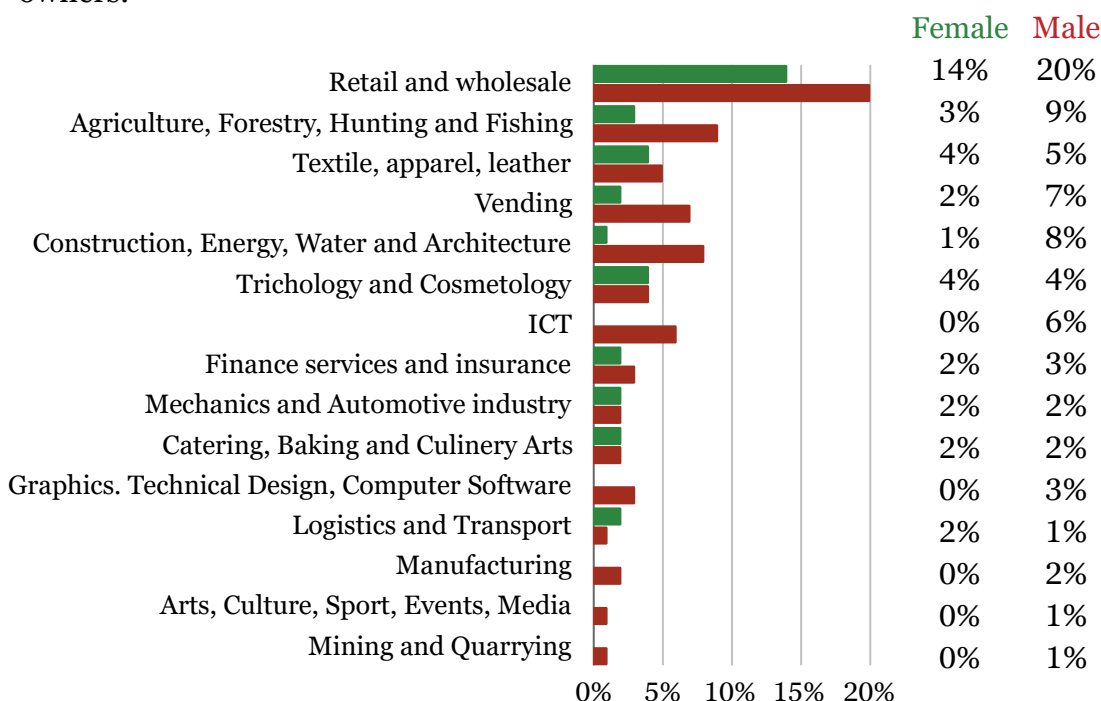


Figure 10: Sector of Business and Gender of the Business Owner



3.1.8 Gender and age of founder

Figure 11 below shows that there are slightly more youthful female founders (17%) than those in the older category. On the other hand, most of the male founders are in the older category. In Malawi, male ownership of MSMEs is prevalent, but the landscape is gradually evolving as more women pursue entrepreneurship. This new trend is positively impacting the country's economic growth.

However, women-owned MSMEs are still not as prevalent as those owned by men. It's noteworthy that many of the female founders are young, which signals a shift in societal norms regarding gender roles and cultural traditions. The unequal distribution of care work between men and women in Malawi may also affect the distribution of MSMEs between men and women.

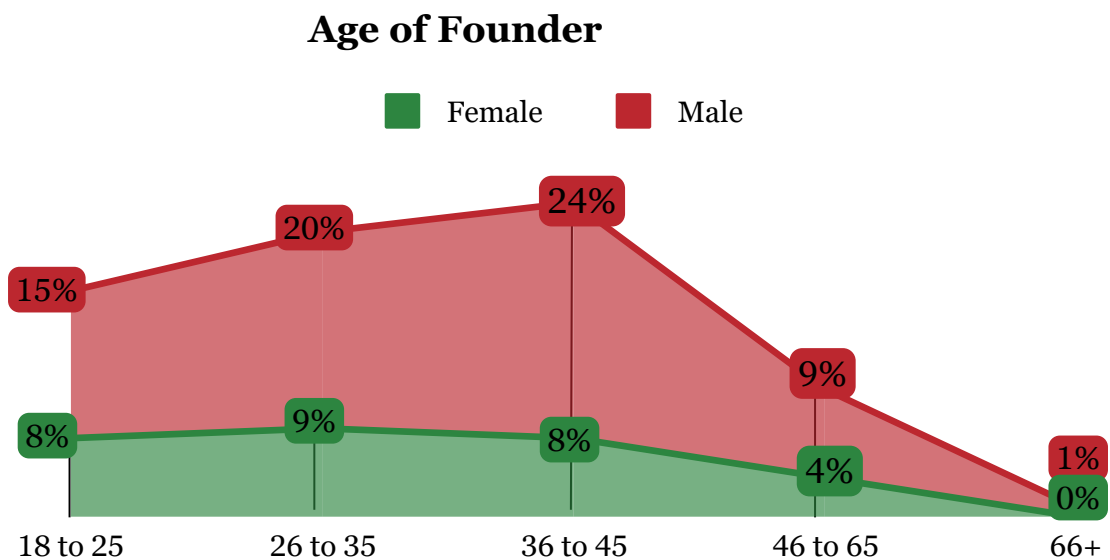


Figure 11: Gender and Age of Founder

3.1.9 Age profile of business

The data indicates that majority of the businesses were established and started operating within the same year of establishment. Figure 12 shows that 48% of the businesses are 3-5 years old, 29% are more than 6 years in operations and 17% are less than 3 years. The analysis indicates that there are currently less new businesses being established as indicted by the 17% start-ups. The establishment of new small businesses in Malawi is not increasing significantly due to various challenges.

These challenges include dependence on costly and unsustainable informal credit mechanisms, insufficient business skills, and limited access to markets. Micro, Small, and Medium Enterprises (MSMEs) face difficulties in reaching out to markets, which can impede their growth. Additionally, high borrowing rates and restricted access to information add to the existing challenges.

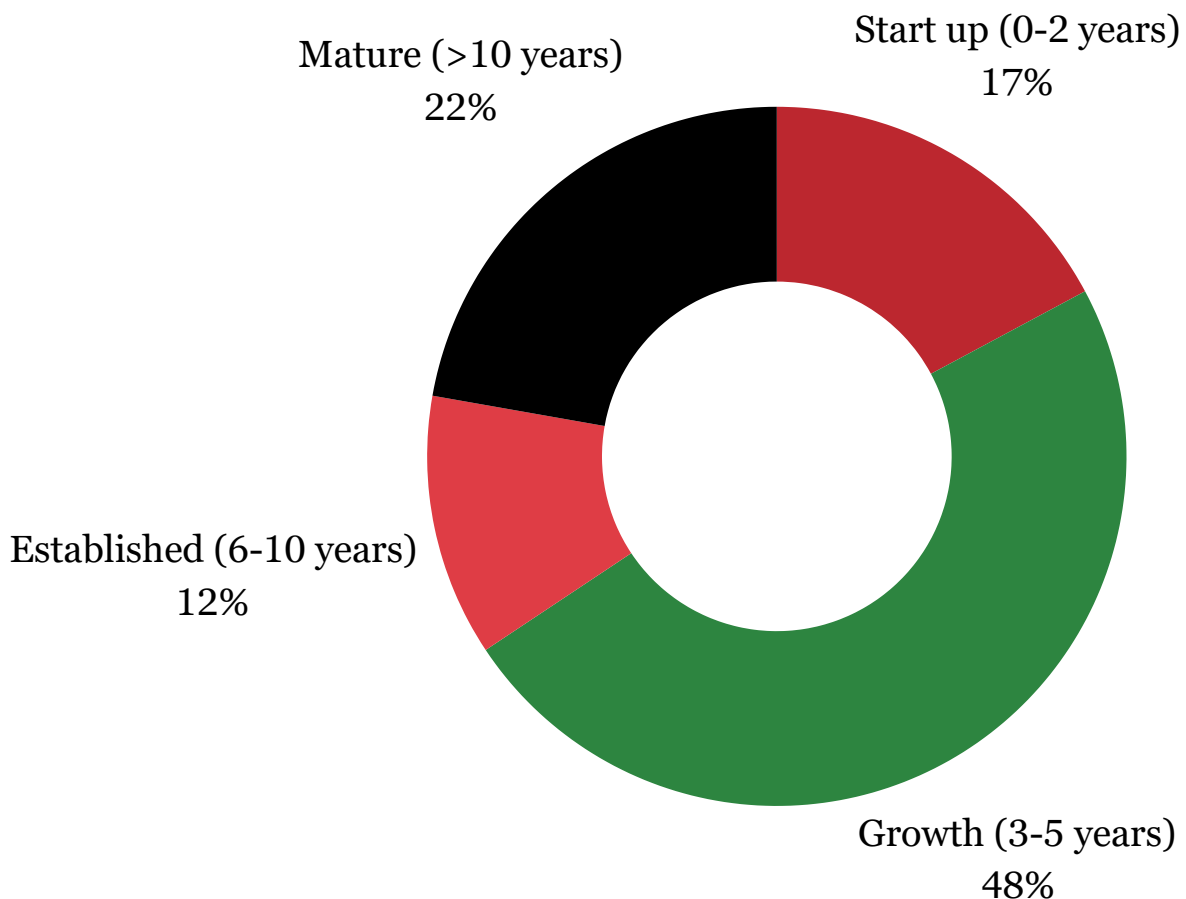


Figure 12: Business Cycle of MSMEs

3.1.10 Sources of startup capital

The most common source of initial capital for the majority of the MSMEs in the study is personal savings (from salary and other business initiatives), 92%. The other common sources of capital are locally based family and friends, 9%; and rotating and savings groups, 4%. A few businesses utilise banks (1%) and microfinance institutions (1%), Table 5. The heavy dependence on personal

savings, financial contributions from family and friends, or informal lenders presents a notable hurdle for the MSME sector in Malawi. This challenge arises due to the time required for individuals to amass sufficient savings for startup financing. Furthermore, this reliance can contribute to the proliferation of micro-enterprises initiated with modest seed capital, which may persist without significant growth for an extended duration.

Table 5: Sources of initial capital

Source of Income	# Enterprises	% Enterprises
Personal Savings	92	94%
Locally Based Family and Friends	9	9%
Rotating and Savings Groups	4	4%
Microfinance Institutions	1	1%
Banks	1	1%

Entities that none of the enterprises received initial funding from include: Order Finance Companies, Local NGOs, Loan sharks, Credit Unions, Government Assistance Programs, International organisation, Remittances, Business Colleagues, Online Loans, Crowdsourcing

<https://www.xe.com/currencyconverter/convert/?Amount=2487846.94&From=MWK&To=USD>. 9th February 2024

The average amount of capital needed by the enterprises that participated in the survey was 2,487,846.94 Malawi Kwacha (US\$1,477.89). The data shows that the majority of the business required relatively little amounts of capital to start off their businesses.

Twenty-four percent (24%) (24 out of 98) required less than 150,000.00 Malawi kwacha (US\$ 89.00) whereas 43% (42 out of 98) enterprises required less than 600,00.00 Malawi Kwacha, (US\$356.00), see Figure 13.

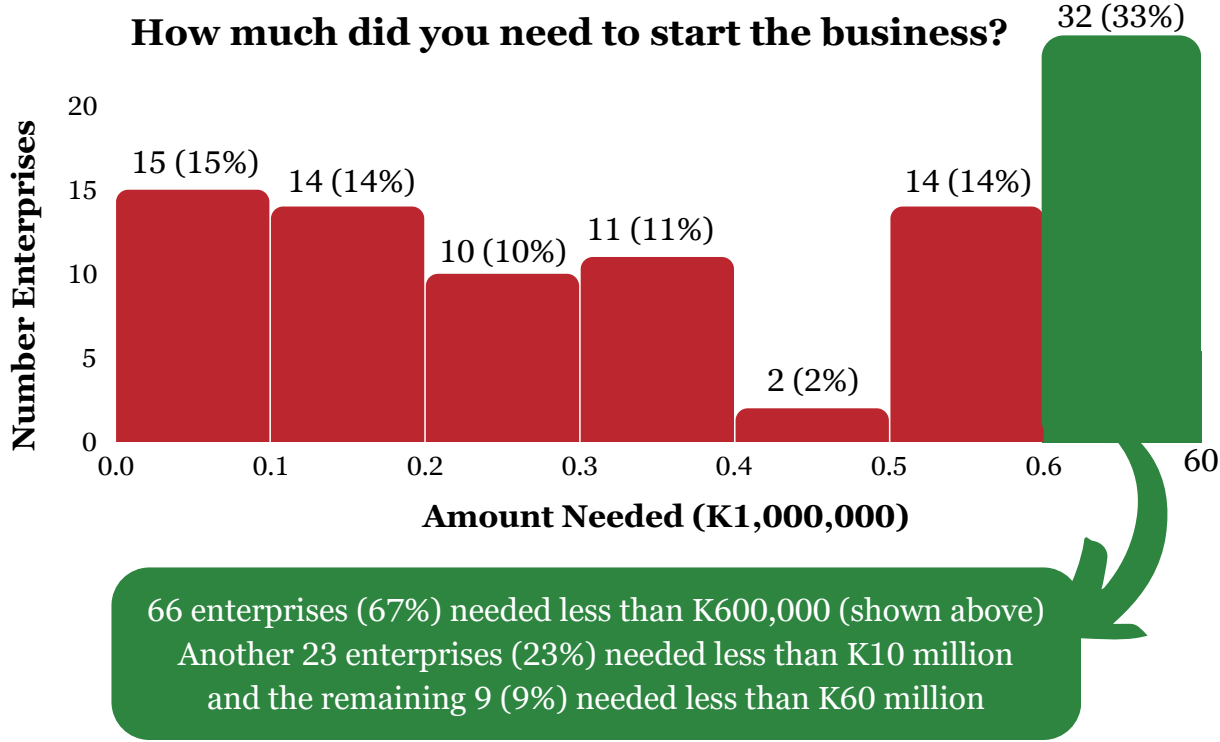


Figure 13: Amount of funds required for establishing a business

3.1.11 Business characteristics

The study explored characteristics of the business including annual turnover, gross assets, number of employees and goods for exports.

Annual Turnover

The average annual turnover of the analysed data is MK 19,184,959.18 (US\$ 11,400.00). Only 21 out of the 98 (21%) enterprises had an annual turn-over of MK 21,000,000.00 (US\$ 12,478.00) and above, and 30 enterprises (30%) had a turnover of less than MK 3,000,000.00 (US\$ 1,783.00), Figure 14.

Gross assets

Assets are items of value that a business owns and uses to generate income. Gross assets include both current assets, which are short-term assets that can be converted into cash within a year, and fixed assets, which are long-term assets like property, equipment, and machinery. The average gross assets value for the enterprises that participated in the survey is MK 11,849,908.16 (US\$ 7,039.00).

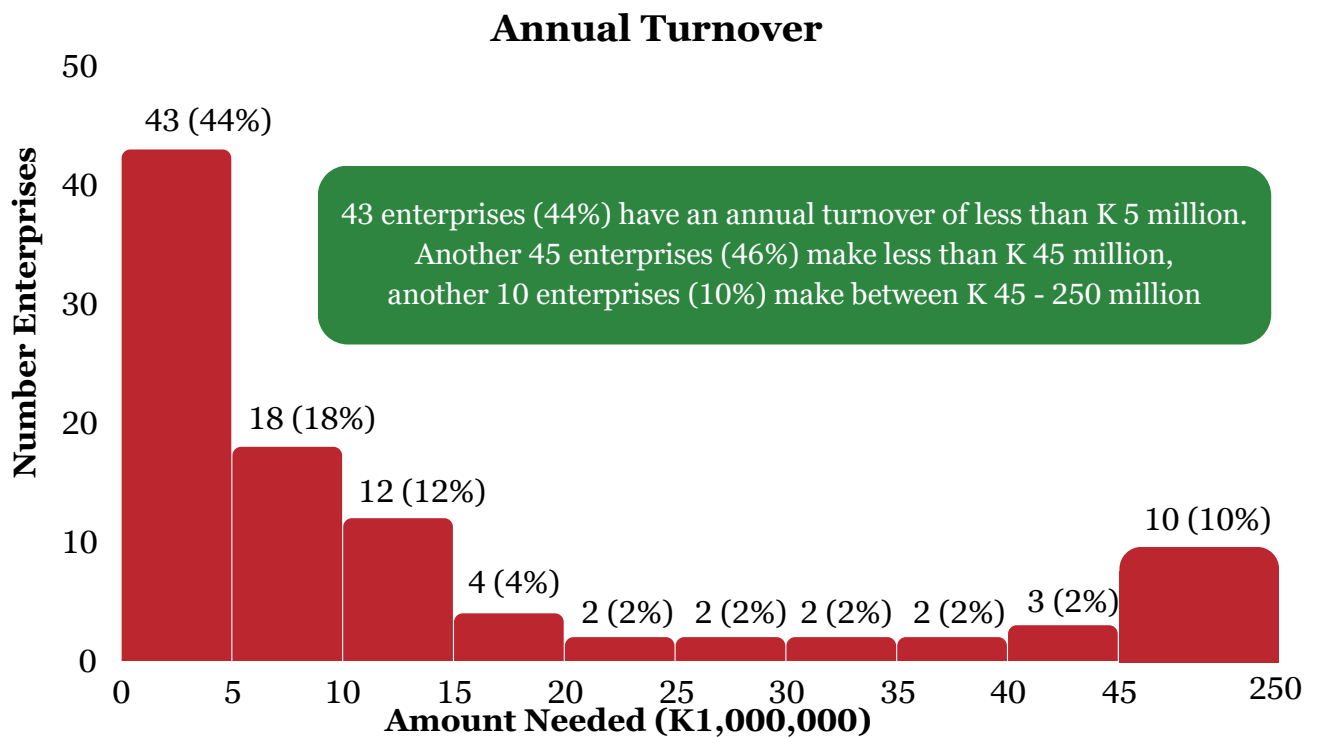


Figure 14: Annual turnover of participating enterprises



As shown in Figure 15, 55.0% (54 out of 98) enterprises had only gross assets amounting to MK 1,000,000.00 (US\$ 594.00) or less, and only 27.5% (27 out of 98) had gross assets amounting to MK4,000,000.00 (US\$ 2,376.00) and above.

Gross Assets

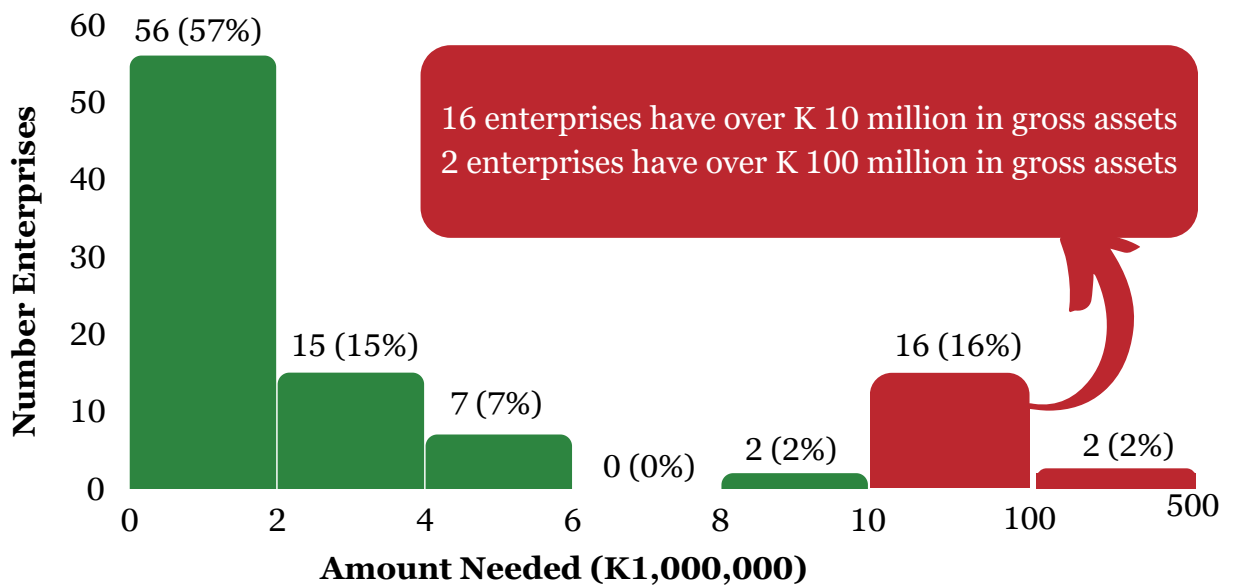


Figure 15: Gross assets of participating enterprises

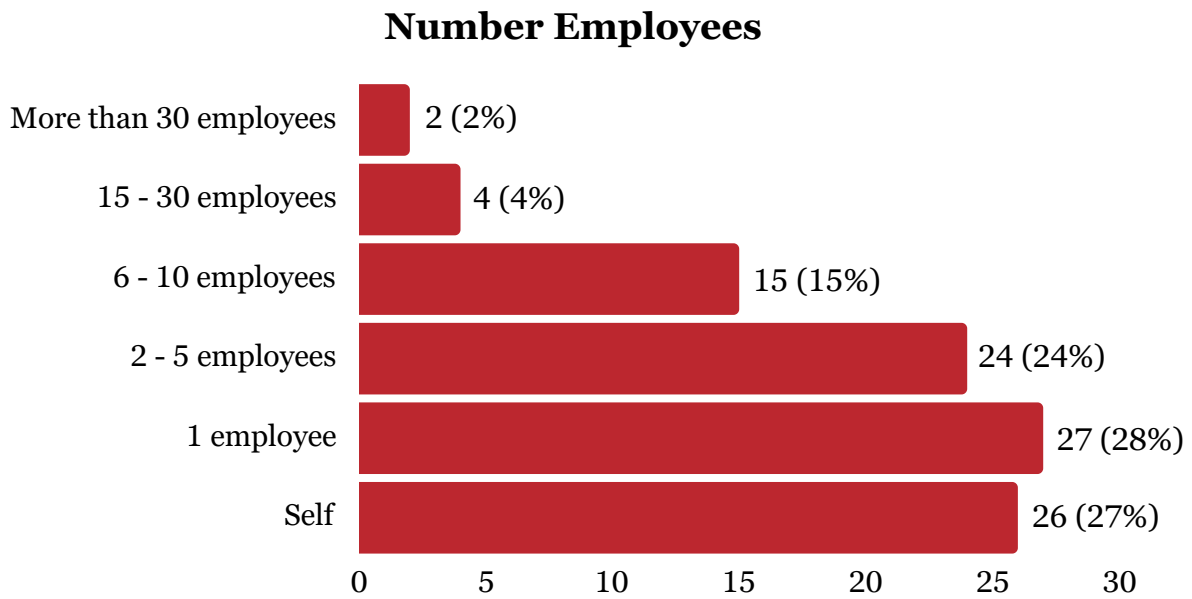


Figure 16: Number of employees in an enterprise

Number of employees

The survey data show that on average MSMEs has 4.2 employees. The Figure 16 shows that the majority of the enterprises (79%, 77 out of 98,) employ less than 5 people. Despite their relatively modest size, their potential impact on advancing numerous sustainable development goals surpasses their scale. MSMEs serve as significant catalysts for growth, innovation, and employment. According to the 2019 Malawi MSMEs policy, MSMEs are categorized as follows: micro-enterprises have 1 to 4 employees; small enterprises have 5 to 29 employees; and medium enterprises: have 21 to 99 employees.

Export of Goods and Services

Of all the 98 businesses that were interviewed, only 3% produce goods and services for export. Producing goods and services for exports can spur MSMEs growth. Exporting has numerous benefits, including market diversification, revenue growth, competitive advantage, economies of scale, job creation, global exposure, foreign exchange earnings, access to resources and technology, risk mitigation, and enhanced brand recognition. Engaging in international trade not only expands the customer base but also encourages MSMEs to improve their products, innovate, and increase efficiency, contributing to overall business growth and resilience.

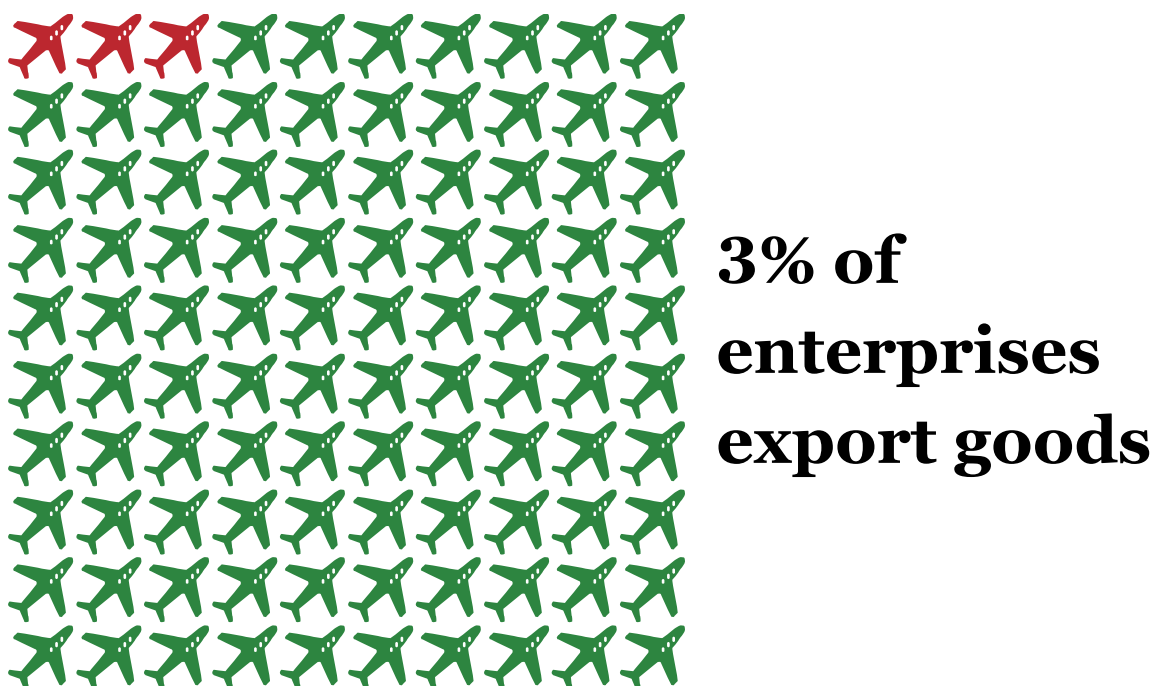


Figure 17: Percentage of enterprise involved in export of goods and services

3.1.12 Registration status and nature of registrations

In terms of registering the businesses, the survey results indicate that most of the MSMEs are not registered (69%), and currently operating informally, Table 6. The informal economy dominates economic activities in Malawi, with many businesses operating without formal registration or recognition. MSMEs in Malawi avoid registration due to various reasons such as complexity, lack of awareness, desire to avoid taxes, and compliance costs. The process is cumbersome, time-consuming,

and costly, hindering formalization efforts. Limited access to information and inadequate government support further deters MSMEs from registering. Cultural and social norms also make formalization less appealing. To this end, MSME miss out on the registrational advantages, including legal recognition, access to finance, enhanced credibility, government benefits, market opportunities, legal protections, compliance with regulations, smoother business transactions, employee benefits, and easier business expansion.

Table 6: Registration and location of business

Location	Registered as a business?		
	No	Yes	Total
Urban	27%	13%	40%
Peri-urban	43%	20%	63%
Slum	1%	0%	1%
Total	69%	31%	100%

The study investigated how education might influence the registration of businesses. In Lilongwe, the survey results show that most of the businesses are owned by entrepreneurs with bachelor’s degrees (17%).

Most entrepreneurs who reached high school are likely not to register their businesses (27%). This is the same with those holding primary school certificates, (17%), and diplomas (9%), Figure 18.

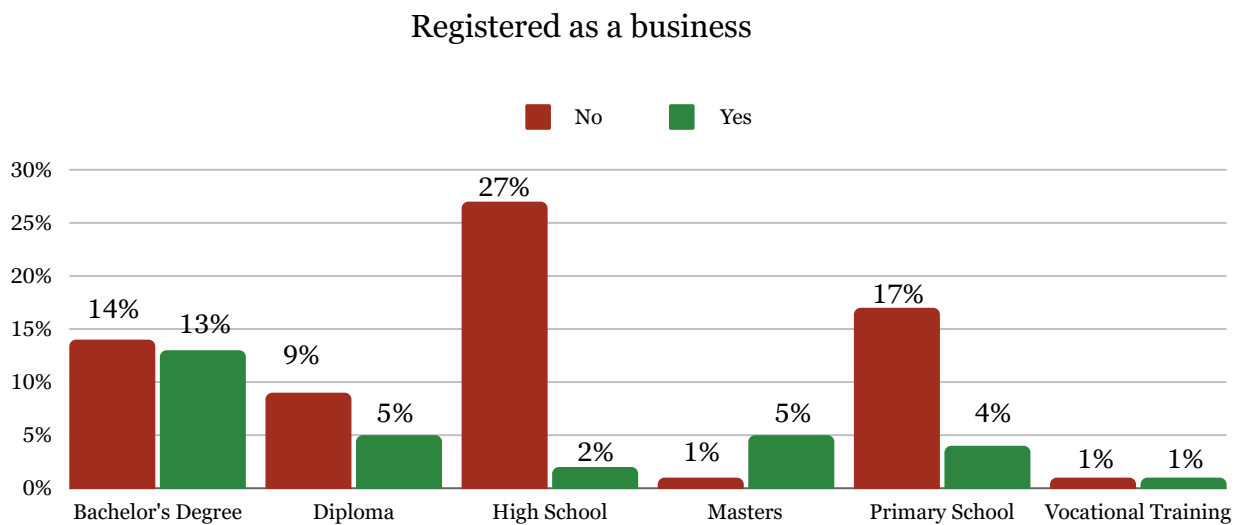


Figure 18: Enterprise registration and education level of business owner

Enterprise registration and gender of business owner

According to the survey results, it appears that a slightly higher percentage of enterprises owned by women (38%) are registered compared to those owned by men (28%), Figure 19. This trend may be attributed to the improved access that women entrepreneurs have to various government and NGO initiatives aimed at promoting their businesses in Malawi. These programs offer valuable resources such as mentorship, training, and financial assistance, which provide a strong incentive for female entrepreneurs to formalize their businesses. An example of such an initiative is the Malawi Enterprise Development Fund (MEDF), a government initiative that offers low-interest loans to women entrepreneurs.

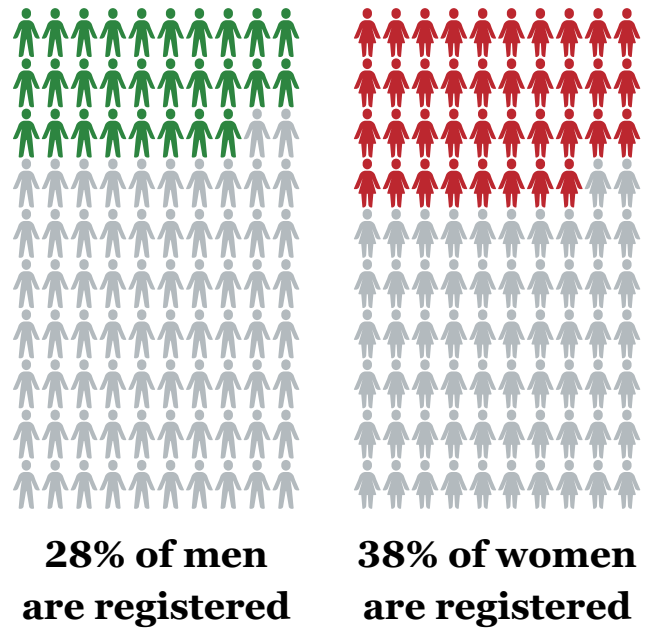


Figure 19: Business registration by gender of business owner

Section 2: Digital Access to Financial Products and Services

Access to digital financial products and services is essential for Micro, Small, and Medium-sized Enterprises (MSMEs) as it promotes financial inclusion, improves operational efficiency, facilitates access to capital, reduces costs, enables global market participation, enhances customer payment convenience, mitigates risks, provides insurance solutions, supports data-driven decision-making, and fosters financial literacy. This section evaluates digital access to financial products and services for MSMEs.

3.2.1 Status of access to digital equipment

The study explored the extent to which MSMEs utilise technology while operating business. Almost all MSMEs used (and owned) technological equipment such as a mobile phone, smart phone or laptop. The mobile phone is the single driver for high digital usage with 94.90% of these MSMEs using technology having/using a mobile phone. About 52.04 % can access a smart phone. Surprisingly, only 36.73% have access to the internet, see Table 7.

Table 7: Status of access to equipment by enterprise owners

Type of devices and platforms	#	%
Landline	0	0%
Mobile phone	93	95%
Smart phone	51	52%
Laptop/ Computer/ Desktop	16	16%
Internet	36	37%
Videoconferencing Tools	0	0%
Tablet	0	0%
None of the Above	1	1%



3.2.2 Digital access by education

Table 8 indicates access to digital equipment by education of the business owners who participated in the survey. Those with Masters’s education (66.7%, 4 out of 6) are more likely to have access to the

internet than those with primary education (19%, 4 out of 21). Relatedly, those with Masters are likely to have access to a laptop/Computer/Desktop (50%, 3 out of 6) compared to those with a Bachelor’s degree (30.6%, 8 out of 27) and those with diplomas (14%, 2 out of 14).

Table 8: Access to digital products by education level of business owner

Level of qualification	Mobile Phone	Smart Phone	Computer	Internet
Bachelor’s Degree	27	21	8	18
Diploma	12	10	2	5
High School	27	6	0	4
Masters	6	5	3	4
Primary School	19	8	2	4
Vocational Training	2	1	1	1

3.2.3 Digital access by gender

The study results show that more women are likely to have access to smartphones (72%) compared to their male counterparts (43%). On the other hand, more men have access to laptop/Computer/Desktop (22%) than women (0.03%), Figure 20.

In Malawi, the gender digital divide is pronounced, resulting in substantial disparities between males and females in access and utilisation of computers. Despite limited overall access, girls and women face a notable disadvantage due to a complex interplay of economic, social, and cultural factors.





	Male	Female
 Mobile Phone	96% ↑	93%
 Smart Phone	43%	72% ↑
 Laptop/ Computer/ Desktop	22% ↑	3%
 Internet	35%	41% ↑

Figure 20: Digital access by gender

3.2.4 Digital access by age

Figure 21 shows that there are no significant differences across the ages when it comes to access to a mobile phone.

However, access to a smartphone is lowest among the older and pensioner MSMEs owners.

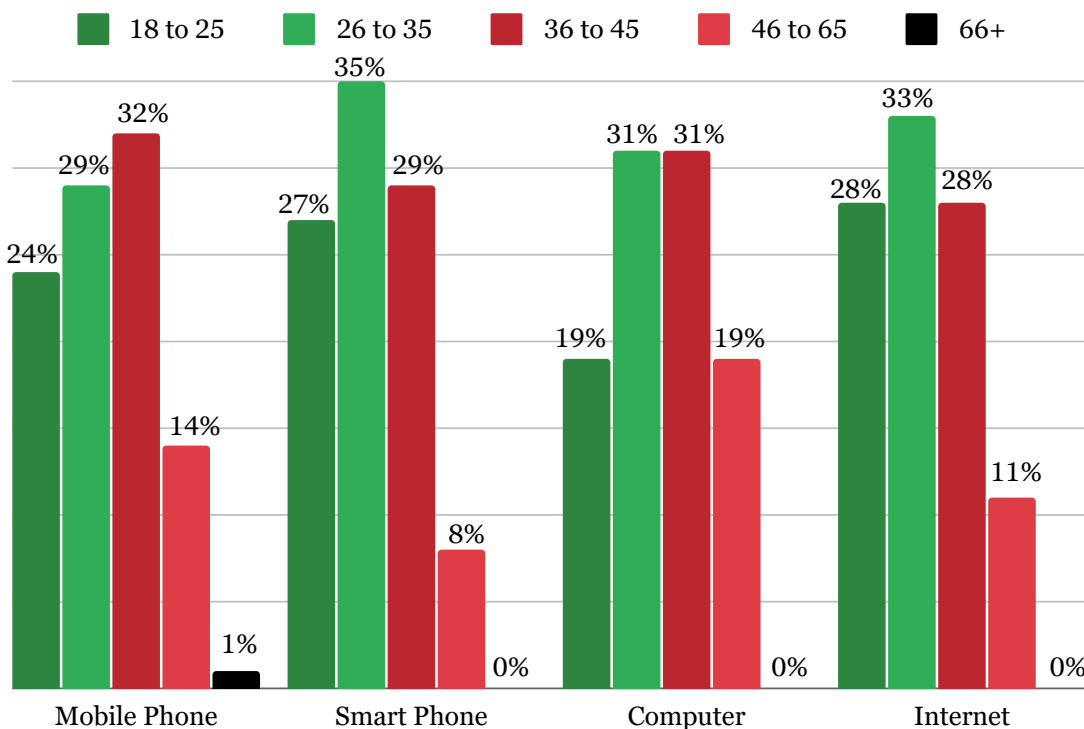


Figure 21: Access to Digital Products by Age of Enterprise Owners

3.2.5 Digital access by size of enterprise

The study reveals that usage of smartphones and internet is slightly higher among small enterprises (58% and 42% respectively) compared to medium and micro enterprises. However, medium enterprises have a higher probability of owning Laptop/Computer/Desktop than micro and small enterprises, Figure 22. Medium enterprises, given their comparatively larger scale and

resources in contrast to small enterprises, often possess the financial capability to procure technological assets such as laptops or computers for their operational needs. Moreover, medium enterprises may experience a heightened necessity for computer technology to facilitate the management of their growing business endeavors, thereby amplifying the likelihood of computer ownership when juxtaposed with smaller businesses.

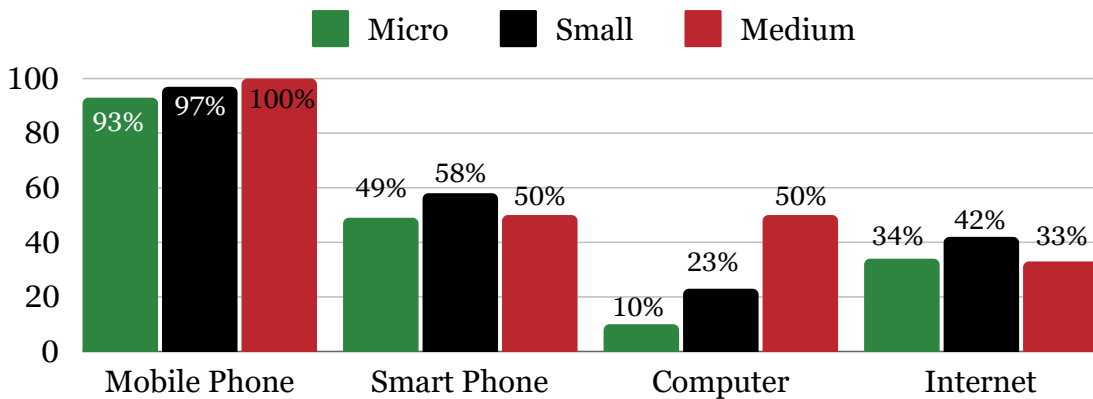


Figure 22: Digital access by size of enterprise

3.2.6 Payment services

Mobile money accounts (87.76%), Bank accounts (46.94%), Mobile banking (29.59%), and Credit/debit cards (3.06%) are the payment services utilised by the MSMEs who participated in the survey, Table 9. Malawi is largely a cash-based economy but there are gains towards digitization of the financial system. GoM through the Reserve Bank of Malawi (RBM) and the Ministry of Trade introduced Business Licensing payments.

Regulations in 2020 mandating licensed businesses to incorporate electronic payment channels for the settlement of transactions. The GoM also launched the “Scale-up and Regulation of Electronic Payments/Digital Financial Services” project to enable Malawi to scale up the usage of electronic Payments/Digital Financial Services” project to enable Malawi to scale up the usage of electronic payments.

Despite these initiatives aimed at fostering digital financial service adoption, cash remains prevalent in Malawi. Challenges hindering the uptake of electronic payments on the consumer side include limited digital financial literacy and awareness, particularly in remote areas, leading to a preference for cash among clients. Additionally, some merchants exhibit reluctance to embrace digital payments due to concerns about fraud, inadequate awareness of available digital financial products, and a lack of point-of-sale (POS) terminals. Furthermore, unreliable

infrastructure, such as network coverage, presents obstacles that deter individuals from utilising digital financial services. The use of cryptocurrency is slowly gaining momentum in Malawi among young people and those who are tech-savvy. However, the country does not have adequate legal frameworks to regulate the use of cryptocurrencies. The demand-side of payment systems e.g. the cryptocurrency market is still underdeveloped and there is a great need for creating awareness of cryptocurrencies services that would support financial inclusion among MSMEs.

Table 9: Payment services

Payment services	Percentage
Bank account	5%
Mobile banking	47%
Mobile money account	88%
Credit/debit card (Visa, Mastercard)	3%
No Enterprise used the following: Cryptocurrency, Digital payments systems, Remittances and money transfer services, Microfinance institutions	

3.2.7 Utilisation of payment service by education

The study results indicate that bank accounts are most likely to be used by almost all the MSMEs owners irrespective of education level. Use of bank accounts is highest among those with vocational training (100%) followed by those with a Bachelor's degree (78%), Table 10.



Table 10: Utilisation of payment services by level of education

Method of payment	Primary School	High School	Vocational Training	Diploma	Bachelor's Degree	Masters
I have family and friends to make payments	10%	11%	50%	0%	4%	0%
Credit/debit card	0%	0%	0%	7%	4%	17%
Mobile Money account	86%	93%	100%	93%	81%	83%
Mobile banking	14%	11%	100%	21%	56%	50%
Bank Account	24%	18%	100%	64%	78%	67%

3.2.8 Payment services by age of the owner.

The results from the survey indicate that mobile money account is the most preferred method of payment among all the business owners regardless of age. Credit/debit card (Visa, Mastercard) and using family and for friends to make payments are the list preferred methods, Table 11.

MSMEs in Malawi are embracing mobile money as part of their digital transformation journey. Mobile money provides a convenient, accessible and less expensive way for MSMEs to manage their finances, especially in areas where traditional banking services may be limited or inaccessible.

Table 11: Payment services by age of owner

Payment services	18 to 25	26 to 35	36 to 45	46 to 65	66+	Total
Bank account	10	15	16	5		46
Mobile banking (application connected to your traditional banking account)	9	10	8	2		29
Mobile money account	20	27	28	10	1	86
Credit/debit card (Visa, Mastercard)	1	1	1			3
I use family and friends to make payments.	1	3	2	1		7
Total	23	29	32	13	1	98

3.2.9 Payments services by gender

According to the data collected, women entrepreneurs are more

likely to utilise bank accounts (59%) unlike their male counterparts (42%) for payment services, Figure 23 below.

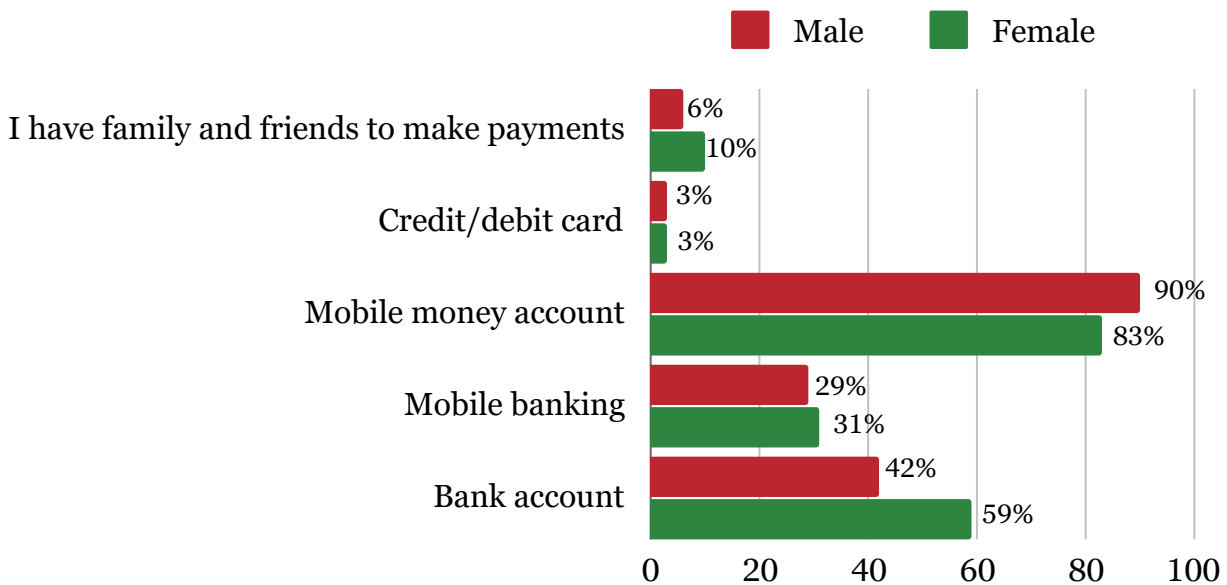


Figure 23: Utilisation of payment services by gender

3.2.10 Payment services by size of enterprise

Among the enterprises that were interviewed, medium enterprises are more likely to utilise bank accounts (83%), followed by small enterprises (65%). Additionally, micro enterprises are likely to use family and friends to make payments (10%). Mobile money account is the most preferred payment method across all the enterprises, Figure 24. This is due to the increased penetration of mobile phones in Malawi. The majority of MSMEs own a mobile phone.

Additionally, mobile money services are widely accessible, even in remote areas where traditional banking infrastructure is limited. MSMEs can conduct financial transactions conveniently using their mobile phones, eliminating the need to travel long distances to access physical bank branches or ATMs. The use of bank accounts is highest among medium enterprises since they typically have stronger financial condition and have more assets that can be used as collateral for loans, which may make them more attractive to banks.

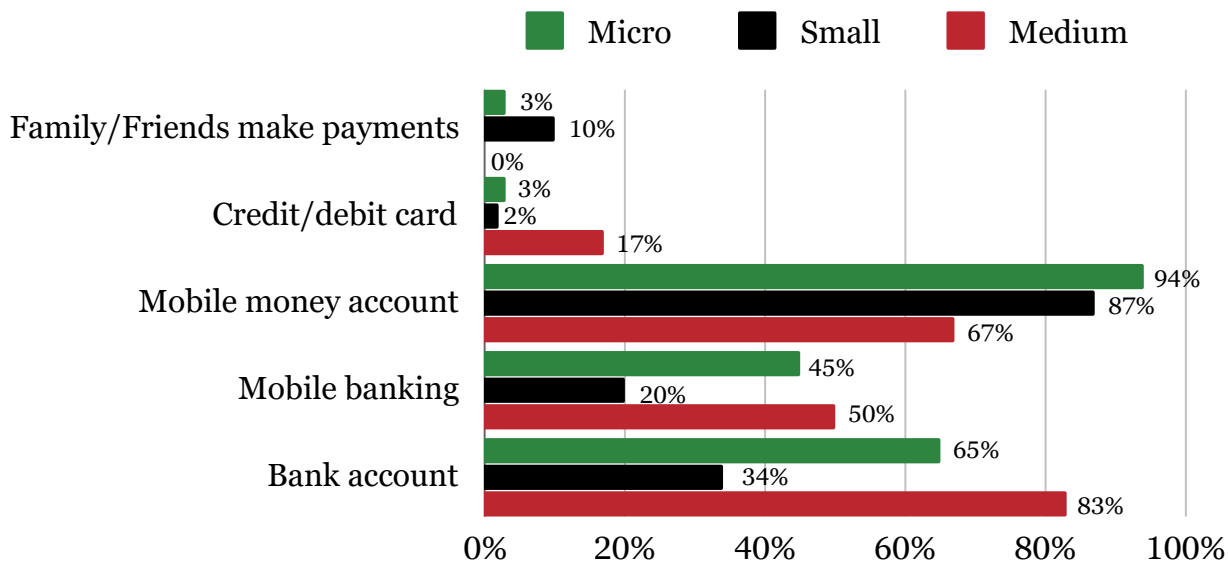


Figure 24: Payment services by size of enterprise

3.2.11 Online systems for trade

The survey investigated to what extent the businesses are using online system to trade. The Phone number and WhatsApp number are the most utilised systems for online trade among the survey participants. Almost 80% of the business owners use Phone numbers where as 52% uses WhatsApp number, Table 12. Many MSMEs in Malawi face barriers in accessing online trade platforms due to a lack of necessary technology such as computers and internet connectivity.

Additionally, low digital literacy and limited awareness further impede their ability to navigate and utilise online trade platforms, including websites and remittance companies. The perceived high costs associated with adopting online trade systems, such as websites, also discourage MSMEs from utilising them. Moreover, complex registration and compliance procedures on online platforms like bill payment applications, payment gateways, and e-commerce solutions present challenges, particularly for MSMEs with limited administrative expertise.



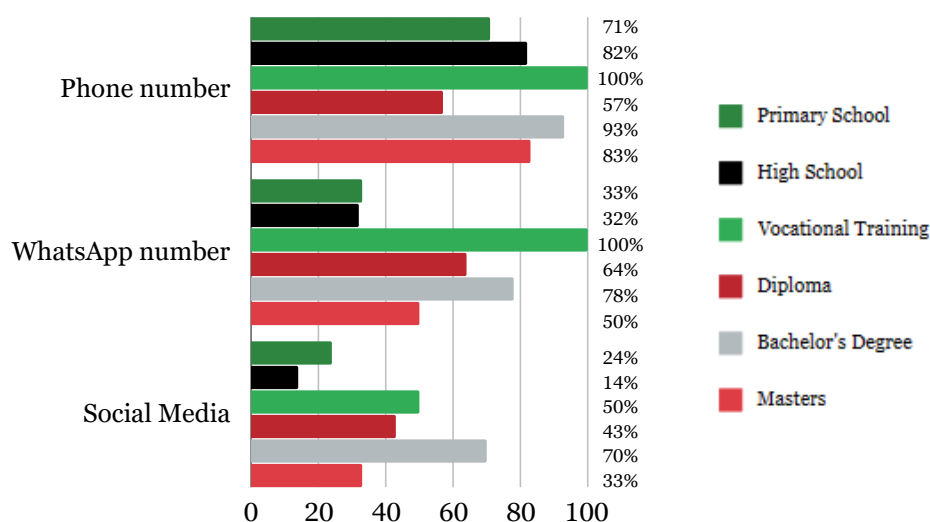
Table 12: Usage of online systems for trade by enterprise owners (total n =98)

Online Systems	#	%
I have family and friends to make payments	7	7%
Social media accounts	37	38%
Email	3	3%
WhatsApp number	51	52%
Phone number	78	78%
Investment and Saving Applications	1	1%
Accounting Invoicing Applications	1	1%
Tools no enterprise was using: Website, Remittance companies/services, E-commerce solutions, Bill payment applications, Online payment solutions, Payment gateways, Financial advice or information applications		
None of the above	1	1%

3.2.12 Online Services by Education Level of Business Owners

The survey results show that phone numbers and WhatsApp numbers are the most utilised online services across all education levels.

Social media accounts are mostly used among those with a Bachelor’s degree (70%). Those with high-school certificates are less likely to use social media accounts (14%), Figure 25.



Special Note:
 Only 17% of those with masters used Accounting and invoicing applications, and Investment and savings applications. 33% of those with masters and 4% of those with a bachelor’s degree use Email.

Figure 25: Utilisation of online services by education Level of business owner

3.2.13 Online services by age of the business owner

The survey results reveals that those in the age category 46 to 65 are less likely to use WhatsApp number for business transactions (31%, 4 out of 13). The older the business owner gets, the less likely they are to use social media for business. Emails are rarely used for business transactions amongst all the age groups, Table 13.

This is due to minimal adoption of ICT across sectors. The penetration of ICT decreases significantly at more remote locations where MSMEs operate. The underutilisation of emails, investment and saving applications; and accounting/ invoicing applications among MSMEs in Malawi can be attributed to various factors, including technological limitations, skills gaps, and cost concerns.

Table 13: Utilisation of online services by age of business owner

Online services	18 to 25	26 to 35	36 to 45	46 to 65	66+	Total
Social Media accounts (Twitter, Instagram, Pinterest, YouTube, Facebook, TikTok, LinkedIn)	12	13	9	3		37
Email		1	1	1		3
WhatsApp number	14	16	17	4		51
Phone number	21	19	25	12	1	78
Investment and saving applications			1			1
Accounting/ invoicing applications			1			1
Total	23	29	32	13	1	98

3.2.14 Online services by gender of business owner

Figure 26 indicate that among the entrepreneurs who participated in the survey, women are more likely to utilise social media (52%) and the WhatsApp number (69%) unlike men (32%) and (45%) respectively. However, when it comes to the phone number, more men are using it for business purposes. The other services like

email, investments and saving applications; and the accounting/invoicing services are not being used by the MSMEs owners, Figure 26. The suboptimal usage of emails, investment and saving applications; and accounting/invoicing applications among MSMEs in Malawi can be attributed to various factors, including technological limitations, skills gaps, and cost concerns.

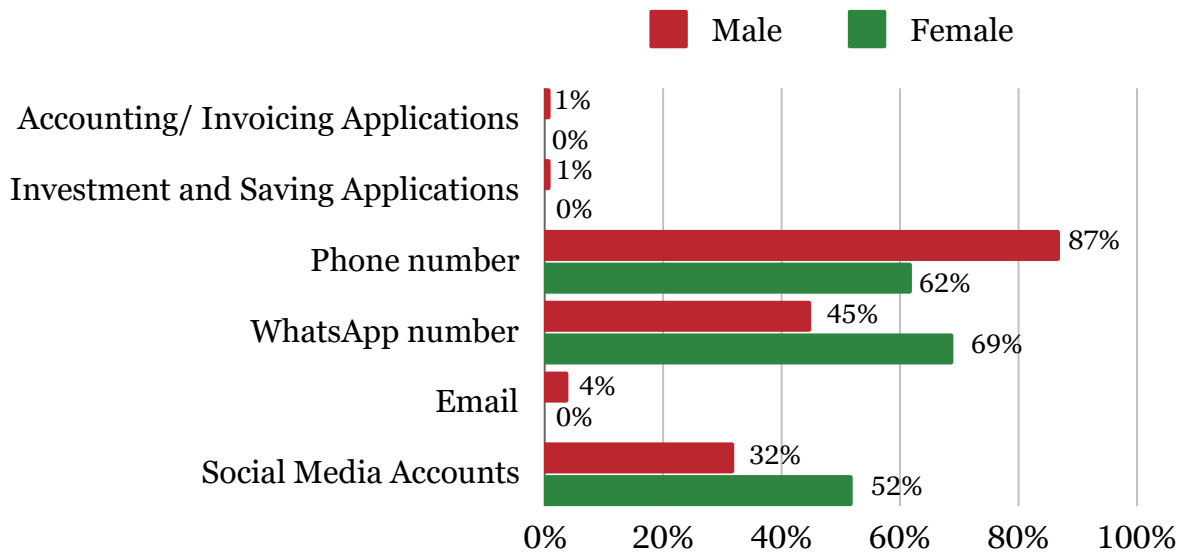


Figure 26: Utilisation of online services by gender of business owner

3.2.15 Online services by the size of the enterprise

Figure 27 illustrates how medium, small and micro-enterprise owners utilise online services. Medium enterprise owners are likely to use all of the online services for business purposes. Micro enterprise owners lag behind in the use of all online services. Micro enterprises often operate with limited financial resources,

making it difficult for owners to afford the necessary technology infrastructure and internet connectivity required for accessing online services. Furthermore, low digital literacy, awareness issues, preference for traditional methods, trust and security concerns, and limited access to support contribute to micro-enterprise owners lagging behind in the use of all online services.

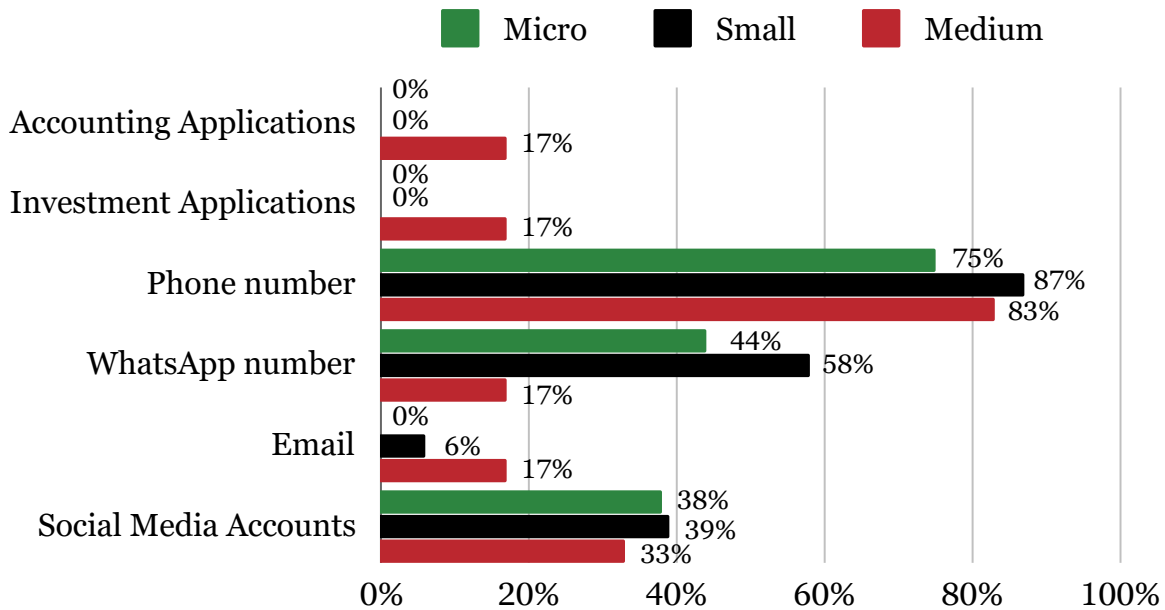


Figure 27: Online service utilisation by size of enterprise

3.2.16 Challenges to Digital Access

Table 14 highlights some of the challenges faced by MSMEs in accessing and utilising digital services in Malawi. Despite low utilisation of digital services, only 8% of the enterprises indicated affordability as a challenge, with 3% indicating technology challenges and only 2% mentioning poor security protocols by the banks. The majority of the enterprises (86%) indicated that they did not have any challenges with digital access.

This is an indication of MSMEs' preference for traditional methods. Most enterprise owners are accustomed to traditional business methods and may prefer face-to-face interactions and manual processes over migrating to online services. The focus remains on simple technologies like Short Messaging Service (SMS), WhatsApp, community radios, and basic websites, indicating a preference for familiar and accessible tools over more advanced online services.

Table 14: Challenges to digital access

	#	%
Affordability: The charges are too high for me	8	8%
Knowledge: Financial literacy	0	0%
Complicated system: Digital literacy	0	0%
Compatibility of technology	3	3%
Strict security protocols	1	1%
Trust	2	2%
None of the above	84	86%

Table 15 highlights the challenges to digital access based on the founder's gender, age, and enterprise size. The table presents the percentage of respondents who face no barrier to digital access and the top barrier reported. Affordability (charges are too high) is the primary barrier to digital access across all the variables (gender, age, and enterprise size).

- Among female and male founders, a slightly higher percentage of female founders (10%) report affordability as a barrier compared to male founders (7%). Gender disparities in access to resources, education, and echnology perpetuate inequalities for women MSMEs. A lack of digital skills and finances among female entrepreneurs is a significant barrier to adopting technology for business purposes.
- Younger age groups generally report higher percentages of no barriers to digital access, with affordability being a more significant barrier for those aged 26-35 (14%).
- Many older MSME owners may have grown up in an era before widespread digital technology adoption. As a result, they may lack familiarity with digital tools and platforms, making it challenging for them to navigate and utilise digital resources effectively. Additionally, older MSME owners may be resistant to adopting new technologies due to a preference for traditional methods and routines that they are familiar with. Others view digitalization as unnecessary or intimidating, leading to a reluctance to invest time and resources in learning new digital skills.

- Micro (8%) and small (10%) enterprises are more likely to report affordability as a barrier compared to medium-sized enterprises. Poor telecommunications networks and inconsistent electricity supplies make it difficult for micro and small enterprises to adopt digital technologies.
- Many micro and small enterprises do not have adequate funds to invest in hardware, software, and Internet subscriptions required for digital transformation. Additionally, founders and staff of micro and small enterprises often lack basic computer skills and understanding of digital applications, which hinders their ability to utilise digital tools in their day-to-day transactions.

Table 15: Showing digital access barriers.

Dimension	Variable	Percentage enterprises who face no barrier to digital literacy	Top Barrier (% enterprises)
Gender	Female	86%	Affordability (10%)
	Male	85.5%	Affordability (7%)
Age	18-25	100%	NA
	26-35	79%	Affordability (14%)
	36-45	81%	Affordability (9%)
	46-65	84%	Affordability (8%)
	66+	100%	NA
Size	Micro	87%	Affordability (8%)
	Small	80%	Affordability (10%)
	Medium	100%	NA



Section 3: Bank Account Access

Access to banks is crucial for Micro, Small, and Medium Enterprises (MSMEs) for since Banks provide capital for starting and expanding businesses, supporting working capital needs, and managing fluctuations in cash flow. This access enables MSMEs to adopt technology, mitigate risks, and build financial capacity. Engaging with banks also contributes to creditworthiness, formalization, and compliance, while facilitating international trade for those involved. Overall, access to banks is instrumental in enhancing the stability, competitiveness, and success of MSMEs in the business landscape. This section evaluates digital access to bank accounts for MSMEs.

3.3.1 Status of bank account access

The results of the survey indicate that most of the MSME owners do not have access to a bank account for their enterprises. Only 26% have access to a bank account for their enterprise.

Furthermore, enterprises operating in the urban areas are more likely to have a business account (56%) than those operating in peri-urban, Figure 28. Urban enterprises benefit from closer proximity to financial institutions, improved infrastructure and logistics, increased awareness and greater economic activity, all of which contribute to a higher probability of acquiring a business bank account.

“

26% of enterprises have a bank account

”



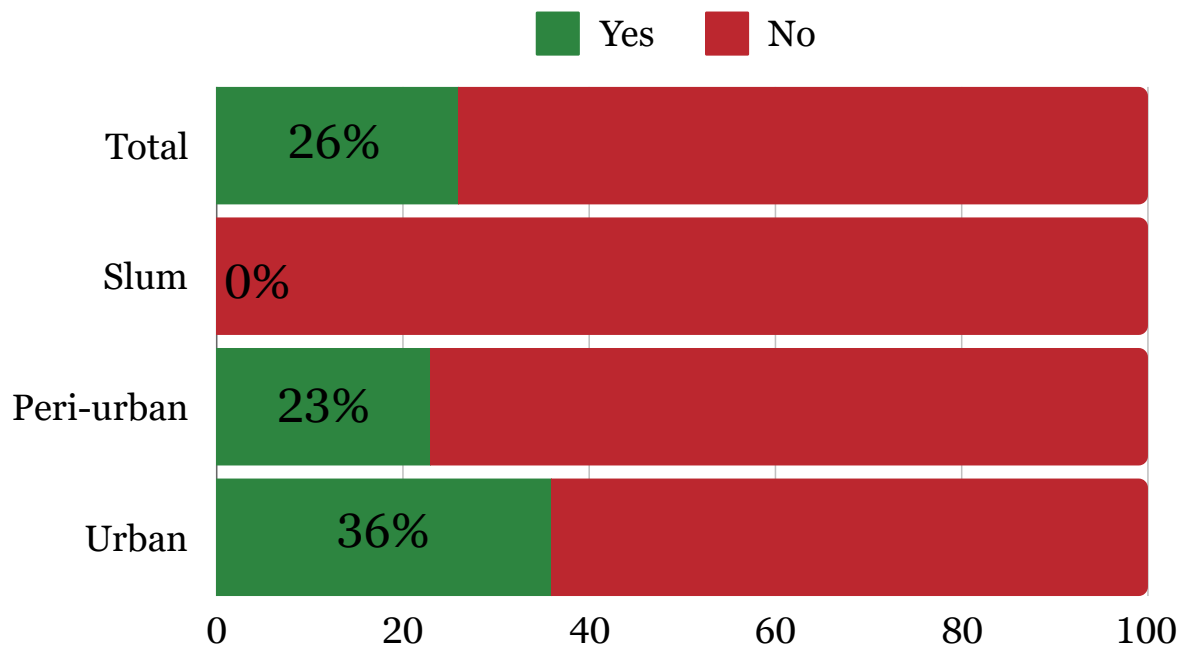


Figure 28: Percentage of enterprises with access to bank accounts and location

The survey respondents who do not have a bank account for their businesses (74%, 73 out of 98) were queried on the reasons why they did not have a business account. Fifty-nine percent (59%) of the Respondents indicated that they use their personal bank accounts for transactions, where as 20.55% of the respondents indicated that the cost of using a bank account due to the charges were too high, Table 16.

Barriers	#	%
Distance	2	3%
Affordability	15	21%
Trust	0	0%
Documentation	0	0%
Bureaucracy	1	1%
Legal Barrier	3	4%
I use my personal bank account	43	59%
Religious Reasons	0	0%
No Barrier	2	3%
Other	7	10%

Table 16: Reasons for lack of a bank account



3.3.2 Bank accounts access and gender

The Figure below indicates access to a business account by gender. The male gender is slightly more likely to have a business account (26%) than the female gender,

Figure 29. Women have limited knowledge of financial products and services, making it difficult for them to navigate the banking system and understand the benefits of having a bank account.

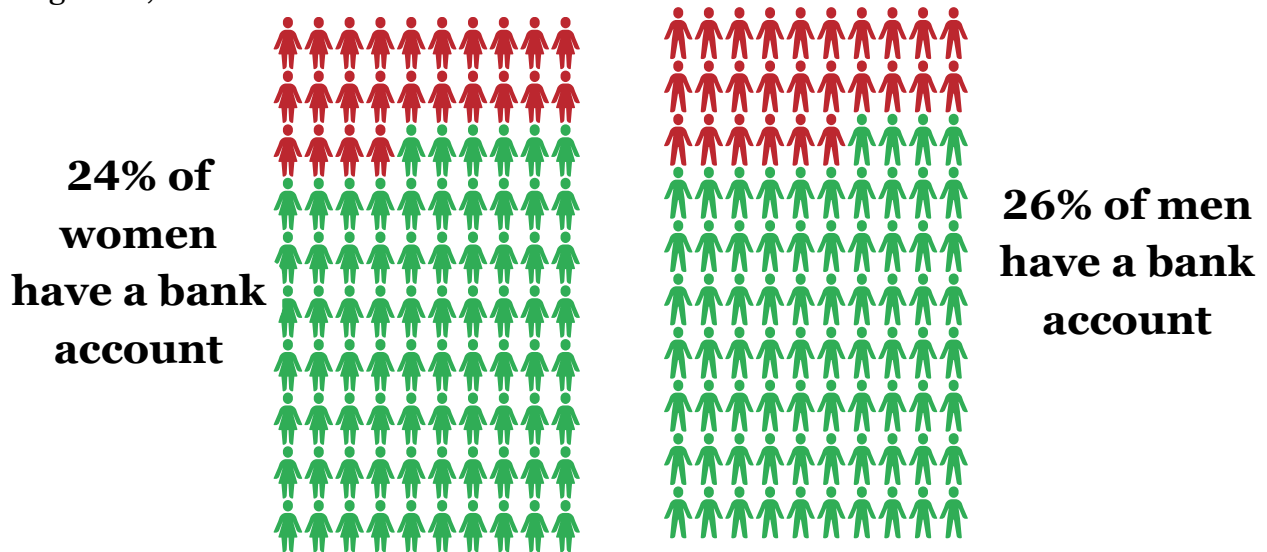


Figure 29: Bank account access by gender

3.3.3 Bank account access and enterprise size

The Figure below indicates bank account access by enterprise size. The medium enterprises that participated in the survey are more likely to have a bank account for business transactions (83%) than micro (10%) and small enterprises (45%), Figure 30.

Micro and small enterprises in Malawi face challenges in obtaining bank accounts due to several factors including lack of collateral to secure loans or open bank accounts, and not being aware of the benefits of having a bank account or may not know how to go about opening one.

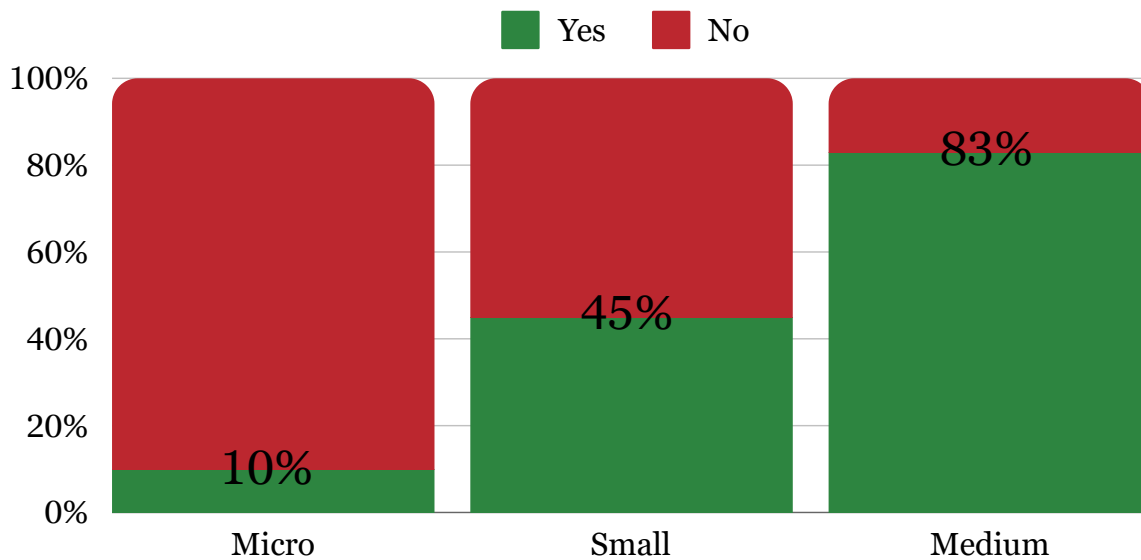


Figure 30: Bank access by enterprise size

3.3.4 Nature of bank account accessed

From the survey, of the 25.51% of enterprises that have business accounts,

84% have current accounts, 44% have savings accounts and 12% have credit accounts, Table 17.

	#	%
Savings Account	11	44%
Credit Accounts	3	12%
Current Accounts	21	84%
No enterprises had a Foreign Currency Account nor a Fixed Deposit Account		

Table 17: Nature of bank account accessed (n=25)

3.3.5 Number of banks an enterprise is registered with

Our data shows that a business is likely to be registered with 2.6 banks. Forty-four (44%) of the enterprises are registered with only 1 bank, Figure 31.

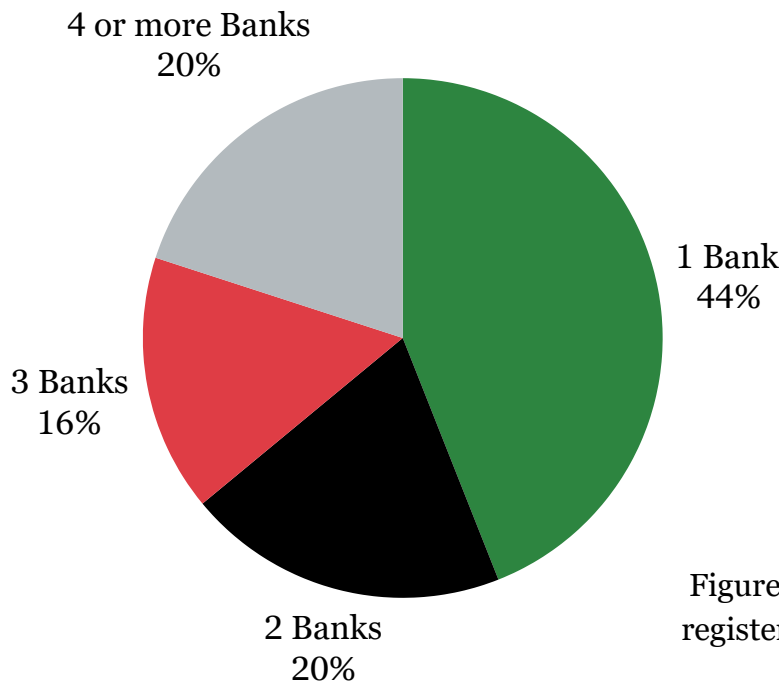


Figure 31: Number of banks a business is registered with

3.3.6 Frequency of use of the bank accounts

The survey participants that own bank accounts indicated the frequency with which they use the bank accounts.

Forty- four (44%) access their business bank accounts daily and 52% access their business bank accounts several times a week, Figure 32.

How often have you used your account?

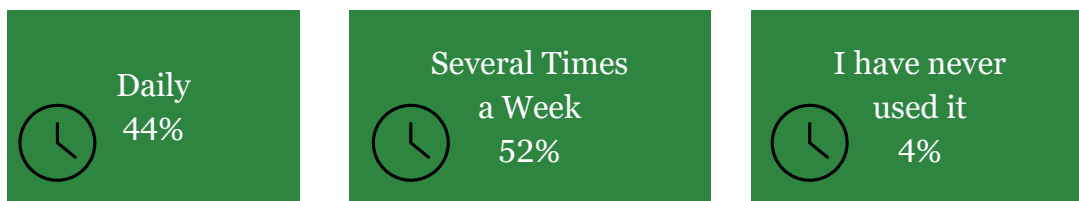


Figure 32: The Frequency Use of Bank Account Access

3.3.7 Services provided by banks

The data show that the most common service provided by the banks is short-term deposit accounts. Fifty-six percent (56%) of the enterprises that have business accounts access the short-term deposit account service and 44% access credit/debit card options.

Additionally, 28% are provided deposit protection services, Table 18. MSMEs often exhibit reluctance to engage with bancassurance services due to various factors. These include limited awareness of the availability and benefits of such services,

perceived complexity, inadequate customization to meet specific needs, concerns about affordability, and a preference for traditional insurance channels. These challenges hinder MSMEs from fully embracing bancassurance offerings, impacting their ability to access insurance through banking channels effectively. The same applies to cryptocurrency services whose regulatory landscape still evolving. Operating a small business frequently demands that

MSME proprietors manage numerous duties resulting in restricted time to actively pursue and interact with advisory services. A considerable number of MSME owners may lack awareness of the advisory services offered by banks due to inadequate marketing or outreach initiatives. Additionally, MSMEs situated in remote or rural areas might encounter obstacles in accessing bank-provided advisory services, such as physical distance or limited internet connectivity

Table 18: Services provided by the banks to the enterprise owners

Services	#	%
Short term deposit accounts	14	56%
Credit/Debit card options	11	44%
Deposit protection	7	28%
Short term financing	4	16%
Loans and Liquidity	4	16%
Trade services	4	16%
Foreign Currency Access	1	4%
Online Payment Facilities	1	4%
Letters of credit	1	4%
Investor services	1	4%
No enterprise were offered bancassurance, cryptocurrency, or MSME advisory services by their bank		



3.3.8 Challenges faced by entrepreneurs in accessing the bank

When asked about the biggest restriction on the regular use of their accounts, the survey respondents

(66.7%) indicated that the most common challenge is due to expensive bank charges (affordability). Additionally, 33.33% of the survey respondents cited strict security protocols by the banks, Figure 33.

3 Enterprises

Only 3 enterprises faced challenges using their bank account. The reasons were:

1. The Bank Charges are too expensive (67%)
2. Strict security protocols (33%)

Figure 33: Challenges to banking access

Section 4: Mobile Money and Mobile Banking Access

In an evolving economic landscape, access to mobile money and mobile banking is highly advantageous for MSMEs. These digital financial services provide financial inclusion, offering convenience, cost efficiency, and accessibility 24/7. MSMEs can benefit from quick and secure transactions, potential access to credit, enhanced record-keeping and improved business efficiency. Mobile banking enables remote financial management, market access expansion through e-commerce, and

encourages formalization of financial practices. This section evaluates mobile money access for MSMEs.

3.4.1 Status of mobile money access

The survey results show that most MSMEs owners do not have access to mobile money for their business. Only 26.53% of MSME owners have access to mobile money for their business while 73.47% don't have access, Figure 34.

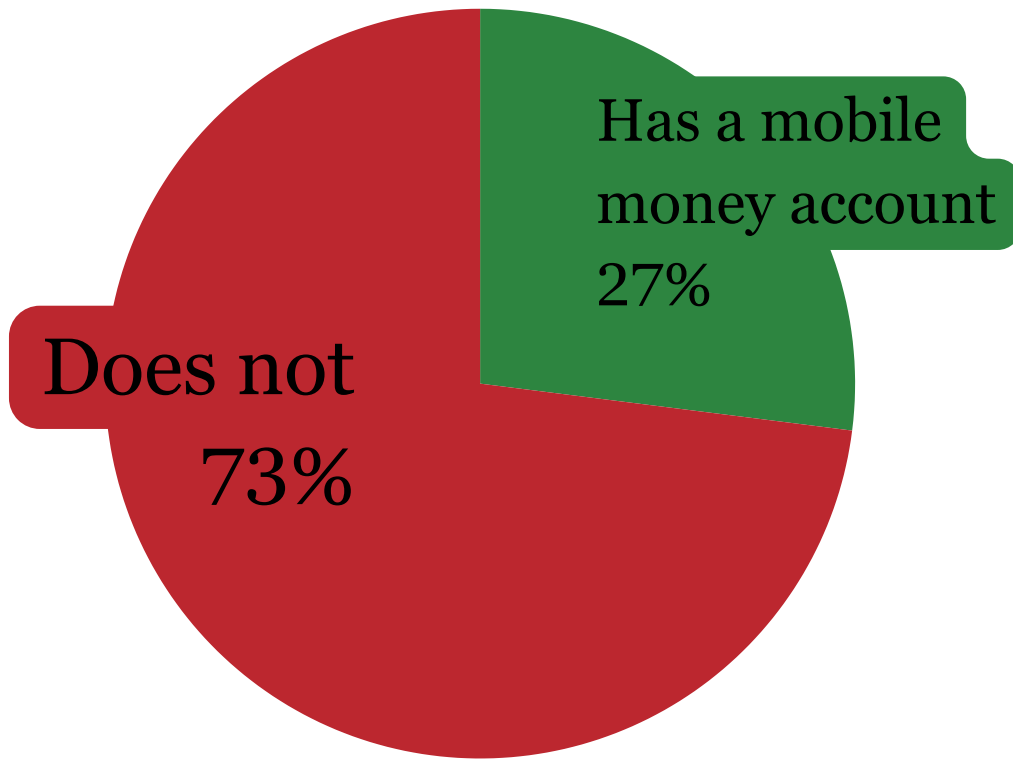


Figure 34: Status of mobile money access by business owners

Out of the 73.47% business owners who don't have access to mobile money for their business, 76.71% use their personal mobile money for

business, where as 12.33% indicated that their business does not require a mobile money account, Table 19.

Table 19: Reasons why enterprises do not have a mobile money account

Barriers	#	%
Affordability	5	7%
Appropriateness	56	77%
Business does not need an account	9	12%
Other	3	4%
No enterprise experienced barriers due to lack of trust, documentation, bureaucracy or compatibility of the technology		

3.4.2 Mobile money access based on enterprise size

The figure below indicates mobile money access by enterprise size.

Medium enterprises are more likely to have mobile money account for their business (33%) than both micro and small enterprises, Figure 35.

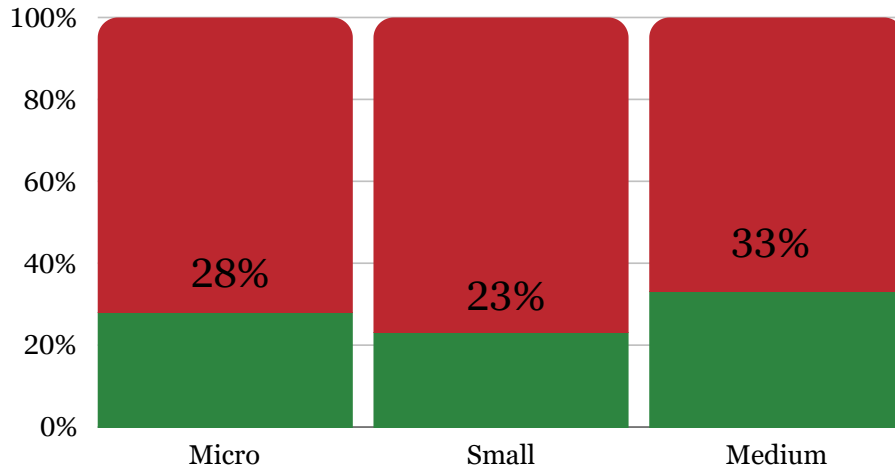


Figure 35: Mobile money access by enterprise size

3.4.3 Mobile money account access and location of business

Data from the survey shows that MSME's operating in peri-urban

areas are more likely to have mobile money account for their business (35%) than those operating in urban areas (18%), Figure 36.

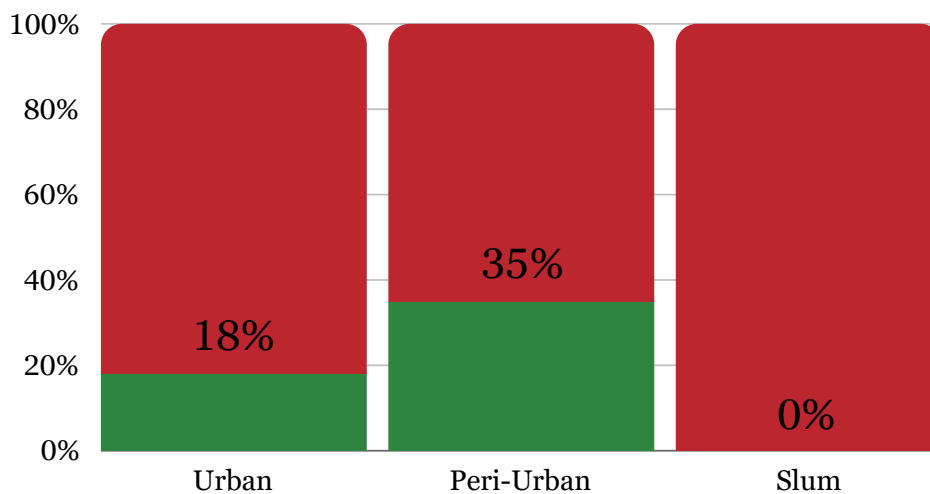
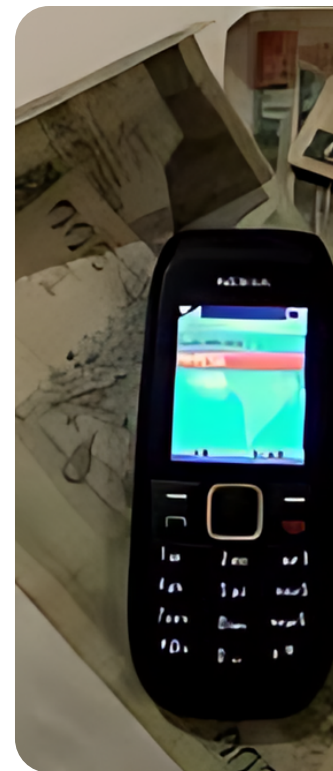


Figure 36: Mobile money access by location of the enterprise



3.4.4 Access and frequency of use of the mobile money account

Most MSME's (53.85%) access mobile money for business 2 to 3 times a week, while 42.31% access

mobile money for their business every day, Figure 37. The respondents reported that they did not experience any challenge while the accessing the mobile money accounts for business.

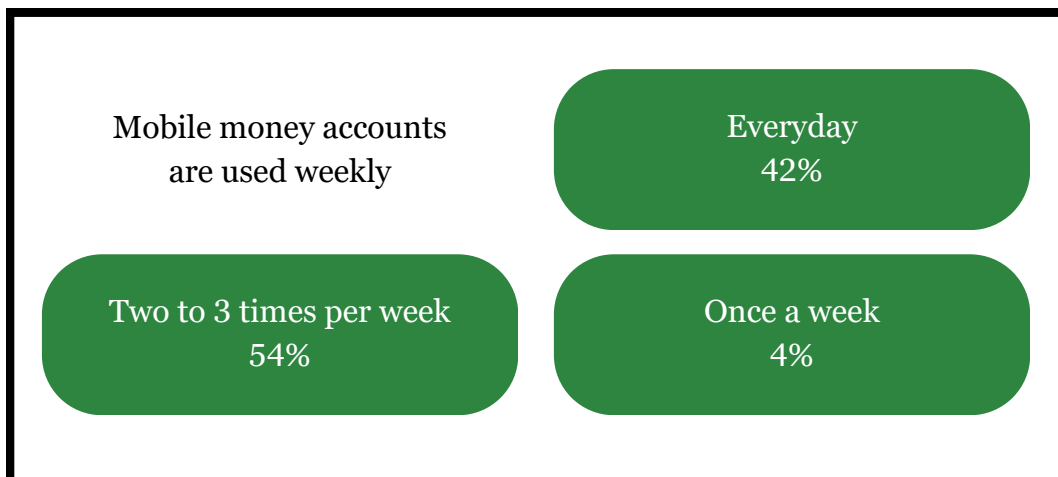


Figure 37: Nature of access to mobile money

Section 5: Access to Loans

Access to loan services is crucial for the vitality of MSMEs. Loans provide essential capital for start-up, expansion, and working capital management, ensuring business stability. The financial support enables MSMEs to adopt technology, stay competitive, and diversify products or services. Moreover, loans contribute to job creation, capacity building, entry

into new markets, adaptation to regulatory changes, and innovation. This section evaluates access to loan services by MSMEs owners.

3.5.1 Status of loan applications

Most of the MSMEs that were interviewed are not borrowing. Figure 38 shows that 79.6% of the business owners had not applied for a business loan in the past.



Only 20% of enterprises have applied for a loan before

Figure 38: Status of Loan Applications by Business Owners

The MSMEs owners that have never applied for loans in the past, 75.64% indicated that they don't need the loan yet, 7.69% mentioned that they don't have information on how they can apply and 5.13% indicated that they don't meet the document requirements for loan application, Table 20.

Table 20: Reasons for not applying for a loan

	#	%
I do not need it yet	59	76%
I don't have sufficient collateral	2	3%
Interest rates are too high	2	3%
I do not meet the documentation requirements	4	5%
I don't have information on how to apply	6	7%
Other	5	6%

3.5.2 Source of loans

The survey results indicate that the business owners that had access to loans, 45% accessed the loans through microfinance institutions. Only 35% accessed the loans

through banks, 20% through money clubs, 10% through government and 5% through loan sharks, Table 21. MSMEs prefer loans from microfinance institutions (MFIs)

since MFIs often have a broader reach and presence in local communities compared to traditional banks; offer more flexible lending terms and requirements compared to traditional banks and they provide small loans,

well-suited to the financing needs of micro and small businesses. Loan services from mobile money providers are still underdeveloped. TNM launched the service towards the end of 2023 with a loan capped at MK 20,000 (12.00 US\$) limit.

Table 21: Source of Loans for the Businesses

Source	#	%
Microfinance institution	9	45%
Bank	7	35%
Money clubs	4	20%
Government	2	10%
Loan shark	1	5%
No enterprise applied for a loan from the following: online platforms, mobile money provider, order finance companies, local NGO, credit unions, international organisation, locally based family or friends, fellow business colleagues		

3.5.3 Amount of loan requested by business owners

Table 22 below shows that the total loan requested by the business owners amounted To MK 89,900,000.00 (US\$ 53,400.00).

The average amount of loan was MK 5,993,333.33 (US\$ 3,560.00), with the smallest loan ever requested being MK 200,000.00 (US\$ 119.00).

Table 22: Amount of loan requested

Total Sum	Average Sum	Smallest Loan	Biggest Loan
MK 89,000,000.00	MK 5,993,333.33	MK 200,000.00	MK 50,000,000.00

3.5.4 Characteristics of the loans

The business owners who participated in the survey indicated that they accessed loans for the

establishment of the business (40%) and the purchase of new assets (40%). Only 20% accessed loans to cover operations costs, Figure 39.






	#	%
 Establishment of the business	8	40%
 Operational costs	4	20%
 Purchase of new assets	8	40%
 Employee Salaries	0	0%
 Product development	0	0%

Figure 39: Showing characteristics of the requested loans

Section 6: Access to Insurance

Access to insurance is vital for MSMEs due to its role in risk mitigation, business continuity, and financial protection. Insurance enhances the creditworthiness of MSMEs, contributes to employee welfare, and ensures compliance with regulations. Insured businesses often enjoy greater market credibility and global insurance by business owners.

competitiveness. Insurance also supports innovation, expansion, and community resilience by providing a safety net against unforeseen events. The survey analysed access to

3.6.1 Status of access to insurance

In light of insurance, the business owners that participated in the survey, only 6.12% have access to business insurance products, Figure 40.



Figure 40: Percentage of business owners with access to insurance

Additionally, those without insurance mentioned a number of reasons which is hindering them from accessing insurance services. 45.65% indicated that they are not aware of the insurance products,

20.65% said that the products are unaffordable, 17.39% indicated that the insurance products do not meet the company’s needs, see Table 23.

Table 23: Reasons for not accessing insurance

Barrier	#	%
Knowledge	42	46%
Affordability	19	21%
Products do not meet my enterprise needs	16	17%
I do not see the need/value	7	8%
My company does not qualify	5	5%
Other	3	3%

3.6.2 Types of insurance accessed by business owners.

The survey participants that had access to insurance (6%), most of them had vehicle insurance

(66.7%), Product insurance (50%), and only 16.7% took comprehensive business insurance, Table 24.

Table 24: Types of insurance accessed by business owners

Types of Insurance	#	%
Non comprehensive business insurance	0	0%
Comprehensive insurance	1	17%
Staff insurance against accidents & injury	1	17%
Staff insurance - pensions and health	1	17%
Product insurance	3	50%
Vehicle insurance	4	67%
Other	1	17%

3.6.3 Business Insurance by gender

Figure 41 show that only 17% of the insured businesses were women owned and the majority (83%) were owned by men.

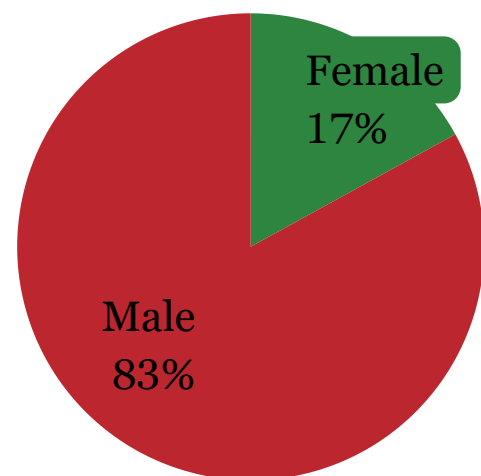


Figure 41: Insurance of businesses by gender

3.6.4 Methods of access

All the participants that have access to insurance mentioned that they go directly to the insurance company to access insurance products and services, Figure 42. Direct engagement with insurance companies fosters a sense of trust and transparency. Many MSME owners and operators in Malawi face a significant barrier to accessing insurance products and services online due to limited familiarity with digital technology. This lack of digital literacy hampers their ability to navigate online

platforms and understand the digital insurance purchasing process. Moreover, the limited access to stable internet infrastructure further impedes MSMEs from exploring digital insurance options and interacting with insurance providers online. Additionally, online insurance offerings often lack localization, with products and services not being available in local languages or tailored to the specific needs and preferences of MSMEs in Malawi.

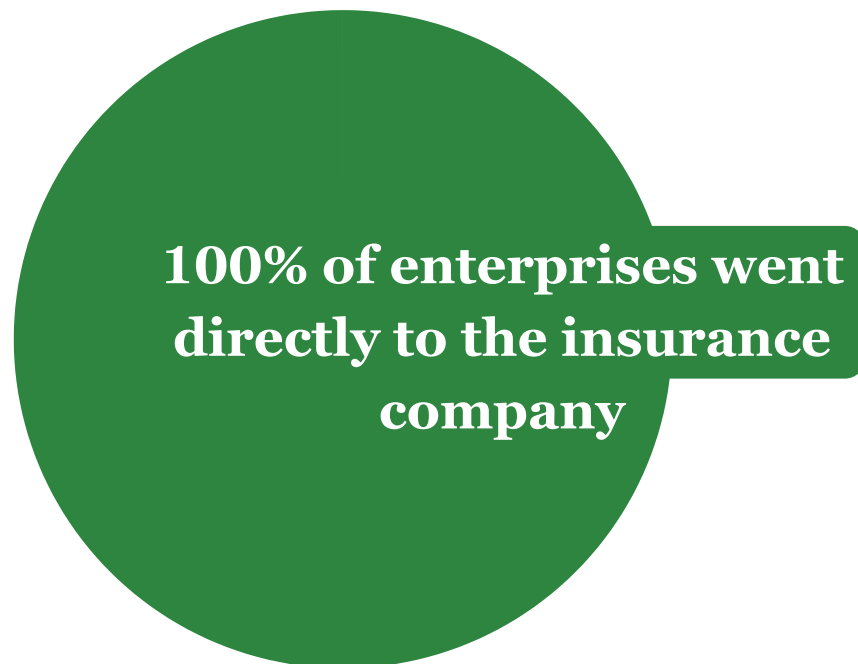


Figure 42: Methods of accessing insurance



3.6.5 Challenges to access insurance

Figure 43 reveals that among micro-, small, and medium enterprise (MSME) founders without insurance coverage (94% or 92 out of 98 cases), approximately 45.7% were unaware of available insurance products. Conversely, about 20.7% perceived insurance as being too expensive.

Other factors contributing to a lack of insurance included inadequate product suitability (17.4%), not recognizing the necessity of insurance (7.6%), and businesses failing to meet eligibility criteria for insurance (5.4%).

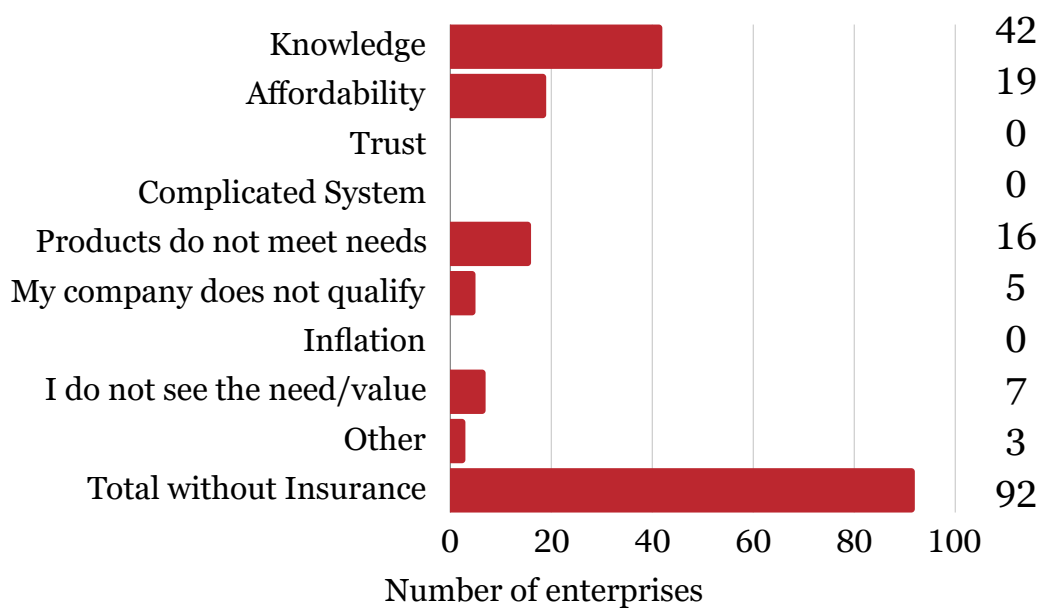


Figure 43: Challenges to accessing insurance

Section 7: Access to Pensions

Offering pension benefits enhances employee retention, satisfaction, and productivity. It makes MSMEs more competitive in recruitment, contributes to talent retention, and aligns with social responsibility initiatives.

Providing pensions ensures legal and regulatory compliance and fosters a positive work environment. Additionally, it empowers employees to plan for their future, contributing to their overall well-being and financial security.



3.7.1 Status of pensions access

The survey respondents were asked if their businesses have a pension policy for their workers. Out of

the 98 survey participants, 95.92% did not have a pension policy, Figure 44.



Figure 44: Availability of pension policy for employees

3.7.2 Nature and amounts in pensions

Of the respondents that indicated having a pension policy for their employees, they all indicated that

the company contributes 1 to 10% to the pension products for their employees, see Figure 45.



Figure 45: Pension contributions by the company

3.7.3 Challenges to pension provision

The study analysis shows that the most common challenge to pension provision by the MSMEs is lack of knowledge. Forty-three (43.62%) of respondents indicated that they

were not aware of the available pension products. On the other hand, 38.30% mentioned that the products did not meet their company needs, Figure 46.

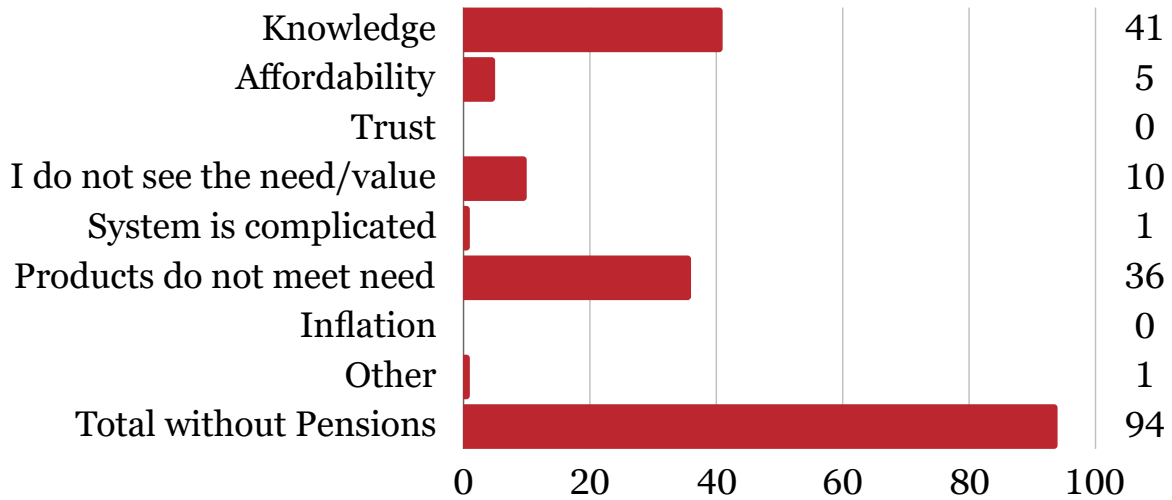


Figure 46: Reasons for not having a pension policy

Section 8: Investment and Savings

Effective management of investment and savings is crucial for financial health and sustainability. Strategic investment areas include business expansion, technology adoption, human capital development, marketing, research and development, infrastructure, equipment, diversification, and partnerships. On the savings front, MSMEs benefit from establishing emergency funds, maintaining

working capital reserves, prioritizing debt repayment, saving for future investments, retirement planning, tax planning, crisis preparedness, and seizing opportunistic investments. A balanced approach to investment and savings is key to ensuring resilience, growth, and long-term success in dynamic business environments. The survey analysed the status, nature and challenges to investments and saving among the business owners.



3.8.1 Status of investment and savings

As shown in Figure 47, only 33.7%, (n=98), of business owners have investments for their businesses.

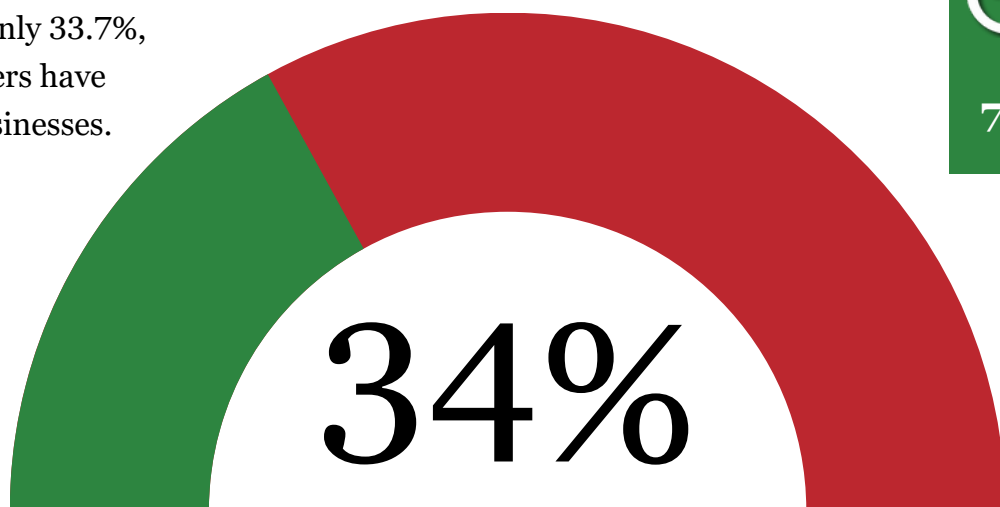


Figure 47: Percentage of enterprises with business investments

However, the majority of the respondents have a savings plan (85.7%), Figure 48. For the business owners with a savings plan, the normal savings bank account is the

more preferred savings product, followed by investing in other businesses (16.3%), and through ROSCA or ISAL (8.16%), Figure 48.

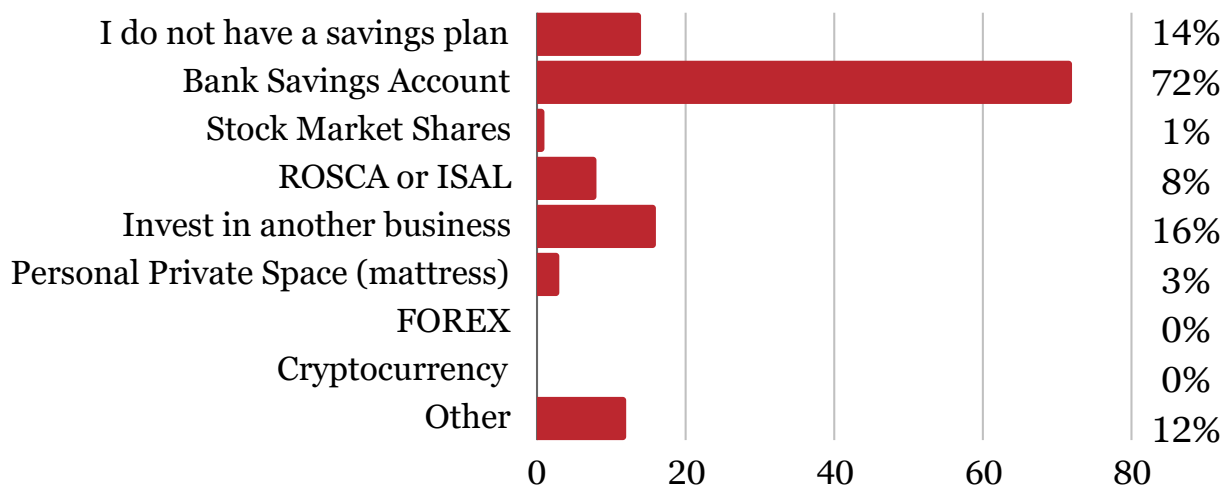


Figure 48: Type of Facilities for short- and long-term savings

3.8.2 Nature of investments

Considering the type of investments, (n=33), MSMEs prefer fixed assets (66.7%) and saving with a bank (18.2%), see Table 25. MSMEs in Malawi tend to favor fixed asset investments like land, buildings, and equipment over financial instruments such as bonds, unit trusts, and stocks. This preference stems from limited familiarity with financial markets, which are perceived as complex and unfamiliar. Fixed assets are tangible and familiar, providing

stability and serving as collateral for securing loans. Additionally, MSMEs, especially those with limited resources, prefer minimizing risk, making fixed asset investments more appealing due to perceived lower risk compared to financial market investments, which can be volatile. Overall, the certainty and stability offered by fixed assets align with the risk-averse nature of MSMEs in Malawi, particularly in uncertain economic conditions or environments with limited access to reliable financial information.

Savings with a bank	Fixed Assets	Other
6 enterprises	22 enterprises	10 enterprises
18%	67%	30%

Table 25: Types of investment facilities used by MSMEs

3.8.3 Reasons for lack of/ Challenges to investment

For the MSMEs not investing, n=65, the majority (89.3%) mentioned inadequate cash flows as a

hindrance to investments. Only 4.62% mentioned that they were not aware of any available investment products, see Figure 49.

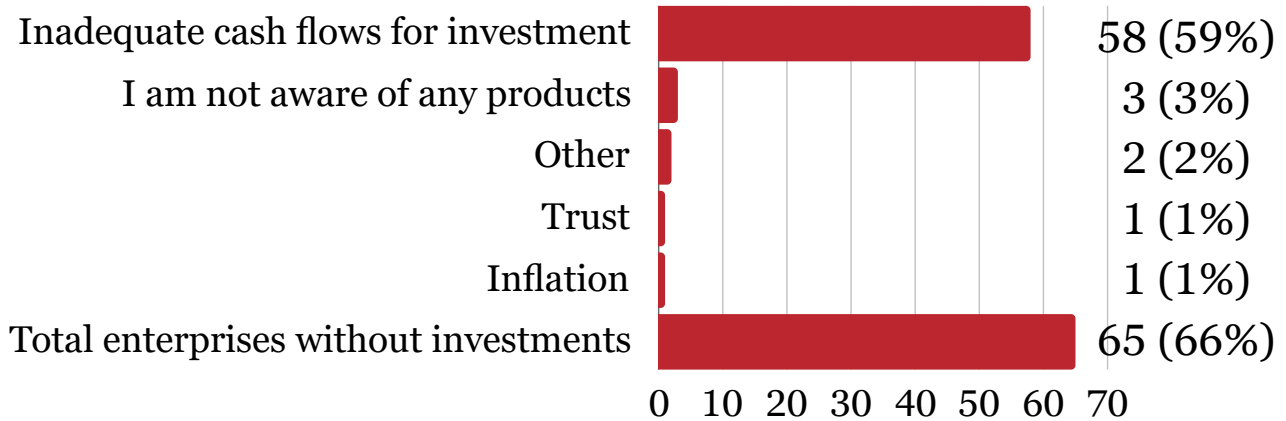


Figure 49: Challenges to investment

Section 9: Information Access from Digital and Non-digital Sources

MSMEs can benefit from a comprehensive approach that combines information access from digital and non-digital sources. Digital sources, including online market research, e-commerce platforms, social media, and digital financial tools, offer global reach, data analytics, and efficient business management. Non-digital sources, such as local market surveys, networking events, government publications, traditional media, and trade associations, provide on-the-ground insights, local connections, and regulatory information. Integrating both digital and non-digital sources allows MSMEs to create a well-rounded strategy,

leveraging the strengths of each channel for sustainable growth and success. This section evaluates information access from digital and non-digital for MSMEs.

3.9.1 Status of information access

When asked where they primarily get advice on for business finances, savings and investment options, most MSME's (54.08%) get advice on business finance, investment and saving from informal sources, while 14.29% from formal sources, 13.27% from online/the internet, 5% from social media and 31.63% do not seek advice from anyone, Figure 50. Malawian MSMEs often prefer seeking advice on business finance, investment, and saving from informal sources due to various factors.



Firstly, Malawi's formal financial sector, particularly in rural areas, is underdeveloped, making access to banks and professional advisors difficult. Informal sources like friends, family, and community members are more accessible. Secondly, low levels of financial literacy among MSME owners in Malawi lead to a preference for familiar informal advice over unfamiliar formal institutions. Thirdly, distrust in formal banks and advisors due to issues such as

lack of transparency and high fees make informal sources appear more trustworthy. Moreover, seeking financial advice from elders, family, or neighbours aligns with the cultural values of community and relationship-based interactions, whereas formal institutions may seem impersonal. Lastly, informal financial advice is often free, while formal institutions may have fees and minimum balance requirements that are prohibitive for many MSMEs in Malawi.

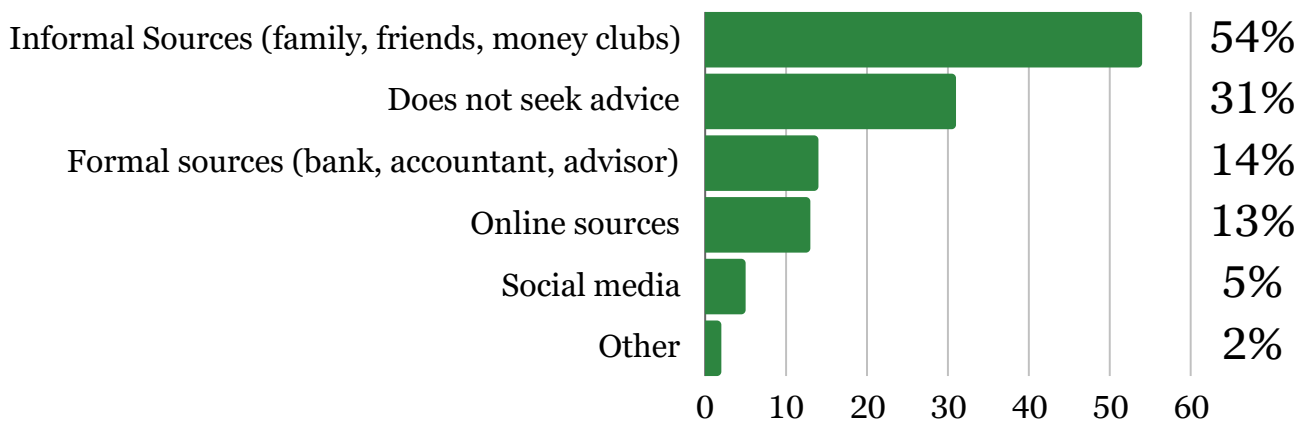


Figure 50: Key sources of financial Information for MSMEs



4.0 Discussions and Recommendations for Stakeholders

Discussions



Financial inclusion refers to providing access to basic financial services to individuals and communities who lack them, whereas digital financial inclusion specifically focuses on delivering these services via electronic channels. By embracing digital financial inclusion, GoM can leverage technology to address traditional barriers to financial services, such as geographic limitations, high transaction fees, and time constraints. The survey results provide a nuanced understanding of the status, barriers, and opportunities around digital financial inclusion for MSMEs in Lilongwe, Malawi.

Positively, Malawi's substantial mobile phone penetration offers promising avenues for digital financial services via platforms such as Unstructured Supplementary Service Data (USSD), Simple Transfer Codes (STK) menus, and mobile applications. Notably, mobile money services have shown great potential to enhance digital payment methods, which further strengthen this foundation due to increasing adoption among MSMEs.

The emergence of mobile money and traditional bank account utilisation within specific MSME sectors — notably urban businesses and those led by educated entrepreneurs — signifies a solid basis for future expansion. This trend indicates the latent capacity to foster deeper formalization processes within these groups. Moreover, the growing investment in fixed assets among MSMEs hints at a possible demand for additional financing, suggesting that bringing more MSMEs into the formal financial sector could yield beneficial outcomes.

Relying heavily on personal savings and informal financial guidance underscores the restricted accessibility of formal financial structures. A significant portion of MSMEs still function informally, underscoring the necessity for policies that encourage formalization. Limited utilisation of online platforms in business operations highlights a deficiency in digital proficiency among MSME proprietors and employees. Bridging this skill gap is essential to fully leverage the advantages of digital resources. Gender imbalances



persist, with fewer women engaged in entrepreneurship or utilising digital financial services and bank facilities. Implementing targeted policies and solutions can enhance inclusivity. The youthful demographic of many MSME founders presents a promising basis for digital integration, yet the challenges they encounter require attention and resolution.

The economy's reliance on cash transactions hinders the adoption of digital payments. Consumers remain wary of costs, fraud, and the lack of POS terminals. Additionally, low awareness of digital financial services, limited understanding of their benefits, and a lack of perceived relevance further constrain uptake and utilisation. Infrastructural limitations, such as unreliable networks, power supply disruptions, and a lack of localized digital interfaces, also impede usage. Affordability issues, including transaction charges, minimum balance requirements, and service fees, further hinder adoption. High collateral requirements also pose significant obstacle to financing. Cumbersome documentation procedures for account opening, loan applications, insurance purchases, and business registration discourage engagement with formal

systems. Furthermore, digital literacy gaps, limited computer skills, and a lack of exposure to online platforms inhibit the usage of advanced digital financial services beyond basic mobile money. MSMEs face significant risks from unforeseen events due to minimal insurance coverage, with affordability, relevance, eligibility criteria, and claims processes posing significant barriers.

The lack of adequate pension offerings also affects employee welfare and talent retention, with limited awareness and unsuitable products being key challenges. The minimal insurance coverage and pension offerings highlight gaps in financial security. Tailored products, better awareness, and affordability can expand social security for MSMEs. MSMEs often rely on personal savings and informal sources of advice for financial decisions, which inhibits access to expert guidance needed for long-term security.

Recommendations

To enhance digital financial inclusion among MSMEs in Malawi, several key areas like legal frameworks related to online businesses, trading in digital currencies, and energy access, along with strategies to improve digital integration within MSMEs and the broader context of the Fourth Industrial Revolution should be considered. To promote digital financial inclusion in Malawi, there are several low-hanging fruit strategies that can be implemented. These include awareness campaigns on mobile money services, expansion of agent banking services, collaboration with telecom companies to make mobile services more accessible, simplification of mobile banking applications, and the expansion of government-to-person payments through digital channels. Additionally, partnerships with NGOs and microfinance institutions, incentives for digital transactions, community-based training programs, and initiatives to facilitate affordable smartphone access can contribute to increased digital financial literacy and adoption. Pilot projects in urban centers, promotion of USSD codes which do not require a smart phone, integration with

agricultural programs, and youth engagement programs are other effective strategies to foster digital financial inclusion.

Legal Frameworks

1. Online Business

Regulations: there is a need to establish clear guidelines for starting and operating online businesses, ensuring compliance with tax laws, consumer protection, and intellectual property rights.

2. Trading in Digital

Currencies: Develop regulatory frameworks to govern cryptocurrency usage while protecting investors and preventing money laundering activities.

3. Access to Energy: Encourage investment in renewable energy sources and develop policies to ensure reliable electricity supply for digital services including the rural areas



Strategies for Enhancing Digital Integration

1. Promote Digital Financial

Literacy: Offer training programs to equip entrepreneurs with the necessary skills to navigate digital finance platforms effectively.

2. Increase Accessibility:

Expand mobile network coverage and provide affordable devices and Internet connections to facilitate remote transactions.

3. Encourage Collaborative

Efforts: Foster partnerships between Mobile Network Operators (MNOs), banks, and other financial institutions to create inclusive ecosystems for MSMEs.

4. Support Innovative

Solutions: Invest in local startups developing innovative solutions tailored to meet the needs of MSMEs, such as payment gateways, e-commerce platforms, and digital wallets. Innovation funds and policy incentives to support fintech and AgriTech solutions for last-mile delivery of financial services.

Government

Recommendations:

The government is urged to enforce widespread accessibility and affordability of financial products provided by institutions,

ensuring inclusivity across rural, peri-urban, and urban areas. This involves robust implementation and monitoring of policies, programmes and projects to reach diverse demographic groups. Specifically;

- Implement policy and regulatory reforms to simplify business registration procedures and reduce associated costs to incentivize formalization among MSMEs. - Develop national strategies and reforms to expand internet connectivity and digital infrastructure beyond urban areas, offering subsidized broadband packages, establishing free WiFi hotspots in rural areas, and investing in digital skill development programs can all contribute to a more equitable digital future.
- Increase budget allocation for digital skills development programs targeting MSME owners and staff.
- Provide tax incentives and credits to encourage MSME adoption of digital technologies and formal financial products.
- Support public-private collaborations and innovation funds that spur the development of customer-centric digital financial services for MSMEs.



Service Providers (Financial Institutions) Recommendations:

Financial service providers should invest in awareness campaigns targeted at peri-urban and rural areas, equipping MSMEs with comprehensive knowledge about available financial products. Simplifying protocols, especially for loans, pensions, and insurance, is essential for universal understanding and compliance. Additionally, efforts should be directed towards empowering women to access financial products, fostering independence, and increasing the number of women entrepreneurs. Specifically:

- Increase efforts to raise awareness and promote understanding of digital financial products through marketing campaigns on multiple platforms.
- Offer bundled service packages that provide a complete suite of digital financial services tailored for MSME needs in Malawi.
- Develop vernacular interfaces and messaging to expand utilisation among those with lower digital literacy.

- Simplify documentation requirements and create flexibilities to enhance access to bank accounts and insurance for MSMEs.
- Partner with AgriTech and alternative data companies to leverage technologies like Internet of Things (IoT), drones and satellite imagery to provide innovative risk assessment and insurance options for MSMEs.

Entrepreneurs' Recommendations:

Malawi, like many other countries, is experiencing a rapid shift towards digital financial services. This shift presents a significant opportunity for MSMEs to integrate into the digital financial economy and access new markets, customers, and financing options. Specifically;

1. Embrace digital payment systems: MSMEs should adopt digital payment systems such as mobile money, online payment gateways, and point of sale (POS) systems. These systems will enable them to accept payments from customers and suppliers, reducing the need for cash transactions.

2. Develop an online presence: MSMEs should establish an online presence through a website or social media platforms.



This will enable them to reach a wider audience and promote their products and services.

3. Leverage e-commerce

platforms: MSMEs should consider selling their products and services on e-commerce platforms.

4. Partner with fintech

companies: MSMEs should partner with fintech companies that offer digital financial services such as mobile banking, microfinance, and digital lending. These partnerships will provide MSMEs with access to financing and other financial services.

5. Invest in digital skills:

MSMEs should invest in digital skills training for themselves and their employees to enable them to use digital financial services effectively. This will also enable them to leverage digital marketing tools to promote their products and services.

6. Join industry associations:

MSMEs should join industry associations such as the Malawi Confederation of Chambers of Commerce and Industry (MCCCI) and the Small and Medium Enterprises Association of Malawi (SMEAM). These associations provide access to information, training, and networking opportunities.

7. Create competitive digital

products MSMEs that are creating digital products can integrate into the digital financial economy by conducting market research, developing an minimum viable product (MVP), protecting intellectual property, leveraging digital marketing, offering secure payment options, and providing customer support. By doing so, MSMEs can develop competitive digital products, reach a wider audience, and generate more sales in the digital financial economy.

Development Partners Recommendations

- Fund programs focused on building digital and financial literacy of MSME owners and staff, targeting women, youth, elderly, and marginalized groups.
- Support grassroots awareness initiatives on digital financial services and their benefits using community radios, street theatres, and localized communication.
- Facilitate public-private dialogues for enhancing coordination and spurring the development of customer-centric digital financial products. Provide technical assistance to government agencies and regulators on policy reforms aimed at simplifying business registration and formalization for MSMEs.

Industry Associations Recommendations

- Encourage members to offer free digital skills training programs for MSMEs and create digital literacy certification programs.
- Organize mobile clinics in rural areas to assist MSMEs in business registration, account opening, insurance purchases, and pension provision.
- Conduct market research and regular surveys to identify evolving MSME needs and profile industry trends on digital financial inclusion.
- Recognize industry leaders in digital financial inclusion through annual awards programs and highlight best practices.

Conclusion

This study of MSMEs in Lilongwe provides valuable insights into the state of digital financial inclusion and access to financial services. The results reveal a nascent but promising foundation for driving digital financial inclusion among MSMEs in Malawi. Widespread mobile phone ownership demonstrates the potential of digital platforms to expand access. However, persistent gaps exist including limited awareness of digital financial services, lack of tailored products, high costs, complex registration procedures, and inadequate digital skills.



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