GOVERNMENT NOTICE NO. 49

MICROFINANCE ACT

(CAP 46:08)

MICROFINANCE (MICROCREDIT AGENCY) DIRECTIVE, 2018

ARRANGEMENT OF PARAGRAPHS

PARAGRAPH

PART I—PRELIMINARY

1. Citation
2. Application
3. Interpretation

PART II—OBJECTIVES

4. Objectives

PART III—REGISTRATION REQUIREMENTS

5. Application for registration
6. Invitation to interview
7. Subsequent changes

PART IV—REGISTRATION PROCESS

8. Communication of registrar's decision
9. Denial of registration
10. Granting of certificate of registration
11. Licensing requirements
12. Cessation of business
13. Revocation of licence

PART V—OPERATING REQUIREMENTS

14. Restriction on products
15. Limit on insider loans
16. Confidentiality
17. Reporting to Credit Bureau
18. Reporting Requirements

PART VI—MARKET CONDUCT

19. Lending policies
20. Customer due diligence
21. Record keeping
22. Reporting suspicious transactions
23. Take home pay
24. Effective Interest Rate
25. Interest calculation

PARAGRAPH

26. Loan prepayments
27. Compulsory savings
28. Complaints procedure
29. Fraud reports

PART VII—ENFORCEMENT

30. Offences and Penalties
Schedules

IN EXERCISE of the powers conferred by section 57(1) of the Microfinance Act, I, DR. DALITSO KABAMBE, Registrar of Financial Institutions, make the following Directives—

PART I—PRELIMINARY

Citation

1. This Directive may be cited as the Microfinance (Microcredit Agency) Directive, 2018.

Application
Cap. 44:05

2. This Directive applies to all Microcredit Agencies registered under the Financial Services Act.

Interpretation

3.—(1) In this Directive, unless the context otherwise requires—

Cap. 46:08

"Act" means the Microfinance Act;

"balloon loan" means a type of loan which does not fully amortize over its term;

"insider" includes any of the following—

(*a*) principal shareholder;

(*b*) member of the board of directors or audit committee;

(*c*) executive officer; and

(*d*) senior management official;

"insider loan" means loan to an insider or related party;

"reducing balance method" means a method of computing interest amount on the principal balance (and not on the original loan amount) that reduces with repayment of each loan instalment;

"microcredit" means a loan of K2,000,000 or less;

"related party" includes any the following—

(*a*) a person who is related to an insider of the registered institution by marriage or consanguinity to the second degree;

(*b*) a legal person in which an insider has a business interest, including as a partner, director, manager or guarantor;

(*c*) an individual person for whom an insider is a guarantor;

(*d*) a subsidiary of the registered institution or of an insider;

(*e*) a company or undertaking in which at least a 10% interest is held by the registered institution or by an insider;

(*f*) a parent company of the registered institution or of insider;

(*g*) a company that is under common control with registered institution or of an insider;

(*h*) a company that hold at least ten 10% interest of another company in which the registered institution or an insider holds at least 10% interest;

(*i*) a company that has common management or common directors with the registered institution, an insider, or another related party of the registered institution; and

(*j*) a political party that is controlled by an insider or related party or whose funds or services shall benefits an insider or related party.

(2) Unless otherwise specified in this Directive, any other terms used in this Directive shall have the meaning assigned to them in the Act, if a meaning is so assigned.

PART II—OBJECTIVES

Objectives

4. The objectives of this Directive are to—

(*a*) prescribe registration requirements for a microcredit agency;

(*b*) specify operating requirements for a microcredit agency; and

(*c*) ensure that microcredit agency adhere to high standards of market conduct.

PART III—REGISTRATION REQUIREMENTS

Application for Registration

5.—(1) An application for registration to operate a microcredit agency shall be made to the Registrar in the application form set out in the First Schedule to this Directive.

(2) Only a microcredit agency that is a member of a national association of microfinance service providers shall be eligible for registration.

(3) An applicant shall provide, in support of the application, all of the information required in the application form, including—

(*a*) a copy of a business plan of the institution, its scope of operations, description and rationale of services to be offered and presentation of applicant's capacity for such services;

(*b*) where applicable curriculum vitae of the Chief Executive Officer or the Chief Finance Officer, as the case may be and the directors, as well as shareholders information requested in the application form;

(*c*) the by-laws of the applicant's entity which shall contain specific provisions on corporate governance, particularly with regard to the appointment of directors and senior managers;

(*d*) in the case of a foreign-owned or a partially foreign owned and controlled Microcredit Agency, a copy of the resolution of the parents company's Board of Directors approving the establishing and functioning of the subsidiary in Malawi;

(*e*) a non-refundable application fee of MK100,000.00; and

(*f*) source and proof of funds.

Invitation to interview

6. The Registrar may, where necessary, invite an applicant for an interview in order to verify and assess an application, and any invitation shall be in writing, stating specific objectives of the interview.

Subsequent changes

7. The approval of the Registrar shall be obtained for any subsequent changes to the contents of the documents submitted after registration.

PART IV—REGISTRATION PROCESS

Communication of Registrar's decision

8. The Registrar shall communicate his decision on the application for registration within 60 days from the date of receipt of a complete application.

Denial of registration

9.—(1) The Registrar may deny granting a certificate of registration to an applicant on the following reasons—

(*a*) non-submission of required documents within the stipulated time;

(*b*) submission of misleading information;

(*c*) submission of information deemed suspicious;

(*d*) a feasibility or business plan that is judged not to be viable;

(*e*) a person designated as executive management has been convicted of a criminal offence related to mismanagement of financial institution; and

(*f*) a person designated as executive management is liable for losses caused by their activity at another financial institution or organization.

(2) The applicant may make a re-submission at any time in the event that the reason for refusal has been addressed.

Granting of certificate of registration

10.—(1) Where the Registrar approves an applicant, the Registrar shall grant a certificate of registration in the form set out in the Second Schedule in this Directive.

(2) A certificate of registration, shall not be transferred, assigned or encumbered in any way except in the event of an amalgamation or similar corporate re-structuring transactions, on such terms and conditions, as the Registrar shall approve.

(3) The certificate of registration shall automatically expire if the registered person fails to commence business within a period of one year from the date of registration.

Licensing requirements

11.—(1) A Microcredit Agency that attains any of the following thresholds shall apply for licensing as a Non-Deposit Taking Microfinance Institution—

(*a*) asset base of MK200,000,000; or

(*b*) annual revenues in excess of MK150,000,000.

(2) The threshold in subparagraph 1 shall have to be maintained over a period of 12 months.

Cessation of business

12. A Microcredit Agency shall not voluntarily cease carrying on business without the approval of the Registrar.

Revocation of licence

13.—(1) The Registrar may vary, suspend or revoke the registration of a Microcredit Agency if—

(*a*) it is in breach of this Directive, the Act, or the Financial Services Act; and Cap.44:05

(*b*) it ceases to operate for a period of 3 months or more.

(2) Upon revocation of registration, the Registrar shall arrange for public notices to be placed in the local media alerting the public that registration was cancelled and that the Microcredit Agency is no longer authorized to engage in microcredit activities with the public.

PART V—OPERATING REQUIREMENTS

Restriction on products

14. A Microcredit Agency shall provide microcredit only:

Provided that thirty percent of the loan portfolio of a Microcredit Agency may be loans that are above prescribed limit.

Limit on insider loans

15. A Microcredit Agency shall limit its insider loans to 10% of the loan portfolio.

Confidentiality

16.—(1) A Microcredit Agency shall maintain confidentiality of relation and dealings between the agency and its customers.

(2) Where disclosure of information is required, such disclosure must be pursuant to the law, a court order or the Registrar.

Reporting to Credit Bureau Cap. 46:09

17. A Microcredit Agency shall report to licensed Credit Reference Bureaux on a monthly basis in the manner prescribed in the Regulations issued under the Credit Reference Bureau Act.

Reporting requirements

18. A Microcredit Agency shall submit to the Registrar information and data on its operations on a quarterly basis in the form set out in the Third Schedule hereto, not later than two weeks after the end of each quarter.

PART VI—MARKET CONDUCT

Lending policies

19. A microcredit agency shall have a lending policy that specifies—

(*a*) the maximum amounts that can be approved at every level of discretion;

(*b*) documentary and procedural requirements; and

(*c*) internal controls to be maintained.

Customer due diligence Act No. 14 of 2017

20. In accordance with the Financial Crimes Act, a Microcredit Agency shall—

(*a*) identify a customer who is a natural person and a resident of Malawi using—

(*i*) letter from the chief;

(*ii*) letter from employer;

(iii) Malawi Electoral Commission identity card;

(iv) Citizen Identification Card; and

(v) stamped letter from church or the clergy;

(*b*) understand the nature of the customers' business, beneficial ownership, control structure, proof of existence and address.

Record keeping Act No. 14 of 2017

21. In accordance with the Financial Crimes Act, an institution shall keep the following information for a customer who is a natural person and a resident of Malawi—

(*a*) full names;

(*b*) national identity card, passport or driving licence, indicating the person's date of birth;

(*c*) physical address including street names and plot numbers, or a detailed description of the location named in Malawi where the physical address is not available;

(*d*) village, traditional authority and district of origin where applicable;

(*e*) postal address, e-mail address and telephone contacts where applicable;

(*f*) occupation or source of income and expected level of monthly income;

(*g*) nature and detailed description of the location of business activities or place of employment, whichever is applicable; and

(*h*) purpose and intended nature of business relationship.

Reporting suspicious transactions Act No. 14 of 2017

22. In accordance with the Financial Crimes Act, an institution shall report suspicious transactions to the Financial Intelligence Authority.

Take home pay Cap.55:01

23. A Microcredit Agency shall limit monthly loan repayments of salaried employees to the percentage of the borrower's take-home salary prescribed by the Employment Act.

Effective Interest Rate

24. The loan contract shall prominently disclose Effective Interest Rate (EIR) calculated as illustrated in the Fourth Schedule to this Directive.

Interest calculation

25. Interest on all loans, except balloon loans, shall be calculated using the reducing balance method.

Loan pre-payments

26.—(1) A borrower shall be permitted to make partial or total pre-payments on their loans.

(2) A Microcredit Agency shall—

(*a*) disclose penalty for pre-payment, if any, in the loan contract; and

(*b*) not charge interest,for the period after the customer has repaid the full amount of the loan.

Compulsory savings

27. A Microcredit Agency shall not take compulsory savings.

Complaints procedure

28.—(1) A Microcredit Agency shall have complaints handling procedures to guide clients in the event of complaints in line with Financial Services (Internal Complaints Handling Requirements) Directive, 2016.

(2) A Microcredit Agency shall maintain a Complaints Register where the following details shall be recorded—

(*a*) date complaint is received;

(*b*) nature of complaint;

(*c*) steps taken to resolve the complaint; and

(*d*) date and resolution of the complaint.

(3) A Microcredit Agency shall report to the Registrar all complaints received on a quarterly basis in the form set out in the Fifth Schedule hereto two weeks after the end of the quarter.

29 An institution shall report to the Registrar all frauds, forgeries and losses incurred by an institution on a quarterly basis in the form set out in the Sixth Schedule to this directive.

PART I—ENFORCEMENT

Offences and penalties

30.—(1) A Microcredit Agency which fails to submit a report to the Registrar required under this Directive commits an offence and is liable to a penalty of MK10,000 for each day of such non-compliance.

(2) A Microcredit Agency that does not meet the requirements of this Directive, the Act or the Financial Services Act, shall be liable to a monetary penalty of up to MK5,000,000. Cap. 44:05

(3) In addition to the monetary penalty imposed in subparagraph (1) and (2), the Registrar may impose directions, administrative penalties and enforcement action as provided under the Financial Services Act and the Act. Cap. 44:05

FIRST SCHEDULE (para. 5(1)

APPLICATION FORM

1. Name of Applicant:.....

2. Physical address of head office:.....

:.....

3. Contact details:.....

:.....

4. Legal structure:.....

4.1 Date of registration:.....

4.2 Registration number:.....

5. Proposed places of business:.....

Name of business	*place start date*	*Years in operation*

6. Indicate former name(s) by which the Applicant has been known:

:.....

:.....

7. Details of owner (s) of the Applicant:

Present and former names	*Nationality*	*Address*	*Shareholding*		
			No. of shares	Amount (MW)	Percentage of total
Total Capital	.....	.....			

8. Details of board of directors:

Name	*Nationality*	*Address*	*Date of Appointment*	*Other Directorships*	*Qualifications*

Name	*Nationality*	*Address*	*Date of Appointment*	*Other Directorships*	*Qualifications*

8.1 In addition, submit the following for *each* of the directors—

(*a*) curriculum vitae; and

(*b*) certified copies of educational certificates.

9. Details of capital—

(*a*) paid up capital MWK..... or

(*b*) loan fund MWK .....

10. State source and evidence of capital:

(*a*) borrowed from commercial banks.....

(*b*) own sources.....

(*c*) other sources.....

(*d*) retained earnings from past business.....

NOTE:

10.1 Evidence of capital should be in the form of certified bank statements and confirmation letter from an external auditor.

10.2 If part of the paid-up capital is in the form of fixed assets, the Registrar may appoint a valuer to assess the value of such assets at the applicant's expenses. Such assets must be essential to the operation of a microfinance business. Documentary evidence of title to the assets must be made available to the Registrar on demand.

10.3 Provide documentary proof of Registration of Capital and in case of foreign investment, documentary proof of registration with Exchange Control Authorities.

11. Indicate whether the business activity is confined to micro-lending business or the applicant is engaged in multi-business activities and give details accordingly:

NOTE:

11.1 It is a condition for registration *NOT* to solicit and/or accept funds from the public. If members of the public wish to invest in a micro lender, they do so by acquiring a stake in the business and become a member or a shareholder of the business.

11.2 In this case, the Registrar must be notified in writing of such an arrangement with all details and conditions pertaining to the partnership and/or shareholding within 21 days of such an arrangement being made.

12. Provide details of principal officer:

Details	*Principal Officer*
First Name(s)	
Surname	
Identity Number	
Nationality	
Qualifications (*Certified copies enclosed*)	
Previous employment	
Curriculum Vitae (enclosed)	

13. Provide details of relationship with other entities:

	Details of Relationship
Director or member of the governing body	
Owner of the Applicant	
Officers of the Applicant	
Members of family of the above mentioned categories.	

14. Provide particulars of any business relationship that the Applicant has or expects to have with any of its officers, shareholders or directors:

.....

.....

15. In case of a foreign owned of controlled applicant that is, if more than 50% of voting shares are held by non-Malawian residents or corporations registered outside Malawi and are part of an international banking, financial and microfinance group—

(*a*) have you provided certified copy of the resolution of the directors of the parent company authorizing the establishment of the subsidiary in Malawi?.....

Declare who is going to perform the consolidated supervision of the group and whether the said supervisor is aware of the applicant's plan to set up business in Malawi.....

(*b*) have you provided an organization (organization chart) showing how the applicant fits in the group?.....

16. Indicate financial year:.....

17. Provide details of banker :

Name of banker	*Branch and address*	*Details of bank account*

18. Provide details of external auditor:

Name of external auditor	*Physical and Postal address*	*Telephone and email address*

If no external auditor has not been appointed yet, provide reasons:.....

.....

19. Do you have a lending policy that satisfies the requirements of paragraph 19 of the Microfinance (Microcredit Agency) Directive, 2018

20. Do you have proposed complaints handling procedures in line with paragraph 28 of the Microfinance (Microcredit Agency) Directive, 2018

21. Do you have proposed risk management policies that are in line with the (Financial Crimes) Regulations.

22. For those already conducting micro lending:

22.1 Indicate annual revenue from microcredit transactions for most recent financial year:

NOTE: Revenue comprises all the money received and receivable, but not unearned, from micro lending transactions, other than the initial amount (capital amount) lent to the Borrower, i.e. all the interest and fees earned from micro lending transactions.

22.2 Indicate value of loan portfolio (i.e. the sum of the outstanding capital amounts as a result of Micro Credit transactions.)

Value of Loan Portfolio at End of Most Recent Financial year MWK.....

Number of Loan Receivables (Clients) At End of Most Recent Financial year: .....

Value of Loan Portfolio on date of Application MWK.....

Number of Loan Receivables (Clients) on Date of application: .....

22.3 Indicate the Geographical Spread of Business premises and the number of branches in each Region, where applicable:

Regional Location	*Branch or Outlet Name*	*Responsible Officer (Names & Surname)*	*Contact Number*
South	1.		
	2.		
	3.		

Regional Location	*Branch or Outlet Name*	*Responsible Officer (Names & Surname)*	*Contact Number*
	4.		
	5.		
	6.		
East	1.		
	2.		
	3.		
	4.		
	5.		
	6.		
Centre	1.		
	2.		
	3.		
	4.		
	5.		
	6.		
North	1.		
	2.		
	3.		
	4.		
	5.		
	6.		

23. Does the Applicant hold, or has it ever held any authority from a supervisory body to carry out any business activity in Malawi or elsewhere?.....

If yes, give particulars:.....

23.2 If any such authority has been revoked, give particulars:

.....

24. Has the Applicant been put under receivership in the past or made any compromise or arrangement with its creditors in the past or otherwise failed to satisfy creditors in full?

.....

If yes, give particulars:.....

25. Has the Applicant or any of its directors, shareholders or executive officers ever been subjected to any form of disciplinary proceedings or action by any professional or regulatory body? .....

    If yes, give particulars:.....

26. Has the applicant or any of its shareholders ever had a petition presented in a court for its winding up? .....

    If yes, provide particulars:.....

27. Has the applicant or any of its directors, shareholders or executive officers ever had judgment entered against them involving findings of fraud, dishonesty, violence, misrepresentation, breach of contract, breach of fiduciary duty or professional negligence in any civil proceedings, or are there any proceedings now pending that may lead to such a judgment or finding?

    If yes, please provide details:.....

28. Has the applicant or any of its directors, shareholders or executive officers ever contravened any written law designed for protecting members of the public against financial loss due to dishonesty, incompetence or malpractice by persons concerned in the provision of financial services or the management of companies or against financial loss due to the conduct of discharged or un-discharged bankrupts?.....

    If yes, provide details:.....

29. Is an examiner or other authorized officer of any government ministry, department or institution, professional association, or other regulatory body investigating the affairs of the Applicant or has such an investigation ever previously taken place into the affairs or the Applicant?

    If yes, provide details:.....

30. Submit the *following supporting documentation* together with the application form—

    (*a*) registration fee – MK100,000.00 in the form of a cheque payable to the Reserve Bank of Malawi;

    (*b*) curriculum vitae, certified copies of academic and professional certificates of directors;

    (*c*) curriculum vitae, certified copies of academic and professional certificates of principal officer;

    (*d*) organization chart showing names, designation and reporting lines;

    (*e*) certified copy of by-laws (memorandum and articles of association for companies and constitution for trusts or any document by which the applicant is constituted);

    (*f*) certified copy of evidence of incorporation or organizational registration, where applicable;

    (*g*) certified copy of Income Tax Registration number;

    (*h*) latest Financial Statements of the business (if already conducting Micro Credit transactions) or business plan for the following two years;

    (*i*) lertified copy of lending policy as specified in paragraph 19 of the Microfinance (Microcredit Agency) Directive, 2018;

(*j*) where applicable, copy of board resolution of parent company approving establishment and functioning of subsidiary in Malawi;

(*k*) documentary evidence of capital in form of bank statement and confirmation letter from external auditors;

(*l*) copy of complaints handling procedures to guide clients in the event of complaints; and

(*m*) copy of Risk Management Policy.

DECLARATION:

We, the undersigned, being Directors of the Applicant, declare that to the best of our knowledge and belief, the information given in this form and the supporting documentation submitted together with this form are true, correct and complete:

NAME	*DESIGNATION*	*SIGNATURE*	*DATE*

SECOND SCHEDULE (para. 10(1))

CERTIFICATE OF REGISTRATION FORMAT

REGISTRAR OF FINANCIAL INSTITUTIONS

FINANCIAL SERVICES ACT

MICROCREDIT AGENCY REGISTRATION CERTIFICATE

A CERTIFICATE is hereby GRANTED to..... of ..... to operate as a Microcredit Agency in Malawi. This certificate is granted subject to the provisions of the Financial Services Act, (Cap. 44:05).

GRANTED THIS..... DAY OF 20

.....

REGISTRAR OF FINANCIAL INSTITUTIONS

THIRD SCHEDULE (para. 18)

QUARTERLY REPORT FORM

PART 1: FINANCIAL ANALYSIS

Institution .....

Financial Year:.....

Start Date:..... End Date.....

PART 1: BALANCE SHEET	*AMOUNT*
LIABILITIES AND EQUITY CAPITAL	
1. Capital Employed	
1. Equity capital (sum of a,b,c,d,e,f)—	
(*a*) paid up Share capital;	
(*b*) share premium;	
(*c*) general Reserve;	
(*d*) revaluation reserves (fixed assets);	
(*e*) retained earnings-prior years; and	
(*f*) net income (loss)-for current period (Form II(*a*)).	
2. Non- Current Liabilities (sum of a,b,c)—	
(*a*) shareholders loans;	
(*b*) long term loans from banks; and	
(*c*) other Long-term liabilities (Specify) i.e deferred tax, long-term provisions.	
3. Current Liabilities (sum of a,b,c,d)—	
(*a*) trade and other payables;	
(*b*) short-term borrowings (Bank overdrafts);	
(*c*) other Short-term liabilities (Specify); and	
(*d*) current tax payable.	
Total equity capital and liabilities (sum of 1, 2 and 3)	
ASSETS	
1. Non-Current Assets (sum of a,b,c,d)	
(*a*) property, Plant & Equipment;	
(*b*) investments and securities;	
(*c*) accrued interest receivables (Non Current Asset); and	
(*d*) net Long-term Loans receivables (i-ii)—	
(i) gross long term loans and advances; and	
(ii) provision for loan losses (Long Term);	
(*e*) all other non-current assets.	
2. Current Assets (sum of a,b,c,d,e,f)—	
(*a*) cash, cash equivalents;	
(*b*) all other short term investments;	

	AMOUNT
(*c*) trade receivables;	
(*d*) accrued interest receivables (Current Assets);	
(*e*) net Short-term Loans receivables (i-ii)—	
(i) gross Short Term loans and advances;	
(ii) provision for loan losses (Short Term); and	
(*f*) all other current assets (specify).	
Total assets (sum of 1 and 2)	

INCOME STATEMENT	*AMOUNT*
INCOME AND EXPENSES—	
(*a*) Interest income from loans;	
(*b*) Income from administration fees;	
(*c*) commissions;	
(*d*) other loan related income;	
(*e*) gross income from money lending (a+b+c+d);	
(*f*) interest expense on borrowed funds;	
(*g*) provision for loan losses;	
(*h*) recoveries on loans written off;	
(*i*) net income from Micro-credit operations (E-f-g+h);	
(*j*) other incomes (Specify);	
(*k*) total Income (i+j);	
(*l*) operating expenses (Form II(*b*));	
(*m*) income (loss) before taxes and extraordinary items (K-L);	
(*n*) taxation;	
(*n*) income (loss) after taxes before extraordinary items (M-n);	
(*p*) dividends Proposed;	
(*q*) extraordinary items; and	
(*r*) net income (loss) (O-p-q).	

BREAKDOWN OF OPERATING EXPENSES	*AMOUNT*
(*a*) Finance costs (excluding interest and provisions on loans in Form II (*a*))	
(i) interest on overdraft;	
(ii) interest on collateral loans;	
(iii) other finance costs (specify).	
Total finance costs (i+ii+iii)	

BREAKDOWN OF OPERATING EXPENSES	*AMOUNT*
(*b*) Personnel expenses—	
(i) salaries and employee benefits;	
(ii) other personnel expenses;	
Total personnel expenses (i+ii);	
(*c*) Administration expenses—	
(i) rent, Electricity, Water, Telephone expenses;	
(ii) travel expenses;	
(iii) office expenses;	
(iv) training expenses ;	
(v) maintenance and repair	
(vi) other administration expenses	
Total administration expenses (i+ii+iii+iv+v+vi)	
(*d*) depreciation	
(*e*) foreign exchange (gain)/loss	
(*f*) other operating expenses	
TOTAL OPERATING EXPENSES (a+b+c+d+e+f)	

SPECIFICATIONS OF OTHER ASSETS & LIABILITIES

	Amount
2c. Other Long-term liabilities	
3c. Other Short-term liabilities	
Operating lease liabilities	
Intercompany loans	

	Amount
1e. All other non-current assets	
2f. All other current assets	

PART 2—REPORTING PERIOD ANALYSIS

PART 2A	
	Current Quarter
Total number of loans requested during the period	
Total value of loans requested during the period	
Total number of loans disbursed during the period	
Total value of Loans disbursed during the period	
Total number of clients in loan book at end of period	
Total value of loan book at end of period	
PART 2B	
Total no. of employees on last day of period	
Total no. of loan officers on last day of period	
Total no. of executive managers on last day of period-Males	
Total no. of executive managers on last day of period-Females	
Total no. of board members on last day of period-Males	
Total no. of board members on last day of period-Females	
PART 2C	
Total number of agents and brokers (if any)	
Total number of loans disbursed through agents and brokers	
Total value of loans disbursed through agents and brokers	
Total number of people employed by agents and brokers	

PART 2D:

Names of the product:	*Interest Charged as at last day of the period*
Cash Express 1	
Cash Express 3	
Cash Express 6	
Cash Express 9	
Cash Express 12	
Cash Express 24	

PART 3—LOANS ANALYSIS

3.1. Loans disbursement breakdown by length of repayment period							
	7 days	14 days	30 days	60 days	90 days	180 days over 180 days	Total
Number of Loans							
Value of Loans							
Percentage of value to Total							
3.2. Loans disbursement breakdown by frequency of repayments							
	Weekly	Fortnightly	Monthly			Other	Total
Number of Loans							
Value of Loans							
Percentage of value to Total							
3.3. Loans disbursement by loan size (MK'000)							Total
Number of Loans							
Value of Loans							
Percentage of value to Total							

PART 4—LOAN RISK ANALYSIS

4.1. *Portfolio Aging Schedule (Monthly repayments)*	*Outstanding Number of Loans*	*Value of loans (MK)*	*Provision amount (MK)*	*Provision rate (%)*
Current				
1-30 days past due				

4.1. *Portfolio Aging Schedule (Monthly repayments)*	*Outstanding Number of Loans*	*Value of loans (MK)*	*Provision amount (MK)*	*Provision rate (%)*
31 to 60 days past due				
61 to 90 days past due				
91 to 180 days past due				
Over 180 days past due				
TOTAL				

4.1. *Portfolio Aging Schedule (Fortnight repayments)*	*Outstanding Number of Loans*	*Value of loans (MK)*	*Provision amount (MK)*	*Provision rate (%)*
Current				
2 to less than 2 weeks past due				
2 to less than 4 weeks past due				
4 to less than 8 weeks past due				
8 - less than 16 weeks past due				
Over 16 weeks past due				
TOTAL				

4.3 Analysis of loans written off and rescheduled (renegotiated)

	Current Quarter	*Previous Quarter*
Number of Loans Written Off		
Value of Loans Written Off		
Number of Renegotiated Loans		
Value of Renegotiated Loans		

PART 5—BORROWER INFORMATION

	Current Quarter		*Previous Quarter*	
5.1. *Breakdown of borrowers by Gender*	*Number of loans*	*Value (MK)*	*Number of loans*	*Value (MK)*
Disbursements to female borrowers				
Disbursements to male borrowers				
TOTALS				

5.2. *Loan Break-down by Purpose of Borrowing*	*Agriculture*	*Business*	*Other*	*Total*
Number				
MK Value				

5.3. Percentage of Loans Secured and Unsecured

	% of total	*MK Value*
Secured		
Unsecured		

EXPLANATORY NOTES TO ANNEXURE II

PART 1—FINANCIAL ANALYSIS

The income statement should be completed from the management accounts of the business for the reporting period. The accountant, accounting officer or auditor would normally complete this exercise. Year to date will mean the figures carried forward from the previous return.

PART 2—REPORTING PERIOD ANALYSIS

Particulars of transactions relating to lending activities during the period

PART 3—LOANS ANALYSIS

3.1 Loans Disbursement Breakdown by length of Repayment

Show the number and value of loans, where the term of the loans fall within each of the different categories e.g. how many loans are one month loans, two month loans etc. The totals should balance back to the total value of Loan Book at end of period as shown in PART 2 (*a*).

3.2 Loans Disbursement Breakdown by Frequency of Repayments

Show the number and value of loans repayments. The repayments frequencies are weekly, fortnightly, monthly and balloon

3.3 Loan Disbursement Breakdown by Loan size

Show the number and value of loans given out that fall in the different categories by size of loan. E.g. how many loans were less than MWK....., between MWK..... and MWK.....

PART 4—LOAN RECEIVABLES RISK ANALYSIS

4.1 Age analysis of repayment receivable (capital plus interest earned)

Show the Malawi Kwacha value of repayments that have fallen behind and are now overdue, e.g. 30 to 60 days and 60 to 90 days overdue etc., of the total outstanding, i.e. how much is overdue including capital and interest.

4.2 Age analysis of receivables balances (the capital part only)

Exactly as above, but only show the capital outstanding–No interest. We want to know how much of the lender's capital is at risk.

4.3 Age analysis by number of receivables (as at reporting date)

Show the number of loans that have fallen behind i.e. 30 to 60 days overdue, 60 to 90 days overdue.

4.4 Analysis of debtors by repayment method

How do you collect payments from debtors, show what percentages of your loans are collected by each of the indicated methods?

4.5 Analysis of loans written off and rescheduled

How many and what value of loans did you write off during the period?

PART 5—BORROWER INFORMATION

5.1 Breakdown of borrowers by gender

Indicate the number and Malawian Kwacha value of loans disbursed to male and female borrowers.

5.2 Loan breakdown by purpose of borrowing

Indicate the number and Malawian Kwacha value of loans given for each of the categories, i.e. what was the loan needed for?

5.3 Indicate percentage of loans secured in each of the categories

What percentage of total loans given where secured by the lender by taking a cession or pledge of any of the type of security?

PART 6—LENDERS' OTHER BUSINESS INTERESTS

6.1 Indicate what other business the shareholders and or directors are involved in other than micro lending.

6.2 Indicate the lenders number of active branches as at the end of the reporting period.

PART 7—LOAN PORTFOLIO REPORT

I	II	III	IV	V
Serial No	*Description*	*Month 1**	*Month 2**	*Month 3**
I	Total value of loans disbursed during the period			
II	Total number of loans disbursed during the period			
III	Number of active borrowers (at the end of the period)			
IV	Average number of active borrowers			
V	Value of loans outstanding (end of period)			
VI	Average outstanding balance of loans			
VII	Value of payments in arrears. (end of period)			
VIII	Value of outstanding balance of loans in arrears			
IX	Value of loans written-off during the period			
X	Average loan size			
XI	Average loan term			
XII	Average number of loan officers during period			
XIII	Value of loans outstanding for which repayment is yet to begin			

*Month 1, 2 and 3 – Months in the quarter under review.

NOTE: Explanation of Portfolio Report is given below—

(i) Total value of Loans disbursed during the period refers to the volume (in currency) of loans disbursed during the specified time period regardless of whether they are performing, non-performing or written off. This should not be confused with Gross Loan Portfolio, which can be several times less than the value disbursed.

(ii) Total number of loans disbursed during the period refers to the total number of loans disbursed in a specific time period.

(iii) The number of active borrowers (as at the end of the period) refers to the number of borrowers with one or more loans in force that have neither been fully repaid nor written off. Borrowers who have repaid their loans in full are not considered in this number.

(iv) Average number of active borrowers: This can be estimated by taking the number of active borrowers at the first date of the period and adding the number of active borrowers at the last date of the period and dividing the sum by two.

(v) Value of loans outstanding refers to the current value (in currency) of loans still not paid at a specific date. It differs from the "Total value of loans disbursed during the period "and it considers just the amount currently owed to the organization. In other words, only the unpaid principal balance of the loan is included in the value of the loans outstanding over a period.

(vi) Average outstanding balance of loans refers to the average value (in currency) of loans outstanding over a period. Average outstanding balance can be estimated by taking the opening balance of loans outstanding at the first date of the period and adding the closing balance of the loans outstanding at the last date of the period and dividing the sum by two.

(vii) Value of payments in arrears (end of the period) refers to the value (in currency) of payments in arrears; payments that have been due and not paid. This figure includes principal only that has become due but has not been received as at the end of the period.

(viii) Value of outstanding balance of loans in arrears (end of the period) refers to the value (in currency) of loans that have one or more payments in arrears. This includes principal amount only, but covers the total loan amount outstanding, not just the amount of principal that has fallen due and not been received. Also referred to as Risk ratio when divided by the outstanding portfolio.

(ix) Value of Loans written- off during the period refers to the value (in currency) of loans that have been recognized for accounting purposes as non-recoverable and is removed from the outstanding balance of the loan from gross loan portfolio and from the loan loss reserves in the Balance Sheet, without affecting balance of the net loan portfolio, total assets, or any equity account.

(x) Average loan term refers to the amount of time the loans on average are outstanding. In other words, it's average period in which borrowers are supposed to pay back the entire sum of money lent by the institution

(xi) Number of Loan Officers refers to the field personnel or Line Officers who deal directly with clients in disbursing loans and collecting loan repayments.

(xii) Value of Re-scheduled Loans outstanding refers to the value of loans that have been re-scheduled; all outstanding loans whose terms have been changed but no new loans have been given additionally.

(xiii) Value of loans outstanding for which repayment is yet to begin refers to the value of loans outstanding for which the repayment schedule is yet to begin. These could include loans that have longer moratorium periods as well as the loans that have been recently disbursed.

FOURTH SCHEDULE (para. 24)

EFFECTIVE INTEREST RATE (EIR)

$$\text{Effective interest rate} = \frac{\text{Total interest and other charges}}{\text{Average loan outstanding}} \times \frac{\text{Periods in a year}}{\text{Periods in loan term}}$$

Example

A client borrows K60, 000 from a microcredit agency institution for 20 weeks and the interest rate is charged at 3.0 %/ month. The microcredit agency institution charges 2% of the loan amount as processing fee and 1% of the loan amount as insurance. The Effective Interest Rate (EIR) is calculated as follows:

Interest to be calculated on *Declining Balance Method*

PMT f(x) was used to calculate total payments

Period	*Installment (MWK)*	*Capital Repayment (MWK)*	*Capital Balance (MWK)*	*Interest Payment (MWK)*
0			60,000.00	
1	13,101.27	11,301.27	48,698.73	1,800.00
2	13,101.27	11,640.31	37,058.41	1,460.96
3	13,101.27	11,989.52	25,068.89	1,111.75
4	13,101.27	12,349.21	12,719.68	752.07
5	13,101.27	12,719.68	0.00	381.59

Calculation of Interest = K1, 800.00+K1, 460.96+K1, 111.75+K752.07+K381.59

= K5, 506.37

Calculation of Processing fee = Loan amount x processing rate /100

= K60, 000 x 2 /100 = K1, 200

Calculation of Insurance premium = Loan amount x insurance premium rate

= K60, 000 x 1 /100 = K600

Average loan outstanding = K60, 000+K48, 698.73+K37, 058.41+K25, 068.89 +K12, 719.68 = K36, 709.14

Periods in a year = 12 months

Periods in a loan term = 5 months

Total interest and other charges = K5, 506.37+K1, 200+K600 = K7, 306.37

Therefore Effective interest rates = K7, 306.37/ K36, 709.14 x 12/5 = 48%

Explanations to the schedule—

(*a*) calculation of installment amount

This is calculated using the following formula;

$$\text{Installment amount} = \frac{P \times r}{1 - (1+r)^{-n}}$$

where P = the loan amount

r = the interest rate per month

n = number of periods or months over which the loan is repayable

For example, in the schedule above,

$$\text{Installment amount} = \frac{60{,}000 \times 0.03}{1-(1+(0.03))^{-5}}$$

$$= \frac{1{,}800}{1 - 0.862608784384163}$$

$$= 13{,}101.27$$

(*b*) calculation of Interest Payment

The interest payment is based on the capital balance of the prior period.

For example, the interest payment for period 2 = 0.03 x 48,698.73

= 1,460.96

(*c*) calculation of capital repayment

This is the difference between the installment amount and the interest payment for the particular period.

For example, the capital repayment for period 2 = 13,101.27–1,460.96

= 11, 640.31

FIFTH SCHEDULE para.28 (3)

COMPLAINTS REPORT FORM

No.	*Date Received*	*Description*	*Date Resolved*	*Notes*

*If complaint is not resolved by the date of the report, please state so and provide an explanation in the notes section.

SIXTH SCHEDULE (para.29)

FRAUD REPORT FORM

Date of Incident	*Name of suspect (Staff or Member of Public)*	*Branch Involved*	*Brief Description of Incident*	*Magnitude (Amount Involved)*	*Action Taken and/or envisaged*	*Current Status*

Dated this day 29th of June, 2018

D. KABAMBE, PhD
Registrar of Financial Institutions

(FILE NO. FIN/PFSPD/03/04)

GOVERNMENT NOTICE NO. 50

MICROFINANCE ACT

(CAP 46:08)

MICROFINANCE (NON-DEPOSIT TAKING MICROFINANCE INSTITUTIONS) DIRECTIVE, 2018

ARRANGEMENT OF PARAGRAPHS

PARAGRAPH

PART I—PRELIMINARY

1. Citation
2. Application
3. Interpretation