

THE NEW CUSTOMS AND PROCEDURE CODE (CPC) ON IMPORTATION (PARAGRAPH 161)

The pursuit of financial inclusion aimed at drawing the 'unbanked' population into the formal financial system constitutes a contemporary preoccupation for policymakers in general and central banks, in particular. Lack of access to finance adversely affects growth and poverty alleviation as the impoverished find it difficult to accumulate savings, build assets to protect against risks, as well as invest in income-generating projects. Despite substantial bank branch expansion and blossoming of microfinance institutions, scant access to basic financial services remains a deprivation suffered by large segments of the Malawian population. To this end, the onus of policy makers is to create an enabling policy environment that offers opportunities for surpassing frontiers of financial inclusion. Key to such interventions are deliberate policies that catalyse infrastructure acquisition and technological innovation deemed essential for reducing transaction costs thereby allowing financial services to be delivered more rapidly and more conveniently to broad sections of the population.

In this regard, the Reserve Bank of Malawi supports the initiative by the Government of Malawi in the proposed 2011/12 Budget. In a bid to promote bank outreach to remote areas, Government has proposed that importation by the Authorised Dealer Banks of mobile banking vans, Auto Teller Machines (ATM) and Point of Sale Devices (POS) be free of customs duty and excise tax. The measure will be regulated in conjunction with the Reserve Bank of Malawi and shall be reviewed after a year. The merit of the proposal rests in the following considerations:

- As part of the national payments system modernisation initiatives, the Bankers Association of Malawi under the tutelage of the National Payments Council is leading the ATM Interoperability Project which is aimed at centralising all ATMs and POS devices under a single switch. Implementation of the project should benefit from the proposed Customs Procedure Code as acquisition costs of machines will be lower

facilitating a wider roll-out. Inevitably Banks should recover initial investment costs faster.

- A key barrier to financial inclusion is the high costs of managing portfolios of small sized businesses. In contrast to Bank branches which require considerable investment in infrastructure, equipment, human resources and security, mobile bank vans leverage existing infrastructure and equipment as well as paving the way for broader sections of the population, particularly those in the remote parts, to access financial services. Hence, removing Customs duty and Excise tax on mobile vans go a long way in building financial inclusion by transcending remoteness and related costs associated with provision of financial services.
- ATM charges levied to cover costs associated with owning and operating the machines remain very high in Malawi. Subsequently, commercial banks frontload a mark-up in service charges to recover such costs. Currently, the cost related to the ATM services range from US\$0.40 to US\$1 and is evidently higher for the majority of the economically active consumers in remote areas. Tax concession could go a long way in defraying such costs thereby rendering accessibility by a wider geographical area tenable.
- Contemporary trends in financial sector development are tilting towards 'Branchless Banking' defined as the delivery of financial services outside conventional bank branches using information and communication technology and nonbank retail agents like card based networks. The reduction in procurement costs of POS devices will therefore incentivise the provision of affordable, convenient and secure financial services to low-income clients who make-up the mass market.

All in all, Government's initiative is crucial in as far as unleashing the potential of the poor is concerned. Deliberate efforts by the Government aimed at expanding the breadth as well as depth of access to finance must be applauded as they constitute a huge untapped potential for economic and social development.