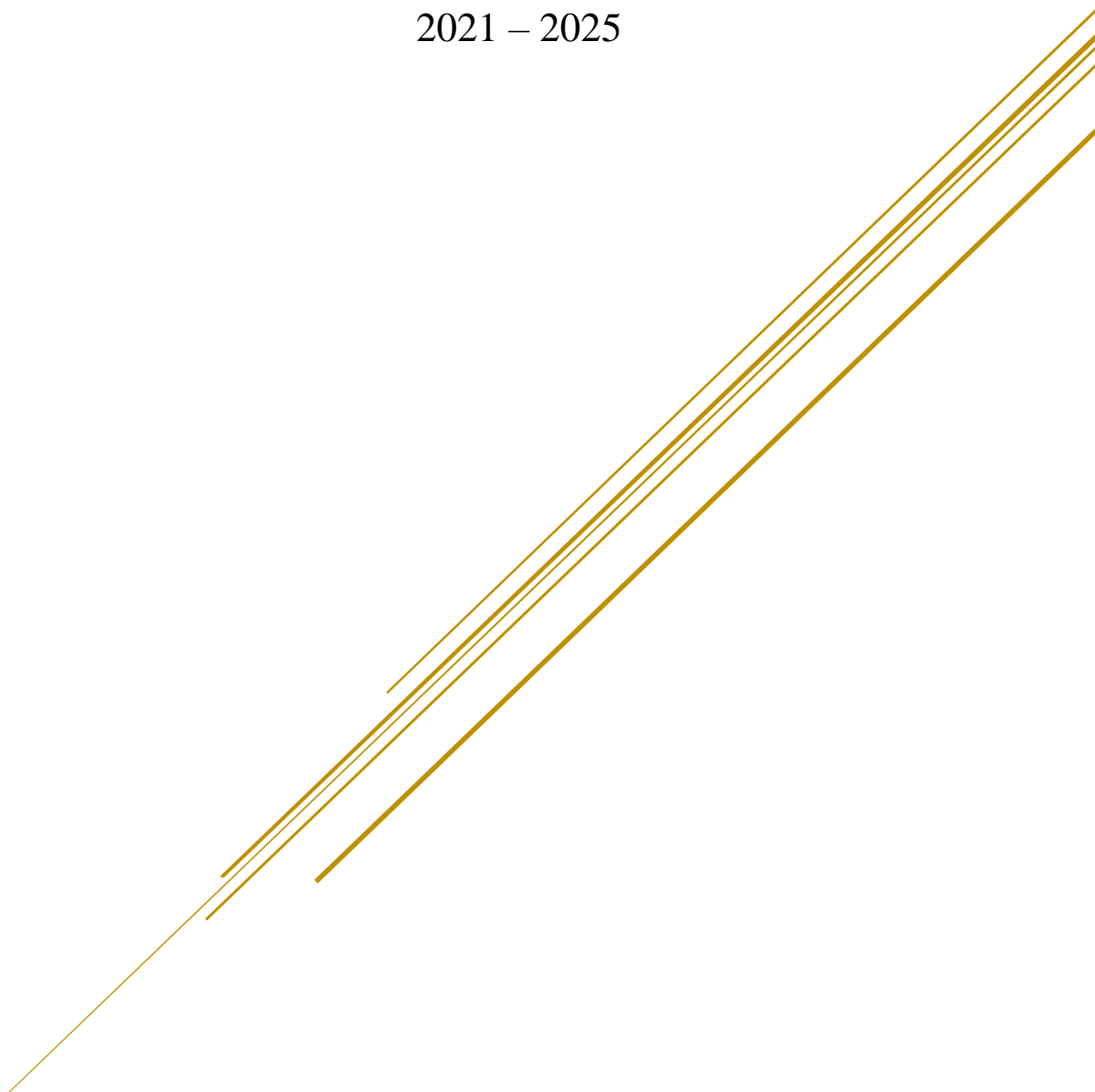




THE MALAWI CAPITAL MARKETS DEVELOPMENT PLAN

2021 – 2025



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FOREWORD



The Malawi Capital Markets Development Plan ('MCMDP'/'the Plan') marks a significant stage in the history of the Malawi capital markets. It is the first expansive blue print prepared in collaboration with stakeholders to guide the development of the local capital markets for the next five years. The Plan is a road map towards strengthening Malawi capital markets to ensure they support economic growth and financial stability. It comes a few years after the country has recovered from a period of high inflation, volatile exchange rate, and struggling financial sector especially in terms of low capitalization and poor asset quality. Hence, the Plan aims to use this opportune moment to leverage the ensuing macroeconomic and financial stability to guide the economy to the much-needed prosperity.

The MCMDP's underlying objective is to operationalize the country's socio-economic transformation espoused in the national development strategy, the third Malawi Growth and Development Strategy, which aims to improve the economy's productivity, turn the country into a competitive nation and develop resilience to shocks.

The need for alternate sources of long-term capital has never been more critical as Malawi intensifies development policy actions. Malawi's sustained economic growth is, largely, dependent on the ability of its financial system to provide long-term finance to support development projects. However, the capital markets are abound with challenges such as a: limited institutional investor base; narrow retail investor base; narrow product offering; high transaction costs; and low investor and issuer awareness. If left unaddressed the challenges will keep the cost of capital high, access to capital low, and will limit long-term economic growth and development. It is, therefore, necessary to take active steps to address the prevailing challenges and ensure that there are well-regulated capital

markets that maximize availability and use of long-term capital through improved depth, breadth, and allocative efficiency.

The MCMDP rests on three key pillars that are envisaged to holistically develop the local capital markets and these include improving access to the capital markets for economic transformation and development; improving market general performance, infrastructure, intermediation, and integrity; and improving legal, regulatory, and policymaking framework.

The Plan puts forward recommendations that can be summarized under the following themes:

- (a) Leveraging on preconditions to capital markets development;
- (b) Widening of the issuer base;
- (c) Widening of the investor base;
- (d) Improving market infrastructure;
- (e) Raising intermediation standards and efficiency;
- (f) Enhancing the quality of regulation and consumer protection;
- (g) Ensuring stability;
- (h) Enhancing market integrity; and
- (i) Creating, attracting and retaining a critical mass of talent for professional services.

Implementation of the Plan is a shared responsibility involving all stakeholders in the capital markets, hence the need for a concerted effort to ensure the achievement of the vision and goals set out in the Plan. As the key policy body for this Plan, the Reserve Bank of Malawi will ensure that the recommendations are given priority by the various implementing departments and agencies, and effective monitoring is carried out during the period. As the Bank commits to

support the growth of capital markets, I implore all stakeholders to rally around this Plan and align their resources and programmes accordingly.

Dr Wilson T. Banda
Governor, Reserve Bank of Malawi

ACRONYMS AND ABBREVIATIONS

ATS	Automated Transfer System
CSD	Central Securities Depository
CPSS	Committee for Payment and Settlement Systems
FSSDC	Financial Sector Stability and Development Committee
FSDTC	Financial Sector Development Technical Committee
FSDS II	Financial Sector Development Strategy
GDP (PPP)	Gross Domestic Product adjusted using Purchasing Power Parity rates
IPO	Initial Public Offering
ICAM	Institute of Chartered Accounts in Malawi
IIA	Institute of Internal Auditors Malawi
IOSCO	International Organization of Securities Commissions
ISDA	International Swaps and Derivatives Association
LIBOR	London Interbank Offered Rate
LTFP	Long Term Finance Policy
MCMDP	Malawi Capital markets Development Plan
MITC	Malawi Investment and Trade Center
MRA	Malawi Revenue Authority
MSE	Malawi Stock Exchange
MoF	Ministry of Finance
MGDS III	Malawi Growth and Development Strategy
MBS	Mortgage Backed Securities
OTC	Over the Counter Trading
REITs	Real Estate Investment Trusts
RBM	Reserve Bank of Malawi
T-Bills	Treasury Bills
T-Notes	Treasury Notes

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Figure 1: Participants in Malawi's Capital markets

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1. BACKGROUND

The Malawi Capital Market Development Plan was developed in collaboration with public and private stakeholders. The project to develop the MCMDP commenced in 2019 following the Strategy for Capital Market Development in Malawi 2014 – 2017, which assessed the challenges deterring the development of the capital market in Malawi and recommended broad strategies to develop the same. An initial draft of the Plan was reviewed within the RBM in November 2019, and subsequent drafts were reviewed by stakeholders throughout 2020.

The Plan provides clear direction for the development of Malawi's capital market so that it is well positioned to finance long-term development and capital projects for the public and private sectors thereby facilitating investment and growth opportunities in the country, and to improve the range of investments for investors as envisaged in the Malawi 2063 vision and the Financial Sector Development Strategy 2017 – 2021, respectively. The master plan explains why capital market development matters for Malawi, recommendations for transformation and actions for implementation.

1.1 Context to development of Malawi's capital markets

According to the vision espoused in the Malawi 2063, Malawians aspire to be a wealthy and self-reliant industrialized “upper middle-income country by the year 2063”. It emphasizes on self-reliance to enable the country to primarily finance its development requirements with domestic financial resources. An annual average rate of economic growth of six percent is envisaged for Malawi to attain the low middle-income status by 2030.

In order to unlock Malawi's economic growth and development potential, there is need to develop financial markets that would be responsible for mobilizing sufficient financial resources and efficiently channeling them to viable growth-enhancing public infrastructure as well as private business projects at reasonable cost and terms.

Domestic savings must increasingly provide the core resources to support achievement of self-reliance in financing the country's development requirements. For instance, addressing Malawi's economic infrastructure deficit alone would require sustained expenditures of almost \$1 billion per year over the decade 2020-30, amidst declining fiscal space as public debt increases. As

such, deepening the pool of formal savings must be a key driver in achieving the vision. The savings have to be accessed all sectors of the economy, in both private and public markets, through efficient and cost-effective means. This is the principal function of a capital market. The underlying purpose of the Plan, therefore, is to provide clear direction on how the capital market will improve supply of long-term finance to fund the country's social-economic transformation espoused in the country's development strategy.

2. IMPORTANCE OF THE CAPITAL MARKET IN MALAWI

The capital market is a specialized market where savings and investments are channeled between suppliers of and those in need (users) of funds. The users are called *issuers* and they raise funds by issuing (selling) financial instruments which have a life of longer than a year. These instruments may be shares in stock, representing a unit of ownership in a business; or fixed income securities such as bonds, which represent a borrowing by an entity at a stated rate of interest over a stated period. The suppliers, known as *investors*, are individuals or institutions such as pension funds, life insurance companies, and non-financial companies with excess capital to lend or invest by buying the financial instruments. The capital market, therefore, is a broad term used to describe the in-person and digital spaces in which these issuers and investors meet and transact.

Developed capital markets play a key role in financing economic growth through functions such as: mobilizing savings for private sector and government use; creating liquidity, that is, facilitating capital market instruments to be bought and sold; making it possible for savers and investors to diversify financial risk; and improve dissemination of information.

Capital markets offer alternative means of raising capital to both the private sector and the government. They provide the scale and the long-term capital required to finance large scale development projects and industry as envisaged in the Malawi 2063 vision. Capital market ensure sufficient availability and circulation of funds among the different sectors of the economy, thereby improving productivity and generating employment. Capital markets complement bank financing by offering affordable pricing and longer maturities, as well as access to a wider investor base. They also offer funding for riskier activities that would ordinarily not be served by the banking sector, and by doing so contribute significantly to innovation in an economy.

Box 1: Elements of a Well-functioning Capital Market

Well-functioning capital markets are characterized by:

- ✚ A diverse range of borrowers (issuers) with sustainable business models that have different risk profiles and time horizons that compete to attract investors' money and whose range and nature expands over time.
- ✚ A diverse range of investors that have different time horizons and risk tolerances, which evolves over time as markets become more sophisticated.
- ✚ A range of competitive and competent intermediaries that compete to facilitate transactions or provide advice or services to either borrowers or investors, such as investment management, investment banking and broking.
- ✚ Market infrastructure (exchanges, Over-the-counter markets, central securities depositories, clearing and settlement) that facilitates transactions between investors and issuers that operates effectively and cost effectively and is appropriate to the nature of the market.
- ✚ Easy access to transparent, accurate and timely information and data about markets, transactions, issuers and potential issuers, investors and intermediaries.
- ✚ An adequate range of competent supporting and advisory service providers such as lawyers and accountants.
- ✚ A legal and regulatory framework governing markets, borrowers, investors, intermediaries and institutions that is clear and appropriate and enables innovation.

At policy level, the Government of Malawi already recognized that fostering the development of capital markets can catalyze economic growth. The policy documents, namely, the Malawi Financial Sector Development Strategy II (FSDS II), and the Long Term Finance Policy (LTFP) emphasized the need to develop the local capital markets. However, there is need to have a comprehensive plan with systematic recommended actions operationalizing the existing policy documents. The “Malawi Capital markets Development Plan 2021-2025” (MCMDP), therefore, draws its mandate from the policy documents and aims to provide a clear direction and plan for developing the Malawi capital markets.

The next section of this MCMDP presents the vision and objectives of the Plan and sets out the benchmark for identifying shortfalls in the current state of Malawi capital markets. Section four highlights the present state of Malawi capital markets development. This is followed by two sections that highlight corrective measures for identified shortfalls from the desired state; section five focuses on key preconditions that need to be met as leverage for successful implementation of the Plan and section six provides detailed key

recommendations from which successful implementation is envisaged to result in the development of local capital markets. Section seven highlights the implementation and performance evaluation process that include key metrics for measuring success of the Plan. The last section presents a schedule of detailed action points along with timelines for operationalizing each key recommendation presented in section six of the Plan.

3. VISION AND OBJECTIVES OF MALAWI CAPITAL MARKETS DEVELOPMENT PLAN

The MCMDP envisions that the Malawi capital markets will become sufficiently deep and vibrant to play a key role in financing economic growth as well as influencing financial stability. By 2025, it is expected that the Malawi capital markets will efficiently mobilize and channel enough savings in the economy for the realization of Malawi's economic growth and development objectives. The capital markets will be the primary supplier of long term finance, serving a diverse range of issuers and investors that have different risk profiles/tolerance and funding/investment time horizons.

The country will have deep, broad, liquid, and efficient markets with instruments that are efficiently priced and traded at low transaction costs. Malawi will improve the quality of market intermediation through intermediaries that compete fairly to facilitate transactions at low cost to the client and provide tailored professional services to market participants.

Further, the local capital markets will be supported by a legal and regulatory framework that allows innovation whilst enhancing confidence and integrity of the market. Malawi capital markets will be anchored by a world class financial infrastructure that safely facilitates transactions, manage system-wide risk, and avails information accurately, timely and transparently. During the implementation of the MCMDP, Malawi will develop domestic talent in financial market services.

During the period of the MCMDP, the goal will be to lay the foundation for Malawi capital markets to qualify as a frontier market in 10 years. It is projected that the ratio of equity market capitalization to GDP will rise to 55 percent by 2025 while the percent of Government financing through capital markets will increase to 60 percent. The Plan estimates corporate bond market capitalization to GDP to rise to 1.25 percent of GDP from the current negligible levels.

The MCMDP is anchored upon three pillars, namely:

- (a) improving access to Malawi capital markets for economic transformation and development;
- (b) improving Malawi capital markets general performance, infrastructure, intermediation, and integrity;
- (c) improving legal, regulatory, and policy making environment of Malawi capital markets.

The pillars form the basis of the transformation of the capital markets, with specific actions identified to ensure attainment of the envisioned outcomes.

4. CURRENT STATE OF MALAWI'S CAPITAL MARKETS

Malawi capital markets are in their nascent stage and not well configured to provide adequate and suitable long-term finance that can ably meet the financing requirements of the economy. The capital markets are not able to fulfill the core function of channeling national savings, through financial instruments with long-term maturities, to meet the long-term investment needs of the real economy.

In Malawi, there is a general scarcity of securities in the market, both in the money and capital markets which has created a gap whereby demand for securities far exceeds supply. If left unaddressed, these discrepancies will keep access to financial capital low, further limit long-term economic growth and development, and heighten risks to capital markets stability.

Despite the demand for securities outpacing supply, the cost of raising long term finance in Malawi is high owing to (i) high transactional costs as capital markets intermediaries do not enjoy economies of scale and (ii) recurrent macroeconomic instability that often leads to high real yields of government debt instruments, which are benchmark risk free securities. Without scaling up corrective policy actions, the high cost of finance will continue to stifle physical capital accumulation in the economy and thus, will continue to limit economic growth and development prospects.

The foregoing notwithstanding, the capital markets in Malawi are evolving with a number of modern institutions such as a stock exchange, central securities depository (CSD), portfolio managers, brokers, investment schemes, transfer secretaries, and investment advisors emerging.

Figure 1: Participants in Malawi's Capital markets



Debt Securities Market

Government debt securities market

The market for debt securities in Malawi is dominated by Government instruments (Treasury securities), mostly Treasury Bills (T-bills) and Treasury Notes (T-notes). The stock of outstanding Treasury securities in June 2020 was K2.4 trillion representing 29.0 percent of GDP and 99.3 percent of total public debt securities. T-bills consisting of 91-day, 182-day and 364-day tenors stood at 3.2 percent of GDP and 10.9 percent of total outstanding Treasury securities portfolio in June 2020. The outstanding stock of T-notes during the same period stood at 25.9 percent of GDP and 89.1 percent of total outstanding Treasury securities portfolio. The current maturity profile of T-notes is 2 years, 3 years, 5 years, 7 years and 10 years.

Figure 2: Treasury Securities Holdings by Tenor

Name of Security	June 2020 Security Holdings			
	Avg remaining time to maturity	Face Value	As percentage of total holdings	As percentage of GDP
10-Yr T-note	5.8 Yr	K 247.88 Bn	10.9%	3.2%
7-Yr T-note	4.4Yr	K 456.01 Bn	19.4%	5.6%
6-Tr T-note	4.5Yr	K 72.03 Bn	3.1%	0.9%
5Yr T-note	2.7Yr	K 822.04 Bn	35.0%	10.2%
3Yr T-note	2.1Yr	K 275.08 Bn	11.7%	3.4%
2Yr T-note	1.1Yr	K 222.75 Bn	9.5%	2.8%
T-bills	< 1.0Yr	K 255.80 Bn	10.9%	3.2%

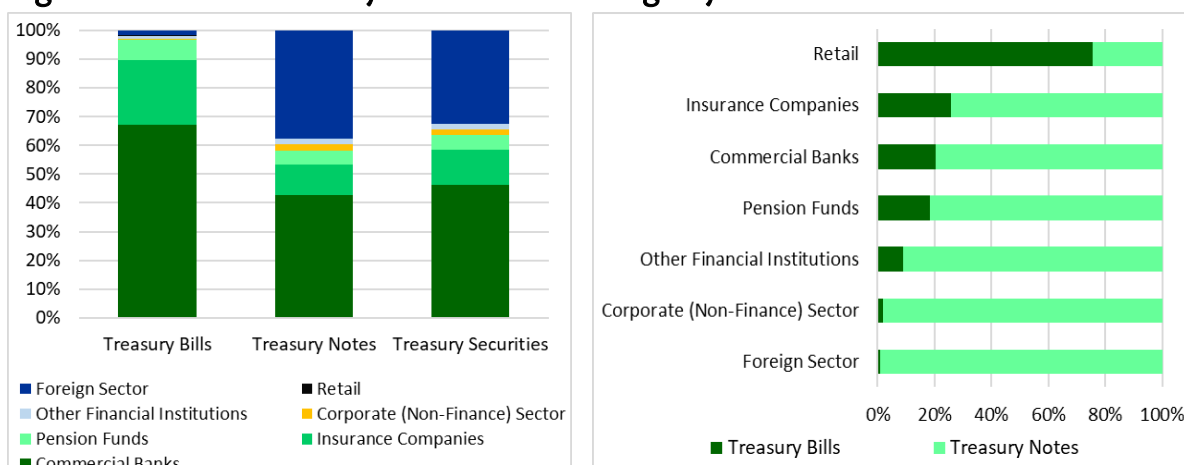
Note: Figure 2 is scaled by face value of security holdings

Source: RBM

Eight Treasury notes were listed on the MSE for secondary market trading as of end June 2020, and 16 more were listed in September 2020 but hardly any trading has been observed as of end November 2020. Some trading, nonetheless, is observed over the counter (OTC) and through that the RBM has developed a government securities yield curve.

Out of the total outstanding Treasury securities portfolio holdings by the public¹ by June 2020, commercial banks held the majority at 46.2 percent. The foreign institutional investors held 32.5 percent while insurance companies, pension funds, and other financial institutions held 12.2 percent and 5.3 percent, 1.9 percent, accordingly. The non-financial sector in form of corporates and households (retail investors) retained a very low share of 1.9 percent and 0.1 percent, respectively.

Figure 3: Public Treasury Securities Holdings by Sector



Note: Holdings reported as of June 2020

Source: RBM

In general, retail investors preference for Treasury securities tilts towards short tenors. The rest of investors are heavily invested in long tenors by differing degrees. This is in contrast to the maturity profile that existed six years ago where Treasury notes were almost non-existent. At that time, investors were jittery to invest long term due to macroeconomic instability and Government provided ample short-term investment alternatives through heavy issuance of Treasury bills. Since then to date, the ensuing macroeconomic stability and Government domestic debt issuance policy of heavily restricting short term borrowing and following the issuance calendar has helped in lengthening the Treasury securities maturity profile.

¹ Excluding portfolio held by RBM for monetary policy purposes.

Further lengthening of the Treasury securities maturity profile is, nonetheless, needed to build a credible benchmark yield curve that would help Government and private companies alike to manage various risks and lower cost of long-term borrowing. Institutional investors with long-term liabilities like pension funds and life insurance companies would also benefit from long-term investment opportunities that would be created in the process.

Retail investors are mostly constrained by low financial literacy levels, low per capita income levels, and lack of innovative, trustworthy, user-friendly, and cost effective means of accessing the capital markets. Low liquidity of capital markets instruments also means investors have unaddressed concerns for them to actively participate in long-term financial investments.

Quasi-Government debt securities market

Local government and parastatals fixed income securities are, so far, greatly limited. The very few parastatals that managed to raise debt on the capital markets issued the instruments through private placements. Suffice to say corporate governance remains a concern that needs to be addressed to harness the benefits of accessing the capital markets for financing long-term projects.

Private sector debt securities market

The corporate bond market in Malawi is shallow. Public offerings of corporate bonds are hardly noticed and to date, only one corporate bond issuer has listed a series of bonds on MSE. The listed corporate bonds will mature by year 2022. The stock of outstanding corporate bonds stood at K15.4 billion representing 0.2 percent of GDP in June 2020. However, there are private placements of commercial paper and corporate loans with tenors of up to 7 years, a market that has developed largely due to professional investors' longing for alternative investment options. This presents an opportunity for growth of corporate bonds market.

The corporate bond market is expected to grow organically as the Government securities market continues to develop since it is priced relative to the Government securities yield curve.

Box 2: The Central Securities Depository

In the recent past, there has been significant progress in getting the infrastructure that supports capital markets securities trading to international standard level. The Central Securities Depository (CSD), which is a key element of such infrastructure, was introduced in 2017 and the dematerialization exercise of all Government securities demarcated by the issuer for trading was finalized successfully by November 2017. The CSD project was accompanied by the introduction of Malawi National Switch and Automated Transfer System (ATS), which automated and simplified all settlement and clearing processes. The CSD is used for trade facilitation and execution of Treasury securities and is capable of supporting registry, custody, settlement, and market data and information management in primary and secondary markets for both bonds and equities. The CSD networks with the trade facilitation and execution platforms on MSE for secondary market exchange trading of government securities. Key issues to still be addressed include optimization of the use of existing infrastructure for improved efficiency, simplifying access to information by investors, full implementation of regulations guiding the activity and risk management in the CSD, and further improvement of internet connectivity lines and networking among different infrastructures.

Equity Securities Market

Performance of equities has been mild in recent years. Capitalization and turnover on the Malawi Stock Exchange has not been sufficient to offer diversification to investors. Total capitalization of listed stocks in June 2020 was K 1.5 trillion (US\$2.1 billion), about 19.1 percent of GDP. Turnover in 2019 was 0.78 percent of GDP, and traded value to market capitalization stood at 3.25 percent.

Listing had stagnated for 11 years until ICON Properties Plc. listed on 21 January 2019. Two companies delisted in 2011 and 2016. The majority listings on MSE resulted from the Government privatization program, and for a period of time, there were no companies earmarked for privatization and eventual listing on the MSE. That changed in 2020 when FDH Bank Plc. listed on 3rd August as part condition that enabled them to purchase the state owned Malawi Savings Bank in 2016. Further, Airtel Malawi Plc. listed on 24th February 2020 as part of regulatory requirements. This brings the total number of listed companies on MSE to 16 and market capitalization to K1.7 trillion (21.0 percent of GDP) as of end October 2020.

Contributing factors to the lack of new listings over the years include a nascent private sector dominated by family-controlled companies, insufficient issuer education, low and volatile economic growth, and the high costs of issuance for small capitalized issuers.

Table 1: Stock Market Statistics

	2015	2016	2017	2018	2019
Volume of Shares Traded (mn)	2,355.3	410.9	698.9	958.2	1,393.8
Value of Shares Traded (MWK bn)	48.6	6.2	13.5	48.7	46.4
Stock Market Capitalisation (MWK bn)	7,522.1	8,516.5	10,609.5	1,298.5	1,428.8
Malawi All Share Index (MASI)	14,562.5	13,320.5	21,598.1	28,983.5	30,252.2
Domestic Share Index	11,462.9	10,456.9	16,272.6	21,318.1	23,599.8
Foreign Share Index	1,762.1	2,026.1	3,519.4	5,265.1	4,024.9
Number of Transactions	1,220.0	913.0	1,189.0	2,153.0	3,064.0
Number of Listed Companies	14.0	13.0	13.0	13.0	14.0

Source: Malawi Stock Exchange

Trading on the exchange is subdued, averaging 12 trades a business day in 2019 and in first half of 2020 accordingly, highlighting lack of liquidity. In fact, most listed companies are controlled by majority owners typically holding 50 to 75 percent of equity, resulting in a very small free float. Many investors buy and hold, and there are no market makers to create liquidity by committing to buy or sell a reasonable minimum amount of stock at quoted prices. Consequently, liquid stocks available for investments are less than 10 percent of GDP. In this way, price discovery is hampered.

Trading on the MSE has been automated and share certificates have been dematerialized. The equity module in the CSD relating to registry, custody, settlement, and market data and information management of all equity securities is operational. Infrastructure improvements in the equities market will eventually allow more products to be effectively introduced and efficiently traded.

The MSE is owned by RBM (99 percent) and Ministry of Finance (1 percent). With some quarters citing the absence of profit making objective of the current shareholders as one factor that limits innovation and progress of the local capital markets, suggestions have been advanced to review the ownership structure of MSE. Considering that MSE is a critical stakeholder in implementation of this Plan, it is also necessary to go beyond considering demutualization to revisit its organization structure to position the exchange as a key stakeholder in developing the local capital markets.

The MSE introduced an Alternative Capital markets board in 2008, targeting small and medium scale enterprises. However, MSE is yet to register a listing on this Board.

From the foregoing, it is essential that efforts focus on attracting private sector companies to list, improving public float, introducing market making, and improving information flow and price discovery in the equity market as well as

repositioning the MSE to act as a champion for progress in Malawi capital markets through demutualization and functional review.

Derivatives

Derivatives help deepen the capital markets by providing means of managing risk. Despite their benefits, a few financial institutions use hedging instruments in Malawi, mostly forwards and swaps. Trading of derivative instruments is understandably inactive because of limited activity in the underlying assets upon which the derivatives are priced. Further, there is a gap in the legal and regulatory framework guiding derivative operations; an international standard master contract, such as the International Swaps and Derivatives Association (ISDA) master agreement, well adapted to and recognized by Malawi legal and regulatory system, is yet to be adopted. As for derivatives based on interest rates, the absence of reference rates poses a challenge to their active trading.

It is, therefore, important to create legal and regulatory certainty in derivative transactions, a basis for pricing interest rate derivatives, and above all, develop the underlying asset (bonds, equity and currency).

Alternative and Other Structured Investments

Primary alternative investments include structured financial products on real estate (mortgage-backed securities), commodities (forwards and futures on commodity exchanges), private equity (venture capital, buyout funds) and, of late, Islamic finance. These financial products provide investors with alternative avenues for diversifying risk when combined with investments in traditional debt and equity securities. They also assist issuers in mobilizing finance with timing and amounts that tally well with the nature of their businesses. Developing alternative financial markets to bonds and equities would further help activate the underlying mortgage and commodity markets in Malawi, which is envisaged to have a positive impact on the economy and its people.

Apart from forward and futures contracts available on Auction Holdings Limited Commodity Exchange (AHCX) and Agricultural Commodity Exchange for Africa (ACE AFRICA) that are still in their nascent stage, the other alternative financial products are private in nature and therefore not standardized, properly regulated, and reported which limits availability to a common person as an investment avenue.

Since these financial markets are almost non-existent or in underdeveloped state, what is needed is to develop the legal and regulatory frameworks;

establish and standardize operating procedures and products; develop infrastructure for trading, settlement, information management and other critical functions; strengthen capacity and competition of off takers that provide funding in primary markets; and introduce non-existent institutions that specialize in and are crucial to development of alternative financial investments.

5. REQUIRED PRECONDITIONS

In order for capital markets to develop and contribute effectively to economic growth, it is essential to meet some preconditions. These preconditions are in the form of long-term policy commitments to provide a conducive environment for capital markets development. Some of the preconditions are in the following areas; macroeconomic policy (fiscal, monetary, macro-prudential, and exchange rate policies), tax policy, financial reporting, auditing, and corporate governance, financial market infrastructure, and financial market intermediation as briefly outlined below.

Macroeconomic Policy

Macroeconomic stability is a crucial prerequisite to capital market development. Volatility in the macroeconomic environment negatively affects the expected profitability of long-term projects, and by doing so impede development of the capital market. Empirical evidence advances that macroeconomic preconditions to capital markets development include attaining a higher level of economic size and growth, maintaining macroeconomic stability, and developing government debt market as key part of prudent fiscal policy implementation². An environment of low and stable inflation, sustainable fiscal management, and stable financial system all contribute to lowering the cost of financing through capital markets for issuers. These factors also facilitate economic growth and reduce uncertainty, which encourages investment and hence demand for external finance. Thus, improving macroeconomic policy making framework provides an important support for capital markets growth.

Improving policy coordination is key to achieving sustained economic growth and stability. Enhanced coordination in monetary, fiscal, and macro-prudential policies promote confidence in the market. The RBM has taken

² Carvajal Fiorella and Bebczuk Ricardo (2019), Capital markets Development: Causes, Effects, and Sequencing. World Bank Group.

actions to reform monetary policy toward a forward-looking framework that anchors low and stable inflation expectations.

A careful balance between fiscal needs and policies to promote financial sector growth should be achieved. Fiscal policy will be enhanced by public finance reforms as well as debt consolidation. Macro-prudential policy as well has been enhanced by adoption of Basel II framework. Further efforts to comprehensively model and detect systematic risks in a timely manner are underway. These improvements are expected to diminish prospects of having a financial crisis in Malawi, and in turn boost economic growth and prospects for capital market development. Such macro-prudential policy understandably has deep synergies with fiscal and monetary policies already highlighted.

It is essential to continue with these coordinated reforms for enhanced policy credibility that ensure sustained macroeconomic growth and stability, which is critical to develop the capital markets.

Tax policy

Tax affects how much is appropriated back in returns to financiers of projects. An overburdening tax regime erodes profits and acts as a disincentive for corporations to undertake long term projects. On specific instruments of the capital markets, tax specific to certain instruments discourage use of those products in favour of alternatives.

In Malawi, tax is one area mostly highlighted by investors and issuers as a barrier and a potential leverage for development of the capital markets. Hence, the Ministry of Finance collegially with the RBM, MSE, and Malawi Revenue Authority (MRA) should review tax barriers and incentives to capital markets development. The review may consider introducing tax incentives and eliminating tax barriers to; issuers and investors of long-term infrastructure bonds, listed companies for increased public float, and investment vehicles such as special purpose vehicles, repurchase agreements, funds structured as corporate entities, real estate investment trusts, and securitization transactions among others for improved savings mobilization.

Likewise, dividends can be made tax free considering that market players regard that as a significant incentive to attracting more retail savings and issuances into the capital markets. However, caution must be taken to ensure that fiscal incentives are not indefinite, they must be used for a specific time frame.

Financial reporting, auditing, and corporate governance preconditions

Quality financial statements and good corporate governance underpin investor trust in the financial health of an issuer and thus, help in proper pricing of financial instruments, as well as, in increasing probability of retaining the principal invested and accrued returns back to the investor over time. This, in turn, encourages channeling of savings to long term capital projects in the economy. It is important to ensure that companies operating in the country abide to best practice in financial reporting, auditing, and corporate governance principles, regardless of their form of raising capital. The benefits of this goes beyond cementing a culture of trust between existing issuers and investors to preparing more companies to easily access the capital markets for the first time.

From the foregoing, it is necessary to work with professional bodies like Institute of Chartered Accounts in Malawi (ICAM) and the Institute of Internal Auditors (IIA) Malawi to adopt measures to improve capacity for financial reporting, auditing and corporate governance in both public and private sectors. These include enhancing training, developing ethics and enforcing adherence to Malawi corporate governance codes, developing frameworks for monitoring conduct, and building on existing initiatives such as the financial reporting and auditing awards, among others.

Further, it is important to support the role of the Auditor General in increasing the general public's trust in financial statements from local governments and parastatals. It is also essential to ensure that the board of directors of state owned enterprises, other public institutions, as well as privately owned institutions have a diversity of skills and experience.

Information and Communication Technology preconditions

Market infrastructure are ICT systems that provide services to the financial industry for trading, clearing and settlement, matching of financial transactions, and depository functions. They provide the means of linking investors with issuers. With such an important function, there is need to ensure that the infrastructure operates efficiently and allows real time delivery versus payment, straight through processing, automated information management and dissemination, integration with global capital markets, effective management of financial risks, integration with digital financial services like internet banking and mobile money payment systems.

The foregoing entails that internet connectivity should be fast, consistent, and cost efficient in Malawi. Slow and frequently interrupted internet

connections introduce risks throughout the whole chain of the transaction while costly internet connections filter to increase transaction costs, all of which limit participation in local capital markets. If Malawi is to grow into a vibrant financial hub, there is need for serious investment in information and telecommunications infrastructure that would allow convenient access to financial markets by everyone regardless of geographical location.

Market Intermediation preconditions

A well-functioning capital market features a range of competitive and competent intermediaries that compete to facilitate transactions, or provide advice or services to either issuers or investors such as investment management, investment banking and broking. The small scale of most intermediaries reduces their capacity to invest in and develop their businesses and expand the market for their services. There is need to improve the scale, quality and competence of market intermediaries to enable them better intermediate flows of capital.

6. RECOMMENDATIONS AND ACTIONS

The vision for the Malawi capital markets transformed into objectives of the MCMDP can be realized through a programme of specific, achievable and well sequenced actions. In this Plan, the recommended actions have been categorized into three themes namely:

- (a) improving access to Malawi capital markets for economic transformation and development,
- (b) improving Malawi capital markets general performance, infrastructure, intermediation, and integrity.
- (c) improving legal, regulatory, supervisory and macro-prudential policy making environment of Malawi capital markets.

Although these themes are interlinked, salient differences exist. The theme on improving access to Malawi capital markets aims to devise customized solutions to the problem of low bond issuances and equity listings as well as low savings mobilization. The theme focuses on issuers and investors; the aim being to increase utilization of the capital markets for financing capital projects that have economic growth enhancing potential. Specific attention is given to institution's unique challenges in mobilizing and utilizing long-term finance.

The second theme aims to provide effective and efficient means of linking issuers and investors for improved general market performance. Thus, focus is

on improving the capital markets intermediation process and infrastructure as a basis to achieve high market performance that ideally benefits every stakeholder in the long-term. The theme also emphasizes issues related to ethics and professionalism with the aim of enhancing integrity in capital markets.

The last theme recognizes that enforcing laws and regulations, and enhancing supervision and macro-prudential frameworks that protect investors and ensure that markets operate fairly and efficiently is critical to capital markets development and maintenance of financial system stability.

Implementation recognizes the inter-linkages among themes and takes a holistic approach with several related recommended actions done synchronously.

I. Theme One: Improving Access to Malawi Capital markets for Economic Transformation and Development

The underlying objective of developing the Malawi capital markets is to enhance the financial market's capacity to support the economic transformation and development as envisaged in the country's prevailing development strategy documents by mainly developing efficient long-term financing channels.

To achieve this objective, on one hand, issuers in the form of government, quasi-government institutions and the private sector need be able to increase access to Malawi capital markets by issuing innovative financial instruments that best match risk-return profiles of domestic and foreign institutional and retail investors. On the other hand, there is need to increase investors access to the capital markets so that there is equally induced supply of loanable funds that would help to reduce funding costs through competitive supply-demand dynamics.

Under this theme, in consideration to their varied attributes, the strategic direction is to improve investor and issuer access to Malawi capital markets using separate, albeit related recommended actions. In effect, a different approach is applied to improve the public and private sectors access to the capital markets as issuers on one end; and domestic and foreign institutional and retail investors on the other end.

I.1 Improving Domestic Issuers' Access to Long Term Finance in the Malawi Capital markets

I.1.1 Enhance the link between access to long term finance and economic development and prosperity.

Access to the capital markets is more meaningful if it addresses the objective of enhancing economic transformation and development in the best way possible. At the minimum, access to the capital markets has to provide solutions to impediments to realizing the private sector's economic growth-enhancing potential. This includes the need to improve and increase the stock of public infrastructure that support private sector growth and the need to provide low cost long-term finance directly to private sector projects with high social-economic value. In that regard, it is important for the central government, local governments, and parastatals to develop a medium to long-term pipeline of projects that are deemed complementary to private sector investment growth. It is also important to have a pipeline of commercially viable economic growth enhancing projects that can entice private sector resources. Such projects should be bankable with duly completed financial, technical, environmental, and social economic impact studies, before attempting to access the capital markets, to improve the likelihood of successful resource mobilization. Further to that, an in-depth knowledge of feasible projects informs how the capital markets resource mobilization instruments should be structured and thus, enables issuers to secure optimal financing arrangements.

A pipeline of bankable projects has to take into account the nation's growth constraints, opportunities, and development strategies. Malawi's overarching medium term growth strategy, the MGD5 III, identifies five key priority areas targeted to foster transformation and faster development of the country, namely; agriculture, water development and climate change management; education and skills development; transport and information and communications technology infrastructure; energy, industry and tourism development; and health and population.

The public sector investment document contains details of capital projects the Government intends to implement in a particular fiscal year. A pipeline of bankable private sector projects is also available in the Malawi Investment Projects Compendiums prepared by the Malawi Investment and Trade Center (MITC) in 2013 and 2016. These documents should be updated in line with the objective of this Plan and in consultation with the private sector, subject to the most recent growth constraints, opportunities, and development strategies.

Recommendation I.1.1a *Identify, profile, and rank by priority national long-term capital projects that require financing to inform capital markets products development.*

Recommendation 1.1.1b *Set up a fund to carry out feasibility studies on key public sector projects that are envisaged to have significant positive impact on private sector growth.*

1.1.2 Increase long-term financing of public projects that enhance private sector growth.

Among the list of bankable projects identified and ranked by priority under recommendation 1.1.1 are projects that are public goods, crucial for long term economic growth and development, but may not attract private sector resources due to their low financial return. Customarily, such projects are implemented by the central government and state-related institutions entrusted with specific developmental roles. Where appropriate, partnerships with the private sector through Public-Private Partnerships arrangements are made. The capital markets are the appropriate platform to raise the long-term capital requirements for the Government, local governments, and parastatals.

Recommendation 1.1.2 *Attract more Government or parastatal or local government debt issuances and public-private partnership equity listings on Malawi Stock Exchange.*

1.1.3 Increase long-term financing of private sector bankable projects.

Traditional sources of funding are not sufficient to meet the long-term funding and risk management needs of private companies, particularly SMEs. Whilst conventional commercial bank financing remains key to financing corporates, long term debt and equity markets can play an important role in bridging the financing gap often faced by the private sector.

The capital markets often allow investors to earn competitive risk adjusted returns which motivates savings mobilization and channeling of loanable funds to the market. This enables the private sector to borrow at relatively lower cost and at repayment terms that match revenues inflows of the implemented projects. As a result, capital accumulation increases and facilitates high and sustainable economic growth rates.

Pension and life insurance assets are potentially a highly valuable untapped source for long term funding for private sector projects. Pension funds and insurance companies prioritize capital preservation and high liquidity and thus, are risk-averse. Hence, they are often heavily concentrated in government bonds, listed equities, and bank deposits. There

is significant potential for private firms to access pension and life insurance savings, through the capital markets, provided they satisfy the risk-return appetite of the pension funds and insurance companies. Private firms with strong balance sheets and high quality projects can potentially access the capital markets via appropriately structured instruments.

Recommendation 1.1.3 *Attract more private company debt issuance and equity listings on Malawi Stock Exchange.*

1.2 Improve Domestic Investors Access to investment products in Malawi Capital markets.

1.2.1 Improve public literacy levels on Malawi capital markets and its products

Financially literate investors are knowledgeable about opportunities in the capital markets and are, therefore, in a better position to make informed investment decisions. Greater awareness about the capital markets is required especially on the part of inexperienced retail investors. The capital markets in Malawi are currently dominated by institutional investors and retail participation is low. To increase the size of the retail investor base, financial education programs should increase focus on the capital markets and their products. Implementation of the National Financial Literacy Strategy should allocate adequate resources for awareness programs targeting retail investors.

Recommendation 1.2.1 *Support capital markets awareness activities in the National Financial Literacy Strategy.*

1.2.2 Improve the means of investing in Malawi capital markets.

A dominant feature of the modern financial system is the high pace of financial technology innovations. These innovations contribute to the development of the market by among others, lowering transaction costs, increasing liquidity, providing means for diversifying risk, enhancing competition in financial markets, and increasing investment opportunities in the market.

Financial technology innovations with market specific characteristics hold tremendous potential to transform the capital markets by increasing market access for investors that are otherwise excluded. For instance, financial technology innovation such as the use of mobile money wallet,

and internet or mobile banking have enabled the buying and selling of retail bonds in some markets from anywhere and anytime. Financial technology innovation is still at a nascent stage and should therefore be supported as such innovations have potential to revolutionize the process of primary issuance, secondary market trading, and thus capital markets development and financial inclusion.

Individuals can invest directly in the capital markets or through pooled investment vehicles such as real estate investment trusts, exchange traded funds, unit trusts, and mutual funds who aggregate small investments from a large number of individuals. Pooled investment vehicles have an advantage of allowing inexperienced investors—often only able to invest small amounts of capital—to cheaply subcontract investment decision-making to professionals that can invest in relatively more sophisticated and highly rewarding products while diversifying most of the risk. Pooled investment products allow greater savings mobilization from retail investors than otherwise would be and are crucial to development of capital markets.

The inexperienced investing public usually make up the bulk of investors in pooled investment vehicles. It is therefore necessary to ensure that there is adequate and updated legal, regulatory and policy framework for pooled investment vehicles.

Recommendation 1.2.2a *Encourage financial technology innovations for increasing investor access to Malawi capital markets.*

Recommendation 1.2.2b *Encourage development of innovative pooled financial products that allow retail investors to profitably invest in Malawi capital markets at more diversified risk and low transaction cost.*

Recommendation 1.2.2c *Ensure existence of an up to date legal, regulatory, and policy framework for pooled investment vehicles.*

1.2.3 Improve institutional investors savings mobilization and resource allocation.

The importance of institutional investors such as pension funds and life insurance companies in the capital markets is growing due to the amount of financial resources under their control. By their nature, most institutional investors have majority of their liabilities maturing in long-term which makes them conventional sources of long-term financing for projects. It is,

therefore, essential to help their efforts in savings mobilization and resource allocation among investment options.

In Malawi, key to institutional funds growth has been enactment of Pension Act, 2010 which mandates every employer and employee to whom the Act applies to contribute to the National Pension Scheme and every employer to secure employee life insurance. This has led to growth in pension assets from K59.5 billion by end of 2010 to K945.5 billion as at end June 2020, representing 30.1 percent annual growth rate. Similarly, life insurance gross assets have grown from K61.1 billion as of end 2010 to K759.5 as of end June 2020, reflecting a 27.1 percent annual growth rate. These assets will continue to grow at a faster rate as more employers comply with the Pension Act.

Timely remittance of pension contributions remains a challenge and is negatively affecting the accumulation of pension funds for national development. Outstanding contributions were recorded at K24.4 billion as at end June 2020. Non-remittance of pension contributions by employers as well as non-compliance with the Pension Act should be addressed to improve national savings mobilization.

In the medium term, institutional funds will grow at even faster rate when mandatory insurance for specified insurance categories whose risks require public protection is effected.

On resource allocation, investment regulation of pension funds should balance between ensuring optimum risk taking and enabling savings mobilization and diversification of investments to growth sectors of the economy. For instance, regulation should facilitate pension funds to fully diversify their portfolios into long-term assets by addressing such issues as principle-agent problems, whereby fund managers derive profits from short-term performance rather than from long-term gains. Regulation should, therefore, help address distortions in pension funds' asset allocation and skew portfolios towards long-term instruments.

Recommendation 1.2.3a *Improve remittance of monthly mandated contributions to the national pension and life insurance schemes.*

Recommendation 1.2.3b *Enact mandatory insurance uptake against key risks that need public protection.*

Recommendation 1.2.3c *Issue guidance on investment management of pension and life insurance funds.*

I.3 Improve Foreign Investors Access to Malawi capital markets

I.3.1 Improve attractiveness of Malawian companies raising funds from Malawi capital markets

In general, where domestic savings are inadequate to finance a range of profitable projects available in the country, opening up access to international investors can lead to a number of positive effects in the local capital markets. Participation of foreign investors can reduce the cost of capital and much of the reduction stems from greater risk-sharing between domestic and foreign agents. Since positions, needs, and expectations of foreign investors may differ from those of local investors, their entry can increase local market liquidity and depth, including for local hedging markets. Increased openness to foreign participation may also spur efficiency, profitability and lower debt levels at firm-level.

Increasing the visibility of the local capital markets in the global arena will help to increase foreigner's participation. Improving visibility in this regard entails implementing an impactful and consistent investor relations program that can significantly influence how the Malawi capital markets are perceived. Malawian embassies or a specialized investor relations firm should be used to engage potential foreign investors as well as Malawians in the diaspora with effective investor communications, targeted investor outreach, and sound marketing strategies.

Sovereign credit ratings are an important driver of portfolio investment into a country. Investors use sovereign credit ratings as a way to assess the riskiness of a particular country's financial instruments, both public and private. Obtaining a sovereign credit rating is essential for Malawi if the Government and domestic firms are to access funding in international bond markets. Obtaining a sovereign credit rating will reduce information asymmetries regarding the Malawi's default risk and have an immediate effect on the local capital markets. In addition to the increased access to finance, a better sovereign credit rating will reduce the cost of external financing for agents in the domestic economy and also acts as a kind of moral suasion or an incentive to pursue prudent and sound monetary and fiscal policies since performance on these policies forms an integral part of the rating methodologies. This has far reaching benefits to all sectors of the economy.

Recommendation 1.3.1a *Improve Foreigners and Malawian Diaspora's awareness levels of the Malawi Capital markets and their products.*

Recommendation 1.3.1b *Maintain an up to date diaspora profile.*

Recommendation 1.3.1c *Acquire and improve a sovereign credit rating.*

1.3.2 Improve international investors' access to Malawi capital markets

The degree of controls on the capital account has a bearing on the levels of portfolio investment in a country. Capital tends to flow to countries that have less or no restrictions on capital account transactions. While a significant amount of exchange controls has been lifted in Malawi, there are still some administrative procedures in place, which control capital flows, entailing partial opening of the capital account. The free flow of long-term capital in and out of the country is permitted subject to vetting of applications and registration of flows with the central bank. In essence, Malawi has no foreign ownership limit to the capital markets products.

It is important to note that investors are always wary that potentially capital flight can force Authorities to restrict capital flows. It is therefore prudent to put in place strategies that clearly outline how Authorities will address capital flight should it ever occur. This will provide assurance to foreign investors on the availability of their investment.

As Malawi increases her efforts to develop well-functioning capital markets that contributes to sustained economic growth, integrating with regional markets is inevitable. If managed properly, integrating with regional markets will allow savings to be pooled across the region; cost and information sharing across markets; diversification of risks; enhanced competition and innovation across financial institutions; wider choices of financial products provided to domestic and foreign investors; and more integration into the global economy facilitated by increased attractiveness of the market. While recent upgrading of market infrastructure has significantly improved the country's ability to integrate into regional and global markets, it is important to develop and maintain strong linkages with regional and global markets through affiliations to reputable capital markets bodies and special partnerships.

Recommendation 1.3.2a *Put in place strategies that clearly outline how Authorities will prevent and address capital flight should it ever occur.*

Recommendation 1.3.2b *Develop strong linkages with regional and global markets.*

II. Theme 2: Improve Malawi Capital markets General Performance, Infrastructure, Intermediation, and Integrity.

This theme is at the core of the MCMDP and presents the means (infrastructure and market intermediation) and effect (market general performance) of linking issuers and investors in a given legal, regulatory and policy environment. It is expected that improving the intermediation process improves access to and ultimately development of the capital markets.

The improvement in capital markets general performance can ably be measured in spheres of width, depth, liquidity, and allocative efficiency. Increase in any of these areas represents improvement in general performance of the capital markets.

- Increased width is characterized by availability of a diverse array of products and product features that match the risk and return objectives of varied participants in the capital markets.
- Increased depth, on the other hand, is often perceived from an angle of high capitalization within each product and depicts the extent to which projects/companies have been funded through the capital markets.
- High liquidity is measured by low risk of altering the fair value of the product when trading a reasonable volume in absence of any fundamental change in economic status of the issuer or issue. It is often depicted by low bid/offer spreads and low rate of price change, all things held constant. Alternatively, high liquidity is captured by high frequency of trading (turnover) within each product and market. High liquidity normally translates into low cost of finance to issuers and low cost of divesting from any investment by investor which are all desirable attributes.
- Allocative efficiency is when those projects with highest productivity levels and thus, have highest risk-adjusted returns are preferred for funding by investors. With limited resources, this is crucial to achieving sustainable high economic growth rates. Allocative efficiency can be looked at from two angles; first, from price efficiency perspective where prices reflect every material information available (past, present, and expected) to help investors easily decide on resource allocation. And

second, from the perspective of cost efficiency where information and transaction costs are insignificant enough to interfere in decision making.

Financial infrastructure is essential for the well-functioning of the capital markets as it provides a common platform for key stakeholders to transact. In essence, infrastructure has the ability to increase access to capital markets, improve speed of transacting and flow of critical information, and provide avenues for managing and reducing financial risks. Generally, financial infrastructure is systemically important hence requires sound design, and high standards of operational and financial resilience. Ultimately, better infrastructure plays a key role in improving general performance of the capital markets.

Capital markets intermediaries, the critical users of infrastructure, play a central role in the market. They are the gatekeepers for most retail investors to enter the market, and for institutional investors to maximize their competitive advantage. Investors obtain better and more predictable returns by having efficient intermediaries that facilitate investments in financial markets. Hence, intermediaries are as critical to improving the general performance of the capital markets as infrastructure.

II.1 Improve general performance of Malawi capital markets

II.1.1 Improve width and depth of debt and equity markets.

The capital markets are generally divided into two sub-markets; one for equities and the other for debt instruments (bonds). In case of Malawi, as is the case in most developing countries, the equity market is far more operationally developed than the bond market. Therefore, a crucial policy priority is to develop the bond market by making available more flexible financing options for local infrastructure and other medium-to-long-term projects that could spur socioeconomic development. To this end, development of Government bond market sequentially supersedes development of corporate bond market since the latter benchmarks its pricing on the prices derived in the former.

The Government's involvement in the Malawi capital markets as an issuer goes beyond financing capital projects of national importance covered earlier to setting the foundation for developing the capital markets. Frequent and systematic issuance of medium to long-term Government securities deepens the primary market for bonds, promotes efficient price discovery, and facilitates liquidity and risk management in the secondary

market that reinforces the deepening of the primary market. The price discovery in Government securities market provides the benchmark against which the performance of other quasi-government and private sector instruments can be measured.

Government debt issuance is normally communicated to the public through an issuance calendar. It is essential to commit to follow the issuance calendar as published to allow investors to plan accordingly and, in process, to establish an optimal investment portfolio. Apart from benefits to the investor, committing to the issuance plan benefits the Government by improving debt management operations and controlling growth of public debt to sanctioned limits, which enhances credibility of fiscal policy.

The Government of Malawi has been consistently publishing an issuance calendar since 2015/16 fiscal year. Through that, the Government has progressively increased amount and frequency of issued Treasury notes, lengthened the maturity profile of Government debt, and improved commitment to published plan. The result has been improved depth of Treasury notes from 0.2 percent of GDP in 2014 to 7.6 percent of GDP in 2015 then to 25.9 percent of GDP as of end June 2020 and improved width in terms of lengthened maturity profile of securities issued to the public from 3 years longest tenor in 2015 to 10 years in June 2020. Further deepening and widening of Government bonds is, nonetheless, needed and include but not limited to more deepening of benchmark securities and issuance of structured bonds like infrastructure bonds with features different from the benchmark securities.

Intermediaries such as Primary Dealers (PD) can be instrumental in deepening and widening the bond market since PDs are required to subscribe fully to the tendered amounts in the primary market and later offload to the public in the secondary market. However, where supply for securities is outpaces demand as mostly depicted by undersubscription on the primary market, PDs find it difficult to offload the bonds onto the secondary market. In effect, the high-risk taking captured by holding more securities than what is optimal transmits to directly increase transaction costs or indirectly cost the economy through administrative incentives. In Malawi, it is common to observe undersubscription on primary market for Government securities such that the above anticipated challenges of having the PD system are likely to materialize. It is, therefore, prudent to create a healthy supply-demand balance first before introducing PDs.

A corporate bond market is a natural product of the above processes. Apart from riding on Government bond market success, streamlining the

cost and terms of listing on alternative exchange board would help prepare companies list corporate bonds on the main board.

Increasing the width of the bond market entails increasing the presence of bonds with a wide variety of features in terms of issuer type (Treasury, local governments/municipals, parastatals, and private companies categorized by economic sector), maturity (short term, medium term, and long term), structure of cash flows (principal and coupon payment structures), currency denomination (local and foreign), credit enhancements (internal and external collateral backing, and priority claims), contingent provisions (options and conversions), and covenants.

In case of equities, improving depth refers to attracting more listings on the stock exchange and increasing the number of shares of a particular corporation held by the public (public float). A proactive approach to promote listings should be employed; some measures should include identifying and approaching growth companies with potential, streamlining the cost of listing and providing fiscal incentives, where necessary. Floating of the Government holdings in commercially viable public companies on exchange would also help deepen the equities market further as has always been the case. In addition, the equities market can be deepened by enforcing the requirement for listed companies to float 25 percent of their shareholding.

Equity market width entails the presence of securities with varied features such as different seniority claims to ownership as accorded in common and preferred shares, for instance. It also includes having diverse types of issuers in the market in terms of company size, economic sector representation, and geographical area of operation among others.

Recommendation II.1.1a *Increase market capitalization of debt and equity markets.*

Recommendation II.1.1b *Increase diversity in product and issuer features for debt and equity markets to improve investor product choice.*

II.1.2 Improve liquidity in debt and equity markets.

Market liquidity is a market's ability to facilitate the purchase or sale of an asset without causing drastic change in the asset's price. The lack of liquidity for debt and equity securities is a longstanding problem that needs an effective solution.

Some of the important characteristics by which a market could be judged liquid are its relative tightness, depth and resilience. Tightness, measured by the bid-ask spread, provides an idea about the costs incurred by market participants in executing transactions; the lower the spread, the higher is the market liquidity. While the depth of the market determines the extent to which it can handle large transactions without causing sharp changes in prices, resilience determines the speed with which price fluctuations finally dissipate. Another factor could be the size of the market, as markets with large outstanding stocks generally see high turnover in cash and futures trading.

For both debt and equity markets, improving liquidity is reflected in low bid/offer price spreads, high turnover ratios, reasonable amount of public float, and less price fluctuations emanating from trading a reasonable volume in secondary markets in absence of fundamental changes to economic status of the issuer or issue. Currently, these variables clearly show that the secondary market for bonds and equities in Malawi is illiquid. To increase liquidity, therefore, there is need to introduce competitive market making, increase public float, have a large enough group of investors that have an incentive to trade rather than holding to maturity, and also to lower transactional costs among others.

An instrument trades with liquidity whenever large groups of traders find that trading the instrument serves their purposes regularly. In the absence of such dynamics, market makers play a vital role by committing to buy and sell a minimum quoted volume at published price/yield quotes and thus ensure secondary markets are liquid. This encourages uptake of tendered securities by market participants that are significantly affected by liquidity risk and therefore enhances depth and width of the capital markets. As such, incentivizing market makers is necessary for a nascent capital markets such as Malawi's.

A licensing and regulatory framework together with well-developed refinancing and risk management systems assist market makers to manage risks inherent in bond and equity trading. Repurchase agreement (Repo) transactions are a critical part of the refinancing system that enhances liquidity in the secondary market. Repos together with introduction of efficient and secure facilities for short selling and for lending and borrowing securities, as well as the development of interest rate derivative markets, also help market makers improve their risk management capacity and options.

Recommendation II.1.2a *Increase public float in equity market.*

Recommendation II.1.2b *Introduce and improve market making in debt and equity securities.*

II.1.3 Improve allocative efficiency in debt and equity markets.

In an efficient market, all relevant data regarding the market and its activities is readily accessible to all market participants and is always reflected in market prices. Allocative efficiency occurs when parties are able to use the accurate and readily available data reflected in the market to make informed decisions about how to allocate their resources. Transaction costs should be insignificant when making such decisions.

To achieve allocative efficiency, the Malawi capital markets must meet the prerequisites of being both informationally efficient and transactionally or operationally efficient. When a market is informationally efficient, all pertinent information about the market is readily available to all parties participating in the market; no parties have an informational advantage over others. Currently, information on equities and bond instruments listed on the stock exchange is readily available to the public. Conversely, information of secondary trades taking place over the counter of non-listed bond instruments is not readily available to the public. A requirement to report such trades to the stock exchange within a reasonable time after trading is necessary.

Furthermore, for every security on the capital markets, it is important to ascertain the floor requirements on material information that has to be published. Since information is time sensitive, ensuring that there is very little time between when information is created and when it reaches all relevant stakeholders is crucial and automation of information reporting systems should be made a priority. There is also need to ensure availability of comprehensive market research and sell-side analysts to inform choice on capital markets products.

When a market is transactionally efficient, all transaction costs are reasonable, fair, and not transaction is prohibitively expensive for any party. Achieving cost efficiency in the Malawi capital markets will involve lowering intermediation costs to levels that are considered insignificant to affect how financial resources are allocated among alternative investments. Intermediation costs should decline as listing and trading procedures are streamlined and volume of trades and liquidity increase. It is therefore

important to periodically review the fee structure in Malawi capital markets to ensure that it reflects the declining intermediation costs.

Effective price discovery in debt market is reflected by presence of credible yield curves and in equity market by frequent stock price changes that are insignificantly correlated among others. To have a credible yield curve, there is need to increase secondary market trading.

Recommendation II.1.3a *Lower transactional costs in Malawi capital markets.*

Recommendation II.1.3b *Develop credible yield curves for Government and corporate bonds.*

Recommendation II.1.3c *Improve information flow to enhance efficiency in pricing and allocation of financial resources.*

II.1.4 Promote alternative investment avenues to traditional debt and equity capital markets products.

An alternative investment is a financial asset that does not fall into one of the conventional investment categories such as equities, bonds, and cash. Traditional alternative investments include financial products on; real estate (real estate investment trusts, mortgage backed securities), commodities (warehouse receipts, commodity futures and forward contracts), and private equity (venture capital and buyouts funds), art and antiques. Alternative investments typically have a low correlation with conventional asset classes, making them a suitable tool for portfolio diversification as well as providing an effective hedge against inflation. Alternative mutual funds and exchange-traded funds offer access to alternative asset categories, previously difficult and costly to the average retail investor.

Islamic capital instruments are another form of alternative investments. Encouraging the development of Shariah-compliant investment opportunities will further widen and deepen the capital markets by accommodating a significant group of investors that require Islamic compliant financial products.

Private equity including venture capital and buyouts funds incubate private entities for listing and thus, have a direct impact on equity market depth. In this way, private equity funds can be instrumental in increasing small and medium scale enterprises access to capital markets.

Considering that alternative investments are almost non-existent in Malawi or in underdeveloped state, there is need to develop the legal and regulatory framework; establish and standardize operating procedures and products; develop infrastructure for trading, settlement, information management and other critical functions; strengthen capacity and competition of off takers that provide funding in primary market; and introduce non-existent institutions that specialize in and are crucial to development of the individual alternative investments.

Recommendation II.1.4a *Promote development of real estate financial products including real estate investment trusts and mortgage-backed securities.*

Recommendation II.1.4b *Promote development of structured financial instruments for commodities.*

Recommendation II.1.4c *Promote development of Islamic compliant capital markets products.*

Recommendation II.1.4d *Promote development of private equity products including venture capital and buyout funds.*

II.1.5 Introduce and/or improve Malawi capital markets risk management products.

Market risk is the possibility of an investor experiencing losses due to factors that affect the overall performance of the capital markets; mostly price changes. Market risk *cannot* be eliminated through diversification, although investors can employ hedging strategies to protect their investment against downside movements in the market.

As the capital markets becomes more diverse and complex, derivative instruments will provide ways of hedging risk and improving returns. Derivatives are financial instruments that have values derived from other assets like equities, bonds, or foreign exchange. They include forwards, futures, swaps, and options. Derivatives make the capital markets more attractive to sophisticated (usually foreign) investors hence have a transformative effect on the capital markets.

A crucial prerequisite to the development of a derivative market is the presence of a deep market for the underlying products since the derivatives

pricing ultimately has to reflect the underlying price developments. Strategies to develop the financial markets for bonds, equity (stocks), and commodities have already been highlighted in this Plan. Thereafter, creating a reliable reference rate for Malawi, in the line of London Interbank Offered Rate (LIBOR), as a pricing benchmark, is crucial to the development of hedging instruments. In addition, to address the legal uncertainty that may arise when trading derivative instruments, there is need to have a standard internationally recognized derivative instruments legal contract such as the International Swaps and Derivatives Association (ISDA) Master Agreement that conforms to Malawi legal setting.

Derivatives can be traded over-the-counter (OTC) or on an exchange. Since the financial crisis in 2008, the drive has been to encourage use of standardized exchange traded derivative contracts that involve central counterparties than to trade OTC. This arrangement has advantages in form of improved trade reporting and better credit and other risks management. It is, therefore, value adding to develop standardized exchange traded derivative products in Malawi capital markets.

Recommendation II.1.5 *Promote development of forwards, futures, swaps, and options in Malawi capital markets to help manage various financial risks.*

II.2 Improve Infrastructure of Malawi capital markets

II.2.1 Improve Malawi capital markets infrastructure to ensure effective conclusion of all transactions, timely reporting of trade information, enhanced risk management, and high standing in global capital markets community.

Infrastructure is at the center of well-functioning capital markets. It can help spur market development and innovation by providing the means of transferring resources from investors to issuers and vice versa as well as facilitating improvement of risk management in the market. Several risks (settlement, credit, operational, cyber risks among others) that materialize through poor infrastructure can erode trust in the capital markets. Therefore, an efficient infrastructure should improve risk management and enhance trust in the capital markets.

Capital markets infrastructure in Malawi has improved tremendously since the implementation of the Central Securities Depository (CSD) in 2015. Since then, the CSD has undergone several enhancements, which include

bond and equities modules that enable IPOs and corporate actions such as paying coupons, dividends, rights issues and stock splits to be done electronically in the CSD. In the near future, an investor portal will be added to the CSD. This will enable investors to access their statements of transactions online, similar to online banking. In addition, RBM dematerialised Government securities while MSE automated trading and dematerialised share certificates for safekeeping and settlement in CSD.

Safety and efficiency in the market has been enhanced by straight through processing for capital markets products. With improved market infrastructure, secondary market trading will eventually be standardized to international best practice. High levels of pre-trade and post-trade transparency will be achieved through public dissemination of price and volume of every single completed trade in every security.

Further, since capital markets infrastructure need to be able to dampen and manage financial risks especially in stressful conditions, the Committee for Payment and Settlement Systems, the Bank for International Settlements (CPSS), and the International Organization of Securities Commissions have developed principles or, alternatively put, a set of broad governance, business and operational standards that significantly raise the bar on compliance expectations for financial market infrastructure and its critical service providers. It is essential that, to the minimum, Malawi capital markets infrastructure should comply with these CPSS-IOSCO Principles for Financial Market Infrastructure to increase resilience to risks and improve Malawi capital markets standing globally.

Lastly, development of the capital markets infrastructure should be matched with corresponding human resource capacity to manage the existing infrastructure and monitor the risks.

Recommendation II.2.1 *Ensure that Malawi Capital markets Infrastructure is comprehensive enough and of international standard to manage financial risks and support efficient trading of all existing and upcoming products.*

II.3 Improve Market Intermediation of Malawi capital markets.

II.3.1 Increase availability of key intermediaries in Malawi capital markets.

Capital markets intermediaries are an important component of MCMDP as their proficiency in resource mobilization and allocation, risk management, and trade facilitation make the capital markets vibrant, function smoothly and continuously. Intermediaries are the gatekeepers for

most retail investors to enter the market, and for institutional investors to maximize their competitive advantage. Investors get better and more predictable returns by having efficient intermediaries that facilitate participants to invest in the capital markets.

Common categories of capital markets intermediaries include; securities exchanges, brokers, dealers, transfer secretaries, investment bankers, underwriters, investment managers, investment advisers, securities depositories, margin providers, custodians, and credit rating agencies. To be efficient, the capital markets requires a competitive number of intermediaries in each of these categories. It is, therefore, paramount to increase the number of intermediaries where necessary to ensure the capital markets functions effectively and to introduce missing intermediaries such as credit rating agencies for capital markets products.

Recommendation II.3.1 *Increase number of key intermediaries to levels deemed adequate based on need and fair competition principle.*

II.3.2 Improve human capacity in Malawi capital markets intermediation.

The capital markets' ecosystem consists of participants such as stockbrokers, asset managers, transfer secretaries, the stock exchange executives, commercial bankers, investment advisors, lawyers, accountants and auditors, and regulators, among many others. A shortage of these key professionals hinders the faster development of the market and potentially propagates risk into the whole financial system. It is, therefore, important to ensure there are enough professionals operating in Malawi capital markets at all times. Based on the current profile of professionals in the market and the level of expertise and experience needed, skills gaps can be determined to inform remedies.

Introducing education programs at tertiary level is fundamental to increasing the number of professionals in the market. Tertiary education institutions should be supported and incentivized to provide tailor-made programs that address the needs of the capital markets in Malawi. Financial institutions can partner with tertiary education institutions to provide financial and technical assistance in designing and implementing such programs.

Part of the remedy to improve the quality of professionals is to conduct work place trainings on practical matters. It is also essential to use the best possible resources for those capacity building initiatives. This can take the

form of developing a pool of local resource persons and/or affiliate to bodies that provide skilled personnel for specialized training.

Another way to access knowledge and skills is by accumulating experience while working for those who have the skills. In this case, encouraging reputable international firms with experience in global capital markets to open branches in Malawi would greatly help.

Recommendation II.3.2 *Ensure sufficient availability of key professionals in Malawi capital markets intermediaries and embark to close the skills gaps identified.*

II.3.3 Improve the functioning of Securities Exchanges

As Malawi's financial markets evolve to a higher level of complexity, the importance of the securities exchanges cannot be overemphasized. The securities exchanges have potential to contribute to economic growth through functions such as: mobilization of savings for private sector and government use, creation of liquidity, risk diversification, and improved dissemination of information. An efficient and effective delivery of these services can indeed augment the rate of economic growth.

Ensuring that there is a progressive framework for organizing and regulating activity on MSE and other exchanges should be part and parcel of the development strategy for Malawi capital markets.

The ownership and operational structure of the securities exchanges should be reviewed to strategically position them to be an effective implementing and transformative agent of the capital markets being envisaged in the MCMDP. The operational structure in this case includes the management structure, fees making structure, and operational framework of the day-to-day processes undertaken by the exchanges. It is, therefore necessary to implement the demutualization and functional review of the MSE.

Recommendation II.3.3 *Demutualize the Malawi Stock Exchange and position securities exchanges for growth of capital markets.*

II.4 Improve Integrity of Malawi capital markets.

II.4.1 Enhance compliance to ethics and professional standards in Malawi capital markets.

High ethical standards are critical to maintaining the investing public's trust in the capital markets. The public's interest are well served when internationally recognized professional and ethical standards, that have widespread application across the entire spectrum of the capital markets, are upheld.

Market players must meet acceptable financial standards, diligently convey their qualifications, prove the integrity of their operations, demonstrate compliance with Malawi's financial laws, and be current in their disclosures. Such standards provide a strong reference point for transparency and enhance the information and trading experience for investors who put their resources onto the markets trusting to earn a return on their investment.

To facilitate professional and ethical conduct in the Malawi capital markets, it is necessary to have the code of professional and ethical standards documents readily available to every stakeholder and from which awareness campaigns should be conducted on regular basis. The code is also a useful tool for screening new and existing employees' fitness to operate in Malawi capital markets.

Recommendation II.4.1 *Establish and enforce highest possible professional and ethical standards for professionals working in Malawi capital markets.*

III. Theme 3: Improve Legal, Regulatory, Supervisory and Macro-Prudential Policy Making Framework of Malawi capital markets

III.1 Promote Sound and Responsive Legal, Regulatory, and Policy Making Framework

III.1.1 Ensure every material aspect of Malawi capital markets has a comprehensive legal, regulatory, and policy backing.

The arm's length nature of capital markets financing relies heavily on a supportive legal environment that ensures efficient and fair enforcement of financial transactions and contracts. The investing public's perception of the judicial system's efficiency is positively and strongly associated with the growth of the securities market.

Strengthening the legal and judicial system can significantly contribute to capital markets deepening. The key elements that require strengthening include the efficient, timely and predictable enforcement of contracts, the

possibility of sanctions and legal remedies for breaches of duty by corporate insiders, improvements to company law to strengthen the rights of minority shareholders, and efficient and predictable regimes for dealing with insolvency.

The regulation of the capital markets enables the market to function more competently and fairly. Currently, the Financial Services Act, 2010, the Securities Act, 2010 and the directives and guidelines issued under these Acts form the main legislative framework that govern the regulation and supervision of the capital markets in Malawi. It is important to conduct regular and comprehensive review of the existing capital markets legislations and policies against international standards to properly accommodate existing and envisaged participants, products, and market infrastructures.

The review of the capital markets legislation should among other considerations strive to ensure that the Malawi capital markets regulation meet the updated IOSCO Core Principles of security regulation in full. The IOSCO principles of securities regulation set out 38 principles of securities regulation, which are based upon three objectives of securities regulation. These include protecting investors, ensuring that markets are fair, efficient and transparent and reducing systemic risk.

Recommendation III.1.1 *Assess the adequacy of existing laws, regulations, and policies governing capital markets operations.*

III.1.2 Promote sound and principal based risk regulatory macro-prudential framework that contributes to system wide financial stability.

It is important for regulation to, among others, ensure that internal risk management systems for capital markets intermediaries are properly monitored and managed, and comply with regulatory requirements.

At the macro level, regulation should aim to mitigate risk that transmit to the entire financial market and thus avoiding and reducing the macroeconomic costs of instability emanating from the capital markets to the economy. Thus, the macro prudential risk-monitoring framework need to widen focus to include the capital markets.

Further, as earlier highlighted in the section on structural constraints, the implementation of a prudent macroeconomic policy making framework is crucial to maintaining stability in the capital markets. Above all, the macroeconomic policy making framework should avoid the buildup of imbalances that may lead to financial instability.

Recommendation III.1.2 *Promote stability of the capital markets to contribute to system wide financial stability.*

III.1.4 Improve human capacity of the judiciary on capital markets related legal actions.

A justice system that works efficiently and independently can support the capital markets. The general strength and impartiality of the legal system and observance of the rule of law correlate well with capital markets development. An effective legal system also typically exhibits greater judicial protection of private property rights, more efficient litigation processes, and, perhaps most importantly, greater respect and support for enforcing private contracts.

The status of the justice system on financial cases can be improved by raising the technical competence, efficiency, consistency and fairness of legal proceedings in the financial sphere. It is important to ensure that there is an adequate number of qualified legal practitioners and law enforcement personnel with expert and practical knowledge of the country's financial sector and its laws.

Recommendation III.1.4 *Build capacity of the judiciary and other law enforcement authorities to improve effectiveness of commercial justice delivery.*

III.2 Promote good Corporate Governance, Quality Financial Reporting, and Fraud Detection

III.2.1 Ensure proper governance structure for management of borrowed funds to enhance investor trust in the capital markets

There is a mutually beneficial relationship between corporate governance and capital markets development. Corporate governance at firm level can increase a firm's access to finance through the capital markets. Improved governance structures and processes in a firm, among other things, help ensure quality decision making, board and management diversity, disclosures and auditing, and responsibility towards stakeholders; ultimately enhancing the long-term prosperity of a company. Thus, well-governed companies are likely to receive external financing, and contribute to the development of the capital markets, as investors are assured of prudent use of borrowed funds.

Good corporate governance principles should be promoted at both state and non-state enterprises to enhance their ability to gain access to finance and their financial performance, which eventually lead to capital markets development.

Recommendation III.2.1 *Ensure compliance with best corporate governance principles by state and non-state enterprises.*

III.2.2 Improve the accuracy and quality of financial information used in investment decisions by investors.

Investment decisions in the capital markets are largely influenced by the quality of financial information released by firms in their financial statements. However, information reported in financial statements may not be entirely credible since a firm may have an incentive to inflate the value of its operations.

Therefore, steps need to be taken to ensure that firms prepare their financial statements in a credible manner, by qualified accounting personnel, in adherence to internationally recognized financial reporting and auditing standards.

Recommendation III.2.2 *Ensure compliance with internationally recognized financial reporting and audit standards and improve fraud detection.*

III.3 Enhance Investor Protection from Malpractice.

III.3.1 Improve investor protection

The quality of financial services have a significant impact on investor behavior and thus development of the capital markets. It is important that investors are able to make informed decisions and feel confident that they are adequately protected. Authorities should ensure protection for investors by ensuring good conduct from firms that sell or advise consumers to buy financial instruments.

Protection of investors should require that:

- (a) Firms treat their customers in a fair and transparent way and put customers interests at the centre of their business models and corporate culture;
- (b) Investors are provided with clear and relevant information; and
- (c) Investors are provided with products that match their needs and investment objectives.
- (d) Information regarding costs and charges is made available to investors.

- (e) Firms should enhanced their administrative structures in the areas of complaints handling, record keeping, conflicts of interest, risk monitoring and safeguarding of clients' assets.

Furthermore, investor education is a key element to enhancing investor protection. It involves educating investors on their rights, enabling investors to understand and manage risk, and reducing investors' vulnerability to fraudulent schemes. Overall, investor education enables investors to participate in the capital markets with confidence.

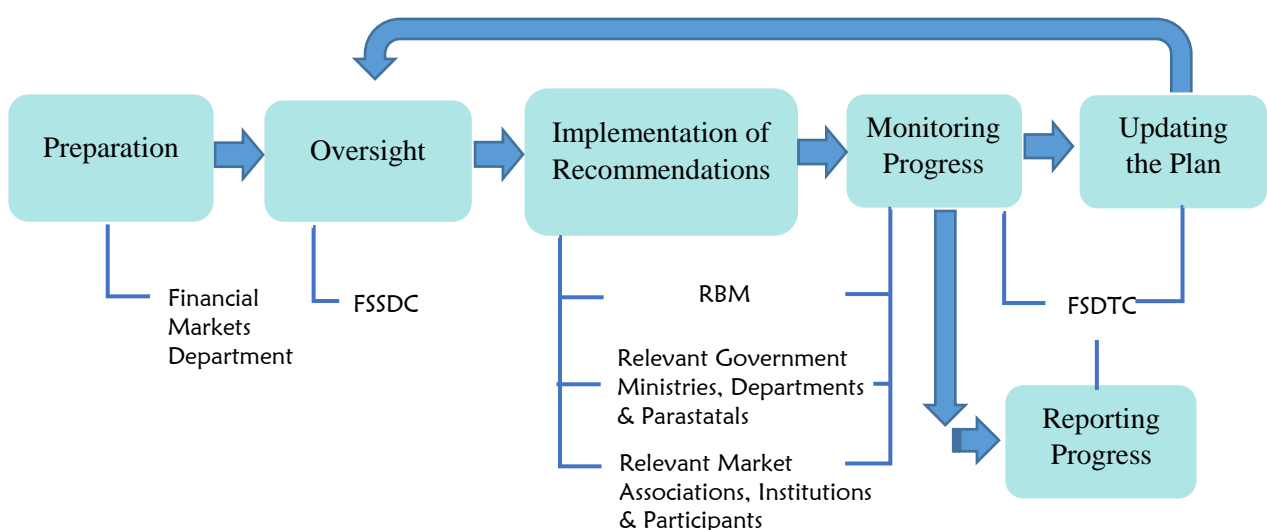
Recommendation III.3.1 *Enhance Investor protection.*

7. IMPLEMENTATION PROCESS AND PERFORMANCE MANAGEMENT AND APPRAISAL

Implementation process

Although the MCMDP is being championed by the RBM, its implementation is a collective process that will rely on support from a variety of stakeholders since the suggested actions involve several institutions in the public sector and the financial market, as well as the private sector firms.

The general framework for implementing the MCMDP is illustrated below:

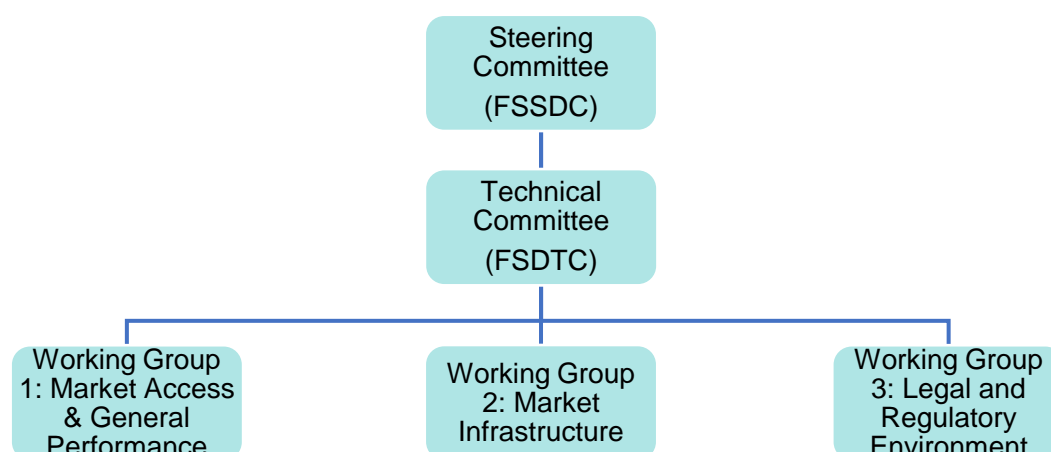


The preparation, facilitation of implementation, oversight, reporting and reviewing of the MCMDP is led by Reserve Bank. The Financial

Markets Department in RBM is responsible for preparing the MCMDP, which is then endorsed by the Financial Sector Stability and Development Committee (FSSDC)³ and approved by the Executive Management of RBM. The FSSDC oversees the overall implementation and achievement of the goals of the Plan. Implementation involves various stakeholders in the capital markets. The Financial Markets Department as secretariat to Financial Sector Development Technical Committee (FSDTC) is tasked to monitor the implementation process, in a collegial manner with input from members of the FSDTC, as well as reviewing the Plan.

Implementation Structure and Management

The structure for implementing and monitoring of the MCMDP is outlined below.



The MCMDP Steering Committee

The FSSDC functions as the steering committee and is responsible for:

- (a) Endorsing the MCMDP and consenting to required financial and human resources for its implementation;
- (b) Providing strategic guidance and monitoring the general progress in implementation;
- (c) Facilitating cooperation and coordination among all relevant stakeholders for synchronized communication and implementation

³ Membership of the FSSDC comprises of the following departments in RBM: Financial Markets, Bank Supervision, Pension and Insurance, Capital markets and Microfinance Supervision, Financial Sector Regulation, Legal Affairs, National Payment System, Economic Policy Research (Financial Stability division), Foreign Flows Monitoring. It also includes Pensions and Financial Sector Policy Division of the Ministry of Finance.

of initiatives and developments in areas involving more than one jurisdictional authority.

The MCMDP Technical Committee

The FSDTC functions as the implementation committee; providing technical oversight during the implementation the MCMDP. Key responsibilities of the committee include:

- (a) Functioning as the secretariat for the implementation of the MCMDP;
- (b) Coordinating the implementation of actions, including liaising with the various Implementation Groups and other relevant parties;
- (c) Identifying and managing the resolution of issues which may arise in the course of implementation;
- (d) monitoring of progress and evaluation of performance based on specific targets; and,
- (e) Coordinating the communication program for the MCMDP.

The working groups

At granular level, implementation of the MCMDP is coordinated through three working groups in the FSDTC:

- *Working Group 1: Market Access and General Performance.* This group focuses on bringing the investors and issuers to the market and through intermediaries get the best possible outcome from their subsequent trading.
- *Working Group 2: Market Infrastructure.* This group is responsible for developing the Malawi capital markets infrastructure and thus focuses on developing the platforms of facilitating trading.
- *Working Group 3: Legal and Regulatory Environment.* This group's attention is on developing the legal, regulatory, and policy framework with intent to improve the rules of the engagement that safeguard integrity of the Malawi capital markets and enforce the property rights of all stakeholders.

Membership to each of the working groups comprises of permanent members from departments in the RBM and Ministry of Finance that are represented in the FSDTC. Close coordination is needed between RBM departments and relevant external institutions that have been assigned

responsibility to lead the implementation process of specific recommended actions presented in section 8 of this Plan.

Sequencing of actions

Developing the Malawi capital markets requires proper sequencing of actions. Actions are aligned to the objectives and goals of the Plan and are categorized into appropriate timeframes. For the purposes of the Plan, immediate term refers to a timeframe up to one year from adoption of the MCMDP, short term (1 to 3 years) and medium term (4 to 5 years).

A large proportion of actions designated for immediate to short term implementation focus on developing the bonds and equities markets. Within this context, priority is to prepare issuers and investors to be willing and able to participate in Malawi capital markets, to develop the price discovery mechanism, and to boost investor protection and integrity of the capital markets. Hence, ranking high in the immediate term is increasing financial literacy of both investors and issuers, introducing market making, creating the legal certainty for basic products, and developing the pricing and information sharing mechanism as well as critical mass of skill personnel, ethics and professional standards, and basic infrastructure for accessing the market.

Thereafter, the next stage is to build on the strong foundation laid above and ensure market activity and efficiency in the bonds and equities markets are enhanced through increased issuance of debt and equity securities, reduced transactional cost, increased competition in intermediation, and better infrastructure.

The last phase of implementation of this master plan will emphasize on development of risk management products including derivatives market and alternative investments.

Performance measurement, monitoring, and evaluation

Measuring progress

Key indicators of capital markets development are used to track development of Malawi capital markets. The metrics below capture capital markets development in terms of access, depth and market activity, liquidity, efficiency, and stability. Relevant data on the indicators are regularly appraised and the indicators revisited to determine progress annually. There is no one specific indicator that is necessarily a measure of

success, rather, it is progress across the whole array of indicators and the growth momentum of the market that is of importance. The key functions of a capital markets are to mobilize savings to finance capital projects that have a significant positive impact on long term growth prospects of the country, therefore the most important measures are grounded in that context.

Figure 5: Key Metrics of Capital markets Development

Indicator	Target				
	2021	2022	2023	2024	2025
Access					
Number of listed companies on MSE	15	17	19	21	24
Number of bond Issuers	2	3	5	7	10
Percentage of free floating shares (%)	25.0	25.0	25.0	25.0	25.0
Number of Shareholders	40,000	50,000	60,000	80,000	100,000
Number of investors in total bonds outstanding	75	100	125	150	175
Number of investors in listed bonds	25	50	70	90	120
Depth and Market Activity					
Stock market capitalization to GDP ratio (%)	35.0	40.0	45.0	50.0	55.0
Stock value traded to market capitalization ratio (%)	5.0	7.0	9.0	11.0	13.0
Stock value traded to GDP ratio (%)	1.5	2.5	5.0	7.5	10.0
Treasury bonds capitalization to GDP ratio (%)	40.0	45.0	50.0	55.0	60.0
Treasury bonds value traded to market capitalization ratio (%)	1.0	1.5	2.0	2.5	3.5
Treasury bonds value traded to GDP ratio (%)	1.5	1.75	2.5	3.5	4.0

Corporate bonds market capitalization to GDP ratio (%)	0.25	0.5	0.75	1.0	1.25
Corporate bonds value traded to market capitalization ratio (%)	2.5	5.0	7.5	10.0	12.5
Corporate bonds value traded to GDP ratio (%)	1.0	1.25	2.5	3.75	4.0
Total assets under management to GDP ratio (%)	25.0	30.0	35.0	40.0	50.0
Collective investment schemes' funds to GDP ratio (%)	0.50	0.55	0.75	1.0	1.50

Figure 6: Key milestones

Milestones	Timeframe
Compendium for bankable long-term projects prepared.	By end-Mar 2021
Fund for supporting feasibility studies established.	By end-Jun 2021
Annual audited financial reports for past three years by parastatals and local government authorities that are targeted to access funding from Malawi capital markets available.	By end-Dec 2022
Challenges affecting issuance and listing of bonds and equity resolved on scheduled time.	As per the devised action plan.
Platforms to directly invest in capital markets using mobile phones and internet banking established.	By end-Dec 2024
Sovereign credit rating of B+ attained.	By end-Dec 2025
Arrears in remittance of monthly mandated contributions to the national pensions and life insurance schemes reduced to two months delay.	By end-Jun 2023
Market makers in bonds and equities appointed.	By end-Sep 2021
Credible yield curve with benchmark yields of up to 20 years	By end-Dec 2025
ISDA Master Agreement contract suited for Malawi introduced.	By end-Jun 2022
Legislation allowing securities lending and covered short selling introduced.	By end-Dec 2022

A reference rate for pricing financial market products including interest rate derivatives introduced.	By end–Dec 2021
Shariah Advisory Council (SAC) for Islamic capital markets sector established.	By end–Jun 2022
Systematic risk monitoring and management framework for Malawi capital markets introduced.	By end–Dec 2022
Judiciary and law enforcement officers with deep knowledge of financial law increased in number to 100.	By end–Dec 2025
Key corporate governance principles for parastatals, and other government related bodies developed.	By end–Dec 2022
Ethics and professional standards for Malawi capital markets developed.	By end–Dec 2021

Monitoring and evaluation MCMDP

Quarterly progress of the implementation of the MCMDP is monitored through the committees. Comprehensive semiannual and annual progress reports are produced to ensure that the Executive Management as well as industry participants are kept informed of ongoing progress. Progress of implementing the MCMDP is monitored against key indicators and milestones outlined in this section and the performance indicators set out in Schedule of recommended actions (section 8). Variances in performance informs the review process and adaptation of the implementation strategy.

While the broad objectives and recommendations of the MCMDP are expected to remain unchanged, a comprehensive periodic review of at least every two years of the action plan for strategic implementation of each recommendation contained in last section of this document should be conducted to ensure that actions implemented on the ground remain relevant and applicable. Where necessary, therefore, the MCMDP should be updated with appropriate revisions and additions of the action plans.

8. SCHEDULE OF RECOMMENDED ACTIONS

The schedule of recommended actions contains step by step actions and strategies to be carried out to achieve what has been recommended in section 6. Specifically, it highlights the action, its priority level (high, medium, and low), timeframe for implementation, the responsible parties

for implementation of the action point including the lead, the strategic objective of implementing the action point and the tool for observing progress.

Below is the list of departments, parastatals, ministries and organizations that are envisaged to contribute to the implementation the MCMDP.

CSC	Comptroller of Statutory Corporations
EDF	Export Development Fund
MCMA	Malawi Capital markets Association
MITC	Malawi Investment and Trade Centre
MRA	Malawi Revenue Authority
MSE	Malawi Stock Exchange
MoA	Ministry of Agriculture
DAD	Ministry of Finance-Debt and Aid Division
BUDGET	Ministry of Finance-Budget Division
PFSP	Ministry of Finance-Pensions and Financial Sector Policy Division
PSIP	Ministry of Economic Planning, Development and Public Sector Reforms-Public Sector Investment Program Unit
MoFA	Ministry of Foreign Affairs
MoT	Ministry of Trade
MoI	Ministry of Information
MoJ	Ministry of Justice
MoL	Ministry of Labour
MoLA	Ministry of Lands
NLGFC	National Local Government Finance Committee
PPPC	Public Private Partnership Commission
CAMSU	RBM-Capital markets and Microfinance Supervision Department
EPR	RBM-Economic Policy Research Department
FM	RBM-Financial Markets Department
FSR	RBM-Financial Sector Regulation Department
FFM	RBM-Foreign Flows Monitoring Department
ICT	RBM-Information and Communications Technology Department
LEGAL	RBM-Legal Affairs Department
NPS	RBM-National Payments Systems Department
PISU	RBM-Pensions and Insurance Supervision Department
SAC	Shariah Advisory Council
NPC	National Planning Commission

IMPROVE ACCESS TO MALAWI CAPITAL MARKETS FOR ECONOMIC TRANSFORMATION AND DEVELOPMENT

I.1 Improve Domestic Issuers Access to long-term finance in Malawi capital markets

Recommendation I.1.1a	<i>Identify, profile, and rank by priority national long-term capital projects that need financing to inform capital markets products development.</i>					
Performance Indicator	Investment Projects Compendium.					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Output
	I.1.1a.1 Carry out an analysis to identify and rank by priority long-term feasible private sector growth enhancing projects that need funding from capital markets.	High	End-March 2021	<u>DAD</u> , BUDGET, PSIP, MITC, PPPC, NPC	Enhance the link between access to long term finance and economic development and prosperity	Document detailing prioritised private sector growth-enhancing projects

Recommendation I.1.1b	<i>Set up a fund to carry out feasibility studies on key projects that are envisaged to have significant positive impact on private sector growth.</i>					
Performance Indicator	Number of feasibility studies financed by the fund					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	I.1.1b.1 Set up a fund to carry out feasibility studies on key projects identified.	High	End-June 2021	<u>FM</u> , PSIP, BUDGET	Improved attractiveness of issues to investors.	Fund Established

Recommendation I.1.2	<i>Attract more Treasury/parastatals/ local government debt issuances and public-private partnership equity listings on Malawi Stock Exchange.</i>					
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Performance Indicators	<ul style="list-style-type: none"> Number of parastatal and municipal bond issuers Number of Treasury, parastatal and municipal bond listings on the exchange market 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	I.1.2.1 Based on infrastructure gaps and bankable capital projects stated in I.1.1a.1, identify suitable government Ministry, Department or Agency (MDA) or institution to issue debt instruments and/or list equity on MSE.	High	End-March 2021	<u>DAD</u> , BUDGET, PSIP, MITC, PPPC, NPC	Have a list of potential bond & equity issuers to act as the basis for effective awareness campaigns.	Document detailing suitable stakeholders to source long-term funds for implementing the prioritised private sector growth complementing projects
	I.1.2.2 Conduct one-on-one clinics with relevant officials in identified government MDAs or institutions to create awareness of Malawi capital markets as an alternative of sourcing direct funds for long term projects.	High	On-going	<u>FM</u> , CAMSU, DAD, PISU, FSR, MSE	Increased awareness of Malawi capital markets as an alternative source of long term funds.	Meeting Reports
	I.1.2.3 For each identified and targeted government MDA or institution, assess the readiness of a potential long-term public debt issue or private-public partnership equity listing to inform action on any shortfalls identified.	High	A month after one-on-one visit specified in I.1.2.2	<u>FM</u> , CAMSU, PISU, FSR, MSE	Improve likelihood of bond issuance or equity listing.	<ul style="list-style-type: none"> An instrument for assessing the readiness to access the Malawi capital markets Reports on readiness to issue bonds or list equity and proposed actions to address

						identified shortfalls
	1.1.2.4 Enhance and enforce rule-based corporate governance principles for government institutions that can issue debt in Malawi capital markets.	High	End-March 2021	<u>CSC</u> , MSE, FSR	Improve corporate governance in state owned entities to improve likelihood of bond issuance or equity listing	Report on enforcement actions
	1.1.2.5 Enhance the human capacity in government MDAs and institutions on structured financing for projects, and project development & management.	High	On-going	<u>PSIP</u> , CSC, FM, NLGFC	Increase prospects of repayment using income generated by the projects to improve creditworthiness and thus, subscriptions in subsequent and related issues.	Training Reports
	1.1.2.6 Provide agency and/or advisory services on process of long-term debt issue or equity listing to ready government MDAs and institutions.	High	On-going	<u>FM</u> , MSE, FSR	To ensure successful bond issuance and equity listing	Progress Reports

Recommendation 1.1.3	<i>Attract more private company debt issuance and equity listings on Malawi Stock Exchange.</i>					
Performance Indicators	<ul style="list-style-type: none"> • Number of corporate bond issuers • Number of corporate bond listings on the exchange market • Number of listed companies on the exchange market 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Output

	I.1.3.1 Embark on national wide outreach program highlighting benefits and procedures of listing equity and issuing debt instruments on MSE.	High	On-going	<u>FM</u> , MSE, FSR, CAMSU, PISU	Increased awareness of Malawi capital markets as an alternative source of long term funds.	Progress Reports
	I.1.3.2 Conduct one-on-one clinics with key stakeholders of willing private companies to create awareness of capital markets as an alternative of sourcing funds.	High	On-going	<u>FM</u> , FSR, CAMSU, PISU, MSE	Increased awareness of Malawi capital markets as an alternative source of long term funds.	Meeting Reports
	I.1.3.3 For each awareness meeting with a private institution as highlighted in I.1.3.2, assess the readiness of a potential long-term public debt issue or private-public partnership equity listing to inform action on any shortfalls identified.	High	A month after one-on-one visit specified in I.1.2.2	<u>FM</u> , CAMSU, FSR, PISU, MSE	Improve likelihood of bond issuance or equity listing.	<ul style="list-style-type: none"> ▪ An instrument for assessing the readiness of sourcing funds from Malawi capital markets. ▪ Reports on readiness to issue bonds or list equity and proposed actions to address identified shortfalls
	I.1.3.4 Establish and maintain a registry of private placement contracts.	High	End-March 2021 to establish On-going to maintain registry	<u>FSR</u>	Identify those with higher prospects of issuing bonds publicly on MSE.	<ul style="list-style-type: none"> • Requirement to file with the Registrar notification of private placements issuance.

						<ul style="list-style-type: none"> • An updated Registry.
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I.2 Improve Domestic Investors Access to investment products in Malawi Capital markets

Recommendation I.2.1	<i>Support capital markets awareness activities in National Financial Literacy Strategy.</i>					
Performance Indicators	<ul style="list-style-type: none"> • Number of retail bond investors • Number of new shareholders 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	I.2.1.1 Develop and implement capital markets investor education strategy.	High	End-June 2021 to develop On-going	<u>FSR</u> , FM, CAMSU, PISU, NPS, PFSP, MSE, BASU	Improve awareness of capital markets investment opportunities.	Availability Investor education strategy Progress reports

Recommendation I.2.2a	<i>Encourage financial technology innovations for increasing investor access to Malawi capital markets.</i>					
Performance Indicators	<ul style="list-style-type: none"> • Number and value of capital markets trades via mobile and internet banking platforms • Availability of investor portal 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Output
	I.2.2a.1 Identify and implement user-friendly and cost effective financial technologies to invest in the Malawi capital markets.	High	End-December 2024	<u>FM</u> NPS, MSE, MoF, ICT, PISU, BASU, CAMSU, FSR	Provide smart solutions for investing in capital markets that are user-friendly, reliable, trustworthy, reach out at low user cost, and cater for diverse objectives and risk-	<ul style="list-style-type: none"> • List of preferred financial technologies. • Availability of fin-tech that allows investors to invest in

					return profiles of savers.	Malawi capital markets.
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Recommendation 1.2.2b	<i>Encourage development of innovative pooled financial products that allow retail investors to profitably invest in Malawi capital markets at more diversified risk and low transaction cost.</i>					
Performance Indicator	Number of unit trusts, real estate investment trusts (REITs), exchange traded funds, and mutual funds					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Output
	1.2.2b.1 Encourage development of unit trusts, real estate investment trusts (REITs), exchange traded funds, and mutual funds to accommodate different objectives, and risk & return profiles of retail investors.	High	On-going	<u>FM</u> , CAMSU, MSE, MCMA	Increase availability and attractiveness of capital markets products and services.	<ul style="list-style-type: none"> List and performance of new products introduced. Report on efforts made and progress.

Recommendation 1.2.2c	<i>Ensure existence of an up to date legal, regulatory, and policy framework for pooled investment vehicles.</i>					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	1.2.2c.1 Develop and review the legal, regulatory, and policy framework for pooled investment vehicles.	High	End-Dec 2021	<u>FSR</u> , CAMSU, FM, MSE, MCMA	Improve trust in use of pooled investment vehicles.	<ul style="list-style-type: none"> Availability of up to date legal, regulatory and policy framework.

Recommendation 1.2.3a	<i>Improve remittance of monthly mandated contributions to the national pensions and life insurance schemes.</i>					
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Performance Indicators	<ul style="list-style-type: none"> Outstanding pension funds remittance arrears to fund managers Pension assets to GDP ratio Insurance assets to GDP ratio 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	1.2.3a.1 Improve remittance of monthly mandated contributions to the national pensions and life insurance schemes to less than K...	High	End-June 2022	<u>PISU</u> , MCMA, MoL, FSR	Increase savings mobilization.	<ul style="list-style-type: none"> Strategy for reducing arrears. Report on efforts made and progress.

Recommendation 1.2.3b	<i>Enact mandatory insurance uptake against key risks that need public protection.</i>					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	1.2.3b.1 Develop legislation that mandates insurance uptake against key risks that require public protection.	Medium	End-June 2021	<u>PISU</u> , FSR	Increase savings mobilization.	Legislation available

Recommendation 1.2.3c	<i>Issue guidance on investment management of pension and life insurance funds.</i>					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Output
	1.2.3c.1 Develop a Directive or Guidelines on investment management of pension and life insurance funds.	Medium	End-June 2021	<u>PISU</u> , FSR	Increase savings mobilization.	Directive or Guidelines available.

I.3 Improve Foreign Investors Access to Malawi capital markets.

Recommendation I.3.1a	<i>Improve Foreigners and Malawian Diaspora's awareness levels of the Malawi Capital markets and their products.</i>					
Performance Indicator	Diaspora remittances					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Output
	I.3.1a.1 Update the diaspora portals; MSE, RBM and MoF websites inclusive with relevant capital markets information.	Medium	End-June 2021 for first update On-going afterwards	<u>FSR</u> , MoFA, DAD, MITC, FM, FFM, ICT, CAMSU, BASU, MSE	Ensure that the Malawi Diaspora have access to relevant information they need to invest in Malawi capital markets.	Updated diaspora portal
	I.3.1a.2 Engage the diaspora through the embassies on capital markets investment opportunities	Medium	End-December 2021 for first engagement On-going afterwards	<u>FSR</u> , MoFAIC, FFM, FM, DAD, MoT, LEGAL	Ensure that the Malawi Diaspora have access to relevant information they need to invest in Malawi capital markets.	Meeting reports

Recommendation I.3.1b	Maintain an up to date diaspora profile					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	I.3.1b.1 Provide data to consultants conducting diaspora mapping and profiling exercises	Medium	End-June 2021	<u>FFM</u> , MoFA, DAD, MITC, FM, CAMSU, BASU, FSR, MSE	To ensure availability of information to assist in better targeting and packaging of capital markets instruments	Diaspora profile

	1.3.1b.2 Maintain an updated Diaspora profile.	Medium	Ongoing from End-June 2021 onwards	<u>FFM</u> , MoFA, DAD, MITC, FM, CAMSU, BASU, FSR, MSE	To ensure availability of information to assist in better targeting and packaging of capital markets instruments	Diaspora profile
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Recommendation 1.3.1c	<i>Acquire and improve a sovereign credit rating.</i>					
Performance Indicators	Credit Rating from reputable Credit Rating agency					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Output
	1.3.1c.1 Contract a reputable credit rating agency.	Medium	End-December 2024	<u>DAD</u> , FM	Ascertain credit worthiness of Government as a basis for increasing attractiveness of companies operating in Malawi.	Presence of sovereign credit rating
	1.3.1c.2 Improve sovereign credit rating.	Medium	Ongoing from End-December 2024 onwards	<u>DAD</u> , FM	Improve credit worthiness of companies operating in Malawi to increase their attractiveness.	Record improvements on the sovereign credit rating

Recommendation 1.3.2a	<i>Put in place strategies that clearly outline how Authorities will prevent and address capital flight should it ever occur.</i>					
Performance Indicators	Net foreign portfolio investment					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome

	I.3.2a.1 Formulate a strategy that clearly outline how Authorities will prevent and address capital flight should it ever occur.	Medium	End-December 2021	<u>FFM</u> , FM, EPR	Maintain an open portfolio investment account to attract more foreign investors to Malawi capital markets.	Strategy for addressing capital flight
	I.3.2a2 Implement the strategy for preventing and managing capital flight	Medium	Ongoing from End-December 2021 onwards	<u>FM</u> , FFM, EPR	Maintain an open portfolio investment account to attract more foreign investors to Malawi capital markets.	Progress reports.

Recommendation I.3.2b	<i>Develop strong linkages with regional and global markets.</i>					
Performance Indicator	Number of partnerships formed with reputable exchanges and capital markets associations					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Output
	I.3.2b.1 Have self-assessments on extent of harmonization and integration with reputable global capital markets.	Medium	End-March 2021 for first assessment. Not more than 3 years in between follow up assessments	<u>CAMSU</u> , NPS, FM, FSR, LEGAL, FFM	Ensure that Malawi capital markets infrastructure, business processes, and regulations are harmonized with global capital markets for increased integration.	Assessment Reports
	I.3.2b.2 Affiliate to reputable capital markets bodies and make strategic bilateral partnerships.	Medium	End-December 2023	<u>CAMSU</u> , NPS, FM, FSR, LEGAL, FFM	Ensure that Malawi capital markets benefits from skills and trading of global capital markets.	Subscriptions to reputable capital markets bodies & working arrangements

						with strategic capital markets Authorities.
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II. IMPROVE GENERAL PERFORMANCE, INFRASTRUCTURE, MARKET INTERMEDIATION, AND INTEGRITY OF MALAWI CAPITAL MARKETS

II.1 Improve general performance of Malawi capital markets

Recommendation II.1.1a	<i>Increase market capitalization of debt and equity markets.</i>					
Performance Indicators	<ul style="list-style-type: none"> • Stock market capitalization to GDP ratio • Treasury bonds market capitalization to GDP ratio • Corporate bonds market capitalization to GDP ratio 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.1.1a.1 Increase public issuance and listing of Government bonds.	High	Ongoing	<u>DAD</u> , FM, PISU, MSE	Increase depth of Government bond market	Number and volume of public issuances and listings
	II.1.1a.2 Increase public issuance and listing of corporate bonds.	High	Ongoing	<u>FM</u> , FSR, CAMSU, PISU, MSE	Increase depth of Corporate bond market	Number and volume of public issuances and listings
	II.1.1a.3 Encourage new equity listings on exchange by, <i>among others</i> , (i) targeting companies with a currently diverse stakeholder . base by listing through introduction than IPO and (ii)	High	On-going	<u>FM</u> , MSE, FSR, CAMSU	Increase depth of equity markets	Number and volume of public listings

	targeting high growth medium scale companies by listing first through the simpler to comply alternative board than the main board.					
	II.1.1a.4 Introduce a regulation that requires all multinational companies to have a minimum percentage local shareholding through listing on exchange.	Medium	End-December 2023	<u>PFSP</u> , MoT, MoJ, FSR	Increase depth of equity markets	Regulations in place
	II.1.1a.5 Review studies on impediments to listing on exchange and embark to resolve them.	High	End-March 2021 for first review. Ongoing afterwards	<u>CAMSU</u> , MSE, FM, <u>PFSP</u> , FSR, LEGAL, MITC, NPS, BASU, MoT	Increase depth of equity markets	<ul style="list-style-type: none"> • Document detailing impediments to listing on exchange that inform kind of incentives and collective actions to take. • Action plan
	II.1.1a.6 Encourage existing listed companies to raise additional capital by way of rights/bonus issues	Medium	Ongoing	<u>FM</u> , CAMSU, MSE	Increase depth of equity markets	Number and volume of rights/bonus issues
	II.1.1a.7 Introduce primary dealership in government securities market.	Medium	End-December 2025	<u>FM</u> , FSR, DAD	Increase depth of debt markets	Primary dealership in place
	II.1.1a.8 Review and streamline listing procedures to reduce time and costs of raising capital on exchange.	High	End-June 2021	<u>FSR</u> , MSE, CAMSU, FM,	Increase depth of debt markets	Streamlined listing procedures

	II.1.1a.9 Have requirement for any privatized company to list on exchange within a reasonable timeframe.	High	End-June 2021	<u>PFSP</u> , CAMSU, FM,	Increase depth of equity market	Enforceable Requirement to list privatized state entities
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Recommendation II.1.1b	<i>Increase diversity in product and issuer features for debt and equity markets to improve investment alternatives.</i>					
Performance Indicators	<ul style="list-style-type: none"> Treasury bonds weighted average years to maturity Corporate bonds weighted average years to maturity 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Output
	II.1.1b.1 Encourage public issuance of government and corporate bonds with varied features.	High	Ongoing	<u>FM</u> , DAD, CAMSU, PISU, MSE, FSR	Increase diversity of bond markets to suit risk profiles of various investors.	Status report with the following varied characteristics, among others; issuer types, purpose, maturity profiles, structure of cash flows, currency denominations, credit enhancements, contingent provisions, and covenants.
	II.1.1b.2 Encourage public issuance of stocks on MSE with varied features.	High	On-going	<u>FM</u> , FSR, CAMSU, MSE	Increase depth and width of equity markets	Status report with the following varied characteristics, among others;

						common and preferred shares, seniority claims, and type of issuer by company size, economic sector representation, and geographical area of operation.
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Recommendation II.1.2a	<i>Increase public float in equity market.</i>					
Performance Indicator	Percentage of free floating shares					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.1.2a.1 Review existing regulation on minimum float for equity listings on exchange and make it apply to all listed companies.	High	End-March 2021	<u>FSR</u> , CAMSU, FM, PFSP	Increase liquidity of equity market	Revised Regulations

Recommendation II.1.2b	<i>Introduce and improve market making in debt and equity securities.</i>					
Performance Indicators	<ul style="list-style-type: none"> Number of registered market makers Bid/offer spreads 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome

	II.1.2b.1 Develop licensing, regulatory and operating framework for market making	High	End-January 2021	<u>FM</u> , FSR, BASU, DAD, CAMSU	Create a conducive legal, regulatory and operating environment for introducing market making.	Licensing, regulatory, operating framework that include a comprehensive framework for regulating short selling, security lending, and margin trading in place.
	II.1.2b.2 Develop vibrant refinancing and risk diversifying markets and products including the true repo and derivative markets for both banks and non-banks.	High	Ongoing	<u>FM</u> , FSR, BASU, DAD, CAMSU	Manage risks that feed negatively into formulation of bid-ask spreads and thus, contribute to financial system instability.	Active true repo and derivative markets
	II.1.2b.3 Enhance market makers capacity in market, liquidity, and other prominent risks management.	High	Ongoing	<u>FM</u> , BASU, FSR, CAMSU, DAD	Manage risks that feed negatively into formulation of bid-ask spreads and contribute to financial system instability.	Training reports

Recommendation II.1.3a	<i>Lower transactional costs in Malawi capital markets.</i>					
Performance Indicator	Fees structure in primary and secondary markets					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Output

	II.1.3a.1 Review the transactional fees structure to ensure it is cost reflective.	High	On-going	<u>FSR</u> , MSE, CAMSU, FM	Reduce transactional cost to encourage trading on MSE.	Reasonable transactional fee structure for all capital markets products formulated on cost recovery basis.
	II.1.3a.2 Carry out a study on how to reduce cost of transactions in Malawi capital markets.	High	End-December 2021	<u>FM</u> , MSE, CAMSU, FSR	To inform strategy of reducing transactional cost to encourage trading on exchanges.	Study report

Recommendation II.1.3b	<i>Develop credible yield curves for Government and corporate bonds.</i>					
Performance Indicator	<ul style="list-style-type: none"> • Yield curves from actual trades • Treasury bonds value traded to market capitalization ratio • Treasury bonds value traded to GDP ratio • Corporate bonds value traded to market capitalization ratio • Corporate bonds value traded to GDP ratio 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.1.3b.1 Timely publish a systematic issuance calendar and regularly issue adequate volumes of <i>benchmark</i> government securities of varied tenors.	High	Publish within two weeks after approval of national budget	<u>DAD</u> , FM	Increase public float of Government securities	Compliance to the published issuance plan.

			and issue as planned			
	II.1.3b.2 Encourage regular issuance of corporate bonds of varied tenors.	High	Ongoing	<u>FM</u> , CAMSU, PISU, CSC, MSE	Increase public float of corporate bonds	Progress reports
	II.1.3b.3 Increase secondary market trading of government securities and corporate bonds.	High	Ongoing	<u>FM</u> , CAMSU, MSE	Have credible continuous price discovery.	High trading and liquidity in secondary markets

Recommendation II.1.3c	<i>Improve information flow to enhance efficiency in pricing and allocation of resources.</i>					
Performance Indicators	<ul style="list-style-type: none"> Percentage of timely disseminated material information to the key stakeholders Percentage of stocks having significant autocorrelation and zero returns R-Squared of stock market returns (stock price synchronicity) 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.1.3c.1 Review and enforce requirements for timely dissemination of capital markets material information to the public.	High	End-March 2021	<u>CAMSU</u> , MSE, FSR, FM,	Ensure timely dissemination of all material information to the public.	<ul style="list-style-type: none"> Document detailing type of material information, and required dissemination timelines & responsible parties. Progress Report

	II.1.3c.2 Automate all information reporting systems.	High	End-June 2025	<u>FM</u> , NPS, DAD, MSE, CAMSU, ICT	Ensure necessary information is immediately and accurately reported to relevant stakeholders soon after completing the transaction	Presence of automated information reporting systems
	II.1.3c.3 Encourage timely and comprehensive market research dissemination to help making of informed investment choices.	Medium	Ongoing	<u>CAMSU</u> , FM, MSE,	Improve information flow to unsophisticated investors for improved pricing efficiency and financial inclusion	Progress Report
	II.1.3c.4 Review legislation to encourage independence and objectivity in investment analysis, recommendations, and actions without fear of unfair treatment after acting in a professional manner.	Medium	End-December 2021	<u>FSR</u> , FM, MSE, LEGAL, PFSP	Improve quality of market research and information dissemination for improved pricing efficiency	Updated legislation

Recommendation II.1.4a	<i>Promote development of real estate financial products including real estate investment trusts and mortgage-backed securities.</i>					
Performance Indicator	Number and value of real estate financial products (<i>real estate investment trusts, mortgage-backed securities etc</i>)					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.1.4a.1 Introduce legislation for governing operations and regulation of mortgage	Medium	End-December 2021	<u>FSR</u> , MSE, FM, LEGAL, MoJ, MoF, BASU	To facilitate origination and securitization of mortgage loans being early processes of	Mortgage Finance Act

	finance lending and securitization institutions.				introducing real estate financial products in Malawi capital markets.	
	II.1.4a.2 Introduce legislation for governing operations and regulation of real estate investment trusts (REITs).	Medium	End-December 2025	<u>FSR</u> , MSE, FM, LEGAL, MoJ, MoF, BASU	To have a more unified tax treatment of listed property companies, an organized regulatory framework, and uplifted Malawian property market.	REITs legislation
	II.1.4a.3 Review and enforce real estate laws governing; property rights, registry, urban planning, foreclosure procedures, and secured lending.	Medium	End-December 2024 On-going	<u>MoLA</u> , MoF, MoJ, FSR, LEGAL, BASU	Support development of primary mortgage market as a basis for developing real estate financial products.	<ul style="list-style-type: none"> Reviewed real estate; property rights, registry, foreclosure procedures, and secured lending laws. Real estate legislation compliance reports
	II.1.4a.4 Automate land registry to ensure easy, secure, and timely transfer of title.	Medium	End-December 2022	<u>MoLA</u> , PFSP, MoJ, FSR, LEGAL,	Support development of primary mortgage market as a basis for developing real estate financial products.	<ul style="list-style-type: none"> Automated land registry

Recommendation II.1.4b	<i>Promote development of structured financial instruments for commodities</i>
Performance Indicators	<ul style="list-style-type: none"> Number of commodity forward and futures contracts Outstanding value of commodity forward and futures contracts to GDP ratio

Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.1.4b.1 Conduct a systems audit of the ownership and operations structure of commodities exchanges in Malawi to ensure they are aligned to international best practice and the nation's commodities export and trade policies.	High	End-December 2021	<u>FSR</u> , FM, EDF, MoA, PFSP, NPS, ICT	To facilitate development of commodities structured markets and products.	<ul style="list-style-type: none"> • Systems audit report • Progress reports
	II.1.4b.2 Directly link commodities exchanges trading system to financial market infrastructure for effective trading and settlement of current and envisaged commodities financial instruments.	High	End-December 2024	<u>NPS</u> , FSR, FM, EDF, MoA, PFSP, ICT	To facilitate development of commodities financial products by ensuring smooth and timely processing of transactions.	Directly linked commodities exchanges trading systems to financial market infrastructure
	II.1.4b.3 Review the policy and legal framework for commodities structured market in Malawi and align them to international best standards, and the nation's commodities export and trade policies.	High	End-December 2021	<u>FSR</u> , LEGAL, MoJ, PFSP, FM, CAMSU	To ensure there are clear rules, bylaws, unified contract specifications and enforcement mechanisms, strict quality standards, that are consistently enforced	Reviewed policies and legislation

	II.1.4b.4 Increase awareness and build capacity of commodities exchange market players.	High	Ongoing	<u>FM</u> , PFSP, MoT, CAMSU, NPS		Training reports Awareness sessions reports
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Recommendation II.1.4c	<i>Promote development of Islamic compliant capital markets products.</i>					
Performance Indicators	<ul style="list-style-type: none"> Number of Sharia compliant capital markets products and associated investors Outstanding stock of Sharia compliant instruments to GDP ratio 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.1.4c.1 Promote Islamic collective investment schemes, Islamic bonds (sukuk) and other Islamic compliant capital market products.	Medium	End-December 2025	<u>FM</u> , CAMSU, MSE, MoF, BASU, PISU	Increase number of Islamic finance products to enhance savings mobilization and choice of investment products.	Report on number and value of Islamic collective investment schemes and sukuk
	II.1.4c.2 Develop policy and regulatory framework for Islamic capital markets products by benchmarking against international standards.	Medium	End-December 2022	<u>FSR</u> , CAMSU, MSE, FM, MoF, LEGAL, BASU, PISU	Ensure product compliance to Islamic principles for increased investor (foreign and domestic) acceptance and participation.	<ul style="list-style-type: none"> Gap analysis report Updated policy and legal framework
	II.1.4c.3 Facilitate establishment of Shariah Advisory Council (SAC) on Islamic finance.	Medium	End-June 2023	<u>PFSP</u> , CAMSU, MSE, FM, FSR	Endorse Shariah compliant products and ensure consistent application of Shariah rulings within the capital markets.	Shariah Advisory Council established

	II.1.4c.4 Build human resource capacity and conduct investor education on Islamic capital markets investments.	Medium	End-June 2022 Ongoing afterwards	<u>FM</u> , CAMSU, MSE, PFSP, FSR	Enhance development of Islamic capital markets products and their uptake.	<ul style="list-style-type: none"> • Skills gap analysis report • Training reports • Public awareness campaigns report
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Recommendation II.1.4d	<i>Promote development of private equity products including venture capital and buyout funds</i>					
Performance Indicator	Number of equity listings by venture capitalists and buyout funds					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.1.4d.1 Develop an incentive package in legislation for registered venture capitalists, private equity funds, and buyout funds that applies when they are taking private companies public.	Medium	End-December 2023	<u>FSR</u> , MSE, FM, PFSP, CAMSU, MITC	Increase public equity listings	Incentive package for private equity funds

Recommendation II.1.5	<i>Promote development of forwards, futures, swaps, options in Malawi capital markets to help manage various financial risks.</i>					
Performance Indicators	<ul style="list-style-type: none"> • Number of derivative (forward, futures, swaps, and options) contracts • Value of derivative contracts to GDP ratio 					

Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.1.5.1 Introduce ISDA Master Agreement in Malawi derivative market.	High	End-December 2021	<u>FM</u> , FSR, LEGAL	Provide more legal certainty in derivative market transactions.	Malawi ISDA Master Agreement
	II.1.5.2 Introduce the reference rate for benchmarking pricing of derivative products.	High	End-December 2021	<u>FM</u> , CAMSU, BASU	Have a reference rate for pricing floating interest rate products including derivatives	<ul style="list-style-type: none"> • Reference rate calculation criteria • Appointed calculating agent. • Reference rate in operation
	II.1.5.3 Introduce standardized exchange traded derivative contracts on MSE.	Medium	End-December 2025	<u>MSE</u> , FM, CAMSU	Improve risk monitoring and management in derivative markets	Standardized exchange traded derivative products on MSE.
	II.1.5.4 Build human resource capacity on derivate products	High	End-December 2022 Ongoing afterwards	<u>FM</u> , CAMSU, FSR, MSE,	Encourage trading of derivative products	<ul style="list-style-type: none"> • Skills gap analysis report • Training reports
	II.1.5.5 Introduce central counterparties and develop regulations for their operations	Medium	End-December 2025	<u>MSE</u> , FM, CAMSU	Reduce credit risk in derivatives trading	Presence of central counter parties

II.2 Improve Infrastructure of Malawi capital markets

Recommendation II.2.1	<i>Ensure that Malawi Capital markets Infrastructure is comprehensive enough and of international standard to manage financial risks and support transaction of all existing and upcoming products.</i>
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Performance Indicators	<ul style="list-style-type: none"> • Availability of international standard automated infrastructure for trading and valuation of bonds, equities, alternative investments, and derivative products. • Percentage of trades that use delivery versus payment (DvP) and straight through processing (STP). • Percentage of infrastructure system downtime • Percentage of time with optimal band width (mbps) for capital markets infrastructure 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.2.1.1 Review the adequacy of infrastructure to support international standard automated registry, custody, depository, trade facilitation and execution, settlement, clearing, and market data & information management of existing and upcoming capital markets products and close the gaps identified.	High	End-December 2021	<u>FM</u> , NPS, MSE, ICT	Ensure fast, smooth, and safe processing of all transactions.	-Self-assessment reports -Action plan
	II.2.1.2 Improve networking, connectivity lines, and bandwidth of Malawi Capital markets infrastructure.	High	End-December 2025	<u>Mol</u> , NPS, FM, MSE, ICT,	Ensure fast, smooth, and safe processing of all transactions.	Status Reports
	II.2.1.3 Conduct assessment of the Malawi Capital markets Infrastructure to establish compliance level with CPSS-IOSCO Principles for Financial Market Infrastructures ⁴ and ensure sufficient upgrades are made where deficiencies are noticed.	Medium	End-December 2021	<u>NPS</u> , FM, MSE, ICT	Ensure that Malawi capital markets infrastructure contributes positively to effective risk management and global capital markets integration.	<ul style="list-style-type: none"> • Self-assessment report • Action plan

⁴ <https://www.bis.org/cpmi/publ/d101a.pdf>

	II.2.1.4 Improve technical capacity of personnel managing Malawi capital markets infrastructure	High	On-going	<u>FM</u> , NPS, MSE, ICT, CAMSU	Ensure optimized use of Malawi capital markets infrastructure	<ul style="list-style-type: none"> • Training needs assessment reports • Training Reports
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II.3 Improve Market Intermediation of Malawi Capital markets.

Recommendation II.3.1	<i>Increase number of key intermediaries to levels deemed adequate based on need and fair competition principle.</i>					
Performance Indicator	Number of licensed institutions per category of intermediary					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.3.1.1 Create an environment that will enable establishment of an adequate number of key capital markets intermediaries including credit rating agencies and market makers.	High	On-going	<u>FSR</u> , MSE, CAMSU, FM, BASU, PISU,	Have a robust market intermediary chain that fairly competes to enhance innovation and reduce transaction costs.	Number of new licensed institutions

Recommendation II.3.2	<i>Ensure sufficient availability of key professionals in Malawi capital markets intermediaries and embark to close the skills gaps identified.</i>					
Performance Indicator	<ul style="list-style-type: none"> • Number of qualified personnel per profession and designation operating in Malawi capital markets • Number of resource persons in the pool for each profession 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome

	II.3.2.1 Determine and enforce minimum qualifications (certifications etc) and other recommended requirements for an individual/an institution to be allowed to operate in Malawi capital markets as an intermediary and support their provision and attainment.	High	End-June 2021 Ongoing afterwards	<u>FSR</u> , MSE, FM, CAMSU, BASU, PISU	Enhance competence in Malawi capital markets intermediation	<ul style="list-style-type: none"> • Document detailing minimum desirable qualifications for one to operate in Malawi capital markets. • Skills gap analysis report
	II.3.2.2 Mobilize the best possible resources and facilitate provision of specialized training to close the practical skills gaps of professionals operating in Malawi capital markets.	High	On-going	<u>FM</u> , FSR, BASU, CAMSU, MSE	Enhance competence in Malawi capital markets intermediation	Training design reports
	II.3.2.3 Develop a local pool of resource persons and affiliate to reputable international bodies that provide in-door training.	Medium	End-December 2021 On-going afterwards	<u>FM</u> , MSE, CAMSU, FSR, BASU, PISU, MoF	Reduce long-run costs of enhancing human capital in Malawi capital markets	List of Malawi capital markets development accredited fellows and affiliated bodies committed to assist in trainings
	II.3.2.4 Attract reputable international capital markets intermediaries to operate in Malawi capital markets.	Medium	On-going	<u>CAMSU</u> , FM, MSE, FSR, BASU, PISU	Increase skills importation to complement trainings provided under II.3.2.2	List of international intermediaries per category of capital markets intermediation

Recommendation II.3.3	<i>Demutualize the Malawi Stock Exchange and position securities exchanges for growth of capital markets.</i>					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.3.3.1 Develop a roadmap for demutualization of MSE and strategic positioning of all securities exchanges to aid development of Malawi capital markets.	Medium	End-December 2021	<u>FM</u> , FSR, CAMSU, MSE, MoF	Strategically position MSE and potential securities exchanges to be effective and efficient implementing agents of MCMDP.	Road map

Recommendation II.4.1	<i>Establish and enforce highest possible professional and ethical standards for professionals working in Malawi capital markets.</i>					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	II.4.1.1 Adapt the ethics and professional standards advocated by relevant reputable professional bodies for use in Malawi capital markets.	High	End-December 2021	<u>FSR</u> , MSE, CAMSU, FM, PISU, BASU, MCMA	Have ethics and professional standards that are well respected in global capital markets	Adapted ethical and professional standards documents
	II.4.1.2 Carry out awareness campaigns on ethics and professional standards.	High	On-going	<u>MCMA</u> , FSR, MSE, CAMSU, FM, PISU, BASU,	To act as a preventive measure for unethical and unprofessional behaviour	Progress reports
	II.4.1.3 Encourage reporting of and deter unethical and unprofessional behavior in Malawi capital markets.	High	Ongoing	<u>MCMA</u> , FSR, MSE, CAMSU, FM, PISU, BASU,	To increase probability of detecting unethical and unprofessional behaviour that would act as a powerful preventive measure	<ul style="list-style-type: none"> • Anonymous reporting lines • Procedure for deciding on and effecting corrective action

III. IMPROVE LEGAL, REGULATORY, AND POLICY MAKING FRAMEWORK OF MALAWI CAPITAL MARKETS

III.1 Promote Sound and Responsive Legal, Regulatory, and Policy Making Framework

Recommendation III.1.1	<i>Assess the adequacy of existing laws, regulations, and policies governing capital markets operations</i>					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	III.1.1.1 Review existing laws and regulations to ensure that all capital markets operations are adequately covered.	High	End-December 2021	<u>LEGAL</u> , FSR, MoF, CAMSU, PISU, BASU	Ensure that all capital markets operations have adequate legal backing to reduce risk and enhance trust in Malawi capital markets.	Gap analysis and remedy reports

Recommendation III.1.2	<i>Promote stability of the capital markets to contribute to system wide financial stability.</i>					
Performance Indicator	<ul style="list-style-type: none"> Standard deviation of MASI (as measure of stock market volatility) Risk premium on corporate bonds 					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	III.1.2.1 Adopt international standards for macro-prudential regulations that include effective monitoring of systemic risks.	High	End-December 2021	<u>EPR-Financial Stability division</u> , BASU, PISU, FSR, CAMSU,	Ensure early detection and management of system-wide risks.	Full set of Macro-prudential regulations including domestically systemic integrated banks framework by End-December 2021.

Recommendation III.1.4	<i>Build capacity of the judiciary and other law enforcement authorities to improve effectiveness of commercial justice delivery.</i>					
Indicators	Number of legal practitioners and law enforcement authorities qualified in financial law.					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	III.1.4.1 Conduct capacity building initiatives to ensure that the judiciary and other law enforcement authorities are well conversant with the capital markets issues.	High	End-December 2021 On-going afterwards	<u>LEGAL</u> , FSR, MoJ, FM, BASU, PISU, CAMSU, MSE	Ensure that there are competent judiciary and other law enforcement authorities	Training reports
	III.1.4.2 Develop a financial law short course at reputable tertiary institution(s) in Malawi.	High	End-December 2021	<u>LEGAL</u> , FSR, MoJ, FM, BASU, PISU, CAMSU, MSE	Ensure that there are competent judiciary and other law enforcement authorities	Financial law short course offered at reputable tertiary institution(s) in Malawi.

III.2 Promote good Corporate Governance, Quality Financial Reporting, and Fraud Detection

Recommendation III.2.1	<i>Ensure compliance with best corporate governance principles for state and non-state enterprises.</i>					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	III.2.1.2 Develop, promote and enforce principles of good corporate governance for parastatals, and other government related bodies.	High	End-December 2021	<u>CSC</u> , LEGAL, FSR, CAMSU, MSE,	Ensure proper management of borrowed funds to enhance investor trust in use of Malawi capital markets	<ul style="list-style-type: none"> • Principles of Good Corporate Governance for Companies • Compliance reports

Recommendation III.2.2	<i>Ensure compliance with internationally recognized financial reporting and audit standards, and improve fraud detection.</i>					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	III.2.2.1 Enforce up to date internationally recognized financial statement reporting and auditing standards.	High	On-going	<u>CAMSU</u> , MSE, CSC	Ensure financial statements reflect real economic activity and performance	Compliance report
	III.2.2.2 Publicize channels for reporting suspected financial statement misrepresentations that need to be investigated.	High	End December-2021	<u>FSR</u> , CAMSU, MSE, PISU, BASU, FM	Improve fraud detection	<ul style="list-style-type: none"> • Fraud reporting lines publicized • Fraud detection and investigations reports • Procedure for deciding and effecting corrective action

III.3 Enhance Investor Protection from Malpractice

Recommendation III.3.1	<i>Enhance Investor protection.</i>					
Implementation Strategies	Action points:	Priority	Timeframe	Responsibility (Underlined means a lead implementer)	Strategic Objective for the action point	Outcome
	III.3.1.1 Develop guidelines and standards for investor protection.	High	Dec 2021	<u>FSR</u> , CAMSU, MSE	Protect investors from potential unscrupulous conduct of financial services firms.	<ul style="list-style-type: none"> • Guidelines and standards

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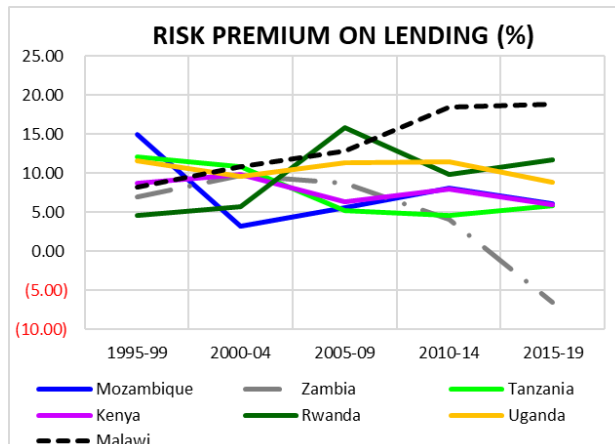
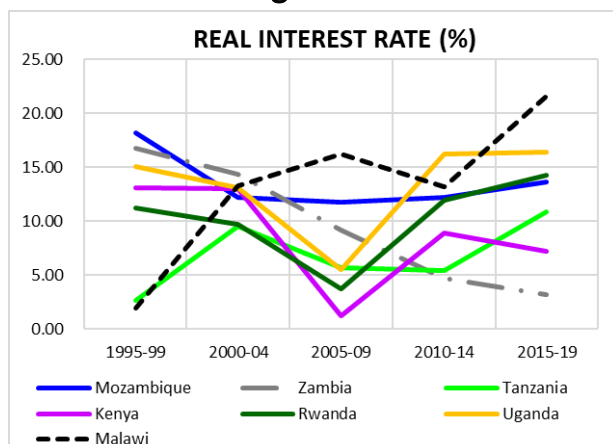
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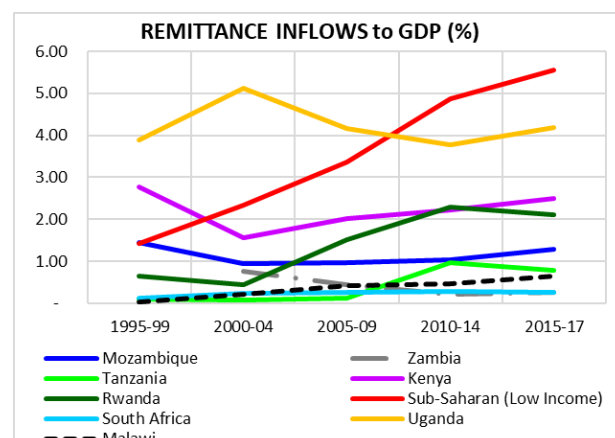
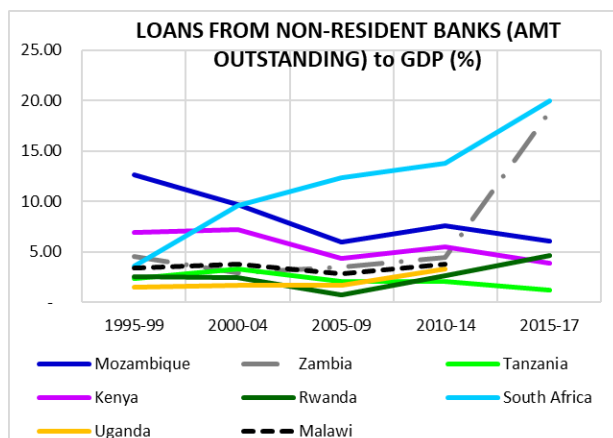
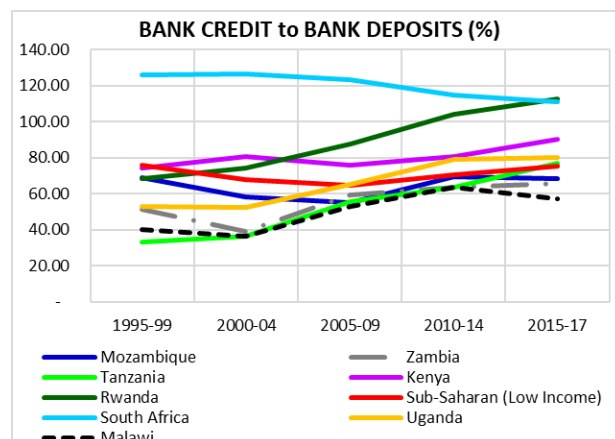
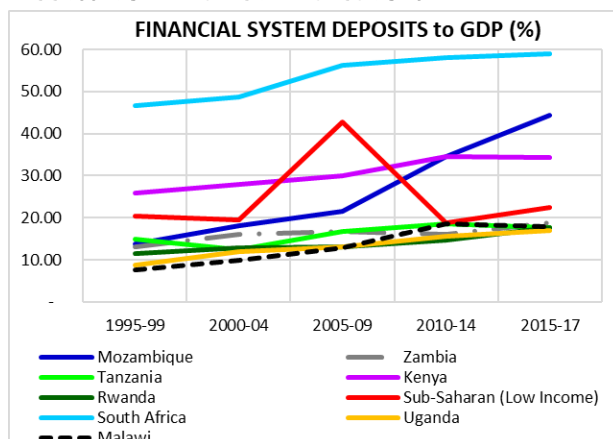
APPENDIX

Cost of Borrowing Indicators

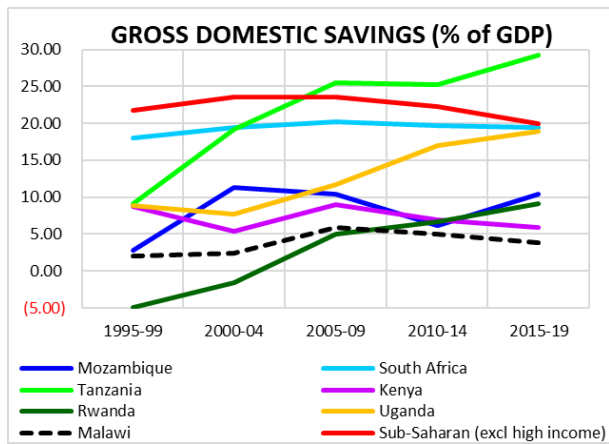


Source: World Bank, World Development Indicators

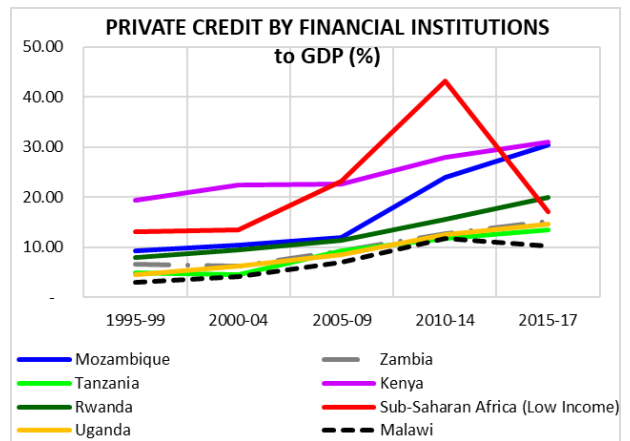
Access to Finance Indicators



Source: World Bank, Financial Structure Database

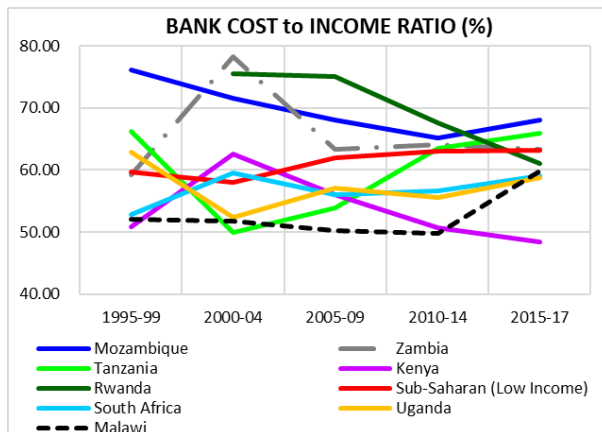
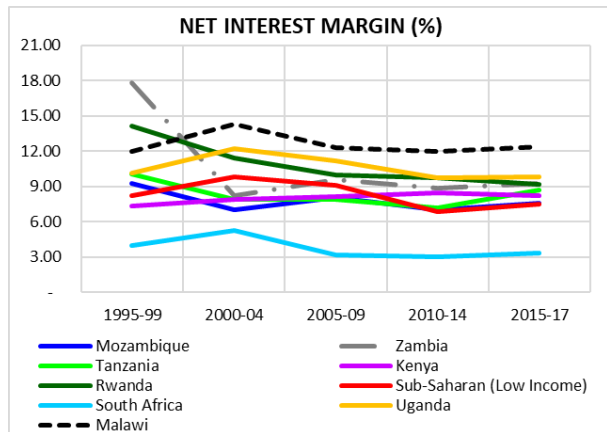
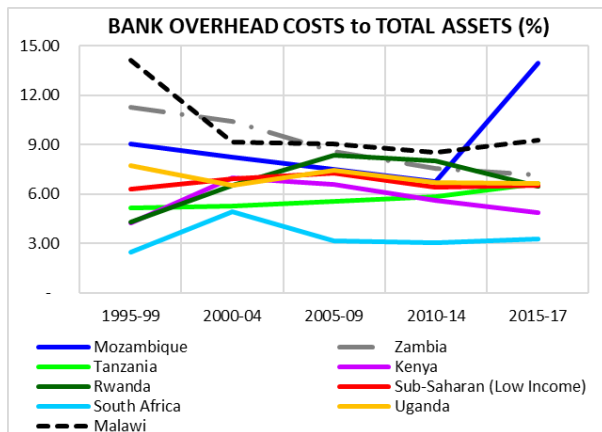


Source: World Bank, World Development Indicators



Source: World Bank, Financial Structure Database

Commercial Banks Intermediation Indicators



Source: World Bank, Financial Structure Database