C. MUSCCO FINANCIAL AND FIELD SUPPORT ACTIVITY

1. Funding Levels and Project Goal, Purpose, and Objectives

The Malawi Union of Savings and Credit Cooperatives (MUSCCO) project no 612-0205 was initially funded at a level of $774,243 on 25 August 1980. Additional USAID funding is as follows:

TABLE 4
MUSCCO Support

Project Phase	Support Agency and/or Program	Amount in US$
1980 to 1985	WOCCU	726,871
1985 to 1991	WOCCU Cooperative Agreement *	1,633,580
1985 to 1988	READI Project	720,000
1989 to 1993	READI extension funds *	406,588
	READI sub-total	1,126,588
1991 to 1996	WOCCU/MUSCCO	3,510,000
1996 to 1998	(WOCCU)/MUSCCO with NASFAM: SSDP**	1,103,741
1999 to 2001	Barents Technical Assistance	625,114
1999 to 2002	MUSCCO Financial Assistance	549,934
1980 to 2002	**TOTAL USAID ASSISTANCE**	**US$ 10,402,416**

* Notes in the report mention some confusion in accounts and transfers of remaining funds from one project to the successor project.
** As of November 1997 SSDP funds had not been fully committed.

Source: Kevin Billings (PWC-Harare) and Charles Whyte (USAID/Washington), Final Report: Review of Rural Financial Services in Malawi with Special Reference to USAID Support to Malawi Union of Savings and Credit Cooperative (MUSCCO), March 1998.

Project Goal: To develop a national cooperative savings and credit society (credit union) financial system serving the savings and credit needs of low-income rural people in Malawi.

Project Purpose: To develop a strong, broad-based credit union movement, contribute to raising the rate of growth of domestic savings, loan capital, and eligible borrowers.

Objectives: For Barents Technical Assistance and MUSCCO Financial Assistance:

- Improve MUSCCO's financial management—a detailed review of the existing systems and an action plan to make improvements, development of user friendly financial reports for programmatic decision-making;
- Improve financial self-sufficiency for the Central Finance Facility (CFF) and MUSCCO operations—analyze CFF's administrative cost recovery, review asset reinvestment, review share capital policy, and prepare action plan for CFF's financial self-sufficiency;
- Expand and strengthen rural Savings and Credit Cooperative Societies (SACCOs)—develop tactics to alter the current perception that SACCOs are for savings and loan only, and introduce insurance products for member SACCOs; and

- Expand savings mobilization in rural areas by strengthening the existing rural SACCOs and help to establish new rural SACCOs by using awareness campaigns, radio messages, publications and promotional materials, and collaboration with other USAID activities under NASFAM.

2. Findings

a. The Early Years

The credit cooperative movement in Malawi was predominantly rural, having been started in the Mzuzu Diocese of northern Malawi by a Canadian priest (Father Roy). These first savings and credit cooperatives (SACCOs) were small (20 to 50 members). A private voluntary organization (PVO) called Promotion, Education Advisory Committee (PEAC) was set up in 1972 with the goal of promoting cooperative savings and credit societies in Malawi. With the assistance of the now defunct African Cooperative Savings and Credit Association (ACOSCA) and with private foundation support from Germany and Switzerland, PEAC began promoting cooperative credit and savings societies, particularly in the northern part of the country, doubling the number of societies to 18 and quintupling membership to over 6,000 members. At the end of 1979, collective savings of all members amounted close to $352,000, loans outstanding were $367,000 and assets $398,000. As part of the MUSCCO project, PEAC was to disappear and be replaced by the creation of MUSCCO, a second-level cooperative savings and credit society to provide financial and other services to the primary societies that owned it.

MUSCCO was in fact registered on September 15, 1980. At that time, membership had grown to 7,800 members, savings to $450,000 and loans to $442,000. The World Council of Credit Unions (WOCCU), the international arm of the US Credit Union National Association (CUNA), managed the project.

As the project started, 16 of the 18 societies were rural, as was 95 percent of the membership and almost 99 percent of the savings. The other two unions were made up of school employees, and of, employees of Malawi Railways, respectively. Most lending was also in rural areas, about half of it for agricultural purposes, followed by loans for small businesses and trading.

Information on the first five years of WOCCU support to the MUSCCO and the SACCOs is scant. Nevertheless, from 1980 to 1993, while the number of SACCOs grew from 18 to 130, many of them had woefully small memberships, assets, and member savings/shares. Total membership had risen to from under 2,000 to about 24,000 by 1994, but still constituted only 0.3 percent of Malawi's population. Participation by women was only 28 percent in 1993 and remains a problem today. Loan delinquency at the time averaged over 10 percent, and was worse among rural SACCOs, particularly those in the north. A large number of SACCOs were not active, and, in fact, many were moribund. At the beginning of 1994, forty-four dormant SACCOs had to be disaffiliated (and 14 more were under consideration for disaffiliation), leaving 86 SACCOs in operation.

A number of factors affected the growth of the movement. Cooperatives had failed in the early 1960s and had the same bad name in Malawi, as they were to acquire in most of eastern and southern Africa. Under President Banda, there was no support for the development of representative and democratic community organizations, which were viewed as a threat to the

Government's monopoly on political power. Furthermore, until the liberalization of the 1990s, rural people had little chance for financial advancement in an economy dominated by estate-sector agriculture. As dictated by the ideas of the founders of the movement, the major goal of most of those who joined cooperative savings and credit societies was to obtain low-interest loans. Attuned to the needs of borrowers, these SACCOs had little to offer potential savers. Despite dramatic changes in income and aspirations of members, in many SACCOs, attitudes remained unchanged; especially in the North, many SACCOs still refused to accept the fact that they had to run their operations in a businesslike way and that the SACCO is first and foremost a financial institution and not a benevolent or charitable institution. The movement had started in the North on the basis of donated funds, which does not provide members as strong an incentive for loan repayment as is the case when loans are made out of member savings. Interest rates had been kept low in keeping with the philosophy of cheap credit for borrowers espoused by the movement's founders. Leaders in many SACCOs were slow to understand the need for market rates of interest, in order to support the development of viable financial institutions to serve the needs of the masses. Relatively higher rates are necessary in SACCOs serving areas where transactions costs are higher because of greater distances to be covered to reach members. Furthermore, MUSCCO with the support of WOCCU set up SACCOs all over the country without any apparent strategy for concentrating efforts on those areas and those SACCOs with the greatest potential for development.

By 1994, SACCOs were paying share dividends of 10 percent, based on 1993 fiscal year results; these dividends were well below market rates of interest available from other institutions. With few exceptions, SACCOs did not offer their members the option of interest bearing deposit accounts. The societies were only authorized to take savings deposits in 1993. By 1997, nearly 30 percent of them still were not taking deposits, and for many of those that took them, deposits were symbolic rather than significant in relation to their total assets (perhaps because deposits did not count as do shares when determining the size of a loan that a member is eligible for). SACCOs were operating under the 1947 Cooperative Societies Act, which granted considerable powers to the Registrar of Cooperatives; these powers included the overall supervision of the system and the ability to restrict the dividend rate, normally limiting it to low levels. Additionally, the Act made no specific provision for savings and credit cooperatives, and it treats cooperatives as social welfare instruments rather than as business enterprises. This view, of course, runs counter to the new business-orientation of the SACCOs, which MUSCCO was trying to promote. Nevertheless, because of a lack of resources, the Registrar of Cooperatives could not, and still cannot, carry out its assigned responsibilities, nor can he provide the supervision that SACCOs require as institutions handling savings, particularly where SACCOs encounter problems with their management.

MUSCCO's role in assisting SACCOs was advisory rather than supervisory or regulatory. MUSCCO was not in a position to correct the anomalies that it encountered in working with member SACCOs. For example, in cases where board or committee members of the SACCOs were failing to pay their loans, this situation called for obligatory withdrawal from their posts until they were again current in their obligations, and MUSCCO could only remind leaders of their obligations. It could not force compliance with the rules under which the SACCOs operated. The Registrar could, in theory, have acted in such cases, but was impeded from doing so by the lack of sufficient resources.

The March 1998 Review of Rural Financial Services which concentrated most of its attention on MUSCCO, concluded that only 36 percent of funding over the 1985-1996 period (the 1980-85 period was not analyzed due to lack of data) actually reached MUSCCO, and that 64 percent went for technical assistance from WOCCU. It concluded that MUSCCO would have been much further along in its development, if a greater proportion of the $7.4 million in financial assistance provided by USAID had been channeled to the organization. There is some question as to the validity of this assessment, however. There is no denying that international technical assistance is expensive in local terms. However, it should be noted that, at the time, domestic technical capacity in financial services was woefully lacking, and it is not clear how this assistance could have been provided more cheaply in some other way. Much of the capacity that now exists both within MUSCCO and its member SACCOs was developed with the support of WOCCU. Furthermore, because of the mobility of staff trained by WOCCU and MUSCCO to other financial institutions, it is fair to say that the overall capacity to deliver financial services in Malawi has been improved, because of the assistance that USAID provided to the savings and credit movement through MUSCCO.

Membership in SACCOs affiliated with MUSCCO grew from 7,600 in 1980 to 50,000 in 1997, at an annual rate of over 11 percent, which is exceptional. However, most of this growth occurred at the end of the period during which MUSCCO received support from WOCCU. For example, between 1993 and 1997, membership grew at a 25 percent annual rate from 20,417 to nearly 50,000. This is compared to the 1980 to 1993 period, when growth had been at a much more modest 8 percent. Loan delinquency during the period that MUSCCO was receiving assistance from WOCCU was held to an acceptable 5 percent.

There were 109 SACCOs in 1997, 43 of which were rural community-based. These rural-based SACCOs accounted for 39 percent of the number of SACCOs and 37 percent (18,400 members) of membership. Membership in these SACCOs increased by 59 percent between 1993 and 1997, growing faster than the employee-based SACCOs. Rural, community-based SACCOS had a low percentage of system assets and member savings; the focus for many of the members joining was on getting a loan rather than on saving, and in fact lending in rural SACCOs rose dramatically (3.5 times) in the 1993-1997 period. Still, most of the inactive or dormant SACCOs were rural. Urban employee-based SACCOs still accounted for most of the assets (81 percent), shares and deposits (80 percent), and loans (81 percent) of the system. Women accounted for only 22 percent of members in 1997.

MUSCCO itself was not making a profit, nor were many of the member SACCOs (despite some exceptions, like the Reserve Bank of Malawi SACCO). To make MUSCCO viable, a 1993 survey concluded that SACCO financial management would need to be improved and their collective market share increased. The goal of the 1991-1996 Rural Economic Activity Development Initiative (READI) project was to assist MUSCCO to achieve both financial and technical self-sufficiency. However, the 1998 study of rural financial services correctly made the point that MUSCCO could become financially self-sufficient by following the same strategy that the commercial banks have followed: withdrawing from high-cost rural-based SACCOs and concentrating on more profitable urban areas. However, this approach would not be consistent with MUSCCO's own mission, nor with the support that USAID has been providing to increase rural incomes. USAID's support encouraged MUSCCO to expand rather than contract its services to dispersed rural SACCOs, and to focus lending on higher risk agricultural activities subject to the vagaries of nature, of markets, and of contradictory Government policies.

To summarize, MUSCCO received financial support from USAID and technical support from WOCCU from its inception in 1980 until 1996. For the period from 1985 to 1996 for which reasonably clear data exist, 64 percent of support went to WOCCU for technical assistance and only 36 percent to MUSCCO for all other purposes. The total amount of resources allocated (not including the SSDP program which effectively started after the end of WOCCU technical assistance) was $6.7 million. Over much of the period MUSCCOs efforts seem to lack focus, with all SACCOs receiving equal access to resources, including many small SACCOs that ultimately proved not to be viable and had to be disaffiliated, after considerable waste of effort, time, and other resources that failed to make them viable financial entities. Most of the growth in membership occurred in the last few years of this phase of MUSCCO's development. Because of USAID's commitment to supporting rural incomes, a higher proportion of MUSCCO's efforts went to developing rural SACCOs than might otherwise have been the case. This focus detracted from MUSCCO's own profitability and from the profitability of the system as a whole.

b. The Smallholder SACCO Development Program (SSDP)

The Smallholder SACCO Development Program (SSDP) was the only program of support available to MUSCCO at the time that its relationship with WOCCU was terminated. MUSCCO had not and still has not achieved financial sustainability and needed the resources that the program provided. The program proposed to target five community-based SACCOs in communities with a heavy concentration of smallholder farmers: one in the North, two in the Center and two in the South. This work was carried out in conjunction with NASFAM, whose clubs and members constituted the core of the targeted SACCOs. These SACCOs were assisted to employ qualified managers, provide training, and give commodity support (filing cabinets, furniture, safes, and computerization). DANIDA complemented USAID's assistance by paying for the construction of permanent buildings to house these SACCOs.

The total program amount was $550,000 and was channeled directly to MUSCCO for the first time between 1999 and December 2001 (later extended to February 2002). Technical assistance for specific improvements needed in MUSCCO systems was provided by Barents, based on short missions without the presence of a long-term advisor. Project components consisted of the following:

- SACCO training, governance, financial management, book-keeping, etc;
- Staff development: short courses and workshops for MUSCCO employees in-country and regionally;
- Radio programs on SACCOs and the importance of savings (In English and Chichewa);
- One vehicle; and,
- Office rent, salary and benefits, and operational support to implement the program.

An issue in this program has been NASFAM's insistence that members in newly created SACCOs be exclusively NASFAM members, thus guaranteeing the members control of the SACCO. MUSCCO and other consultants (Billings and Whyte) have pointed out that community-based SACCOs with a broader membership (teachers, other professionals, traders, etc.) are more likely to be able to have funds available when they are needed for loans. A SACCO which is composed solely of farmers who may demand loans all at the same time, which is precisely the time that none of them have any spare funds for savings (out of which loans should be provided for). Despite these caveats, experience does show that NASFAM members indeed are less risky clients than scattered members (independent farmers, traders, etc), and are more easily monitored to assure loan payments. For example, in a SACCO visited in Ntcheu during fieldwork, all NASFAM members had paid their loans (because NASFAM deducts loan amounts and pays the SACCO before paying the farmer). On the other hand, up to 60 percent of non-member farmers and traders who have loans from this SACCO are delinquent; follow up has been weak, due to the initial lack of sufficient transport, failure to institute stop-orders on tobacco sales in the first year of the lending program, and due to the wait for a new manager to be hired, instead of taking immediate steps to force delinquent members to pay.

Discussions are underway with Land O'Lakes concerning the possible formation of SACCOs composed of dairy farmers in Mzuzu and Lilongwe, either alone or in concert with farmers associated with NASFAM. (NASFAM's reticence to have its farmers included with non-member farmers or those from other institutions has been noted earlier.)

Even in non-SSDP SACCOs, marketing efforts have been assisted by MUSCCO. In Dedza, for example, the Teacher's SACCO was able to attract 113 new members (a 19 percent increase) by providing short-term loans to non-member teachers to show them the benefits of SACCO affiliation. The Central Finance Facility provided the SACCO with MK 1.0 million to on-lend to non-members (maximum loan amount of MK 10,000). The SACCO changed bookkeepers in 1999 and since doing so has consistently been making profits. The members also decided to increase interest rates (from two to five percent monthly), and found no member resistance to the change, once it was voted in. There have been some discussions concerning including community members other than teachers, but the change is generally opposed by members, as reducing the common bond, as well as making loan collection more difficult -- since payroll deduction, which is the current loan recovery method, would not be possible. No action has been taken to increase the low percentage of women members (12 percent), and despite the success of the recent marketing campaign with CFF funds for loans to non-members, only about 10 percent of all teachers in the district are members of the SACCO.

MUSCCO also manages a life insurance fund based on an assessment of 0.25 percent of assets per month (3 percent per year). This program makes a profit every year, but auditors became concerned when MUSCCO used part of the net revenue of this fund one year to make severance payments to workers. The concern is that with the increased incidence of AIDS (which is excluded from benefits due under the program) and given the probability that death certificates will be falsified to exclude AIDS as a cause of death, payouts could rise dramatically, break the fund, and threaten the financial integrity of MUSCCO. A proposed British Aid program to finance the establishment of SACCOs for market vendors in Lilongwe and Blantyre is also being held up by these same fears. DFID is funding an actuarial study before committing its funds.

MUSCCO has been encouraging member SACCOs to improve their financial management. It has provided frequent training courses, and has also worked with officers and staff. In some cases, it found that staffs simply did not have the competency or education to take full advantage of the training that MUSCCO provided. In some cases, directors were reluctant to dismiss such staff, despite their inability to adapt and learn new systems -- because these staff members were more amenable to facilitating directors' access to loans or to favorable treatment with respect to their overdue loans.

c. Future Steps

The support received by MUSCCO under the SSDP program has been effective and has improved the efficiency of many of the rural SACCOs formed. The delay in starting did cause problems with one of the SACCOs when funding was not available at the time that operations were scheduled to start. In general, however, the SSDP program has been effective in establishing and strengthening community based SACCOs in some rural areas. NASFAM farmers have responded appropriately and in some SACCOs have combined well with teachers and other members to form a well-functioning organization. In SACCOs formed around a core of NASFAM members, mechanisms still have not been put into place to handle the higher risk associated with non-NASFAM members.

The financial viability of new SACCOs is the focus from the start, with minimum membership for a new SACCO set at 500 members and minimum share capital per member set in the MK 500 to 1000 range. SACCOs that meet these requirements can hope to reach financial viability and the ability to hire qualified, professional managers within a short period. MUSCCO is providing the training and on-site supervision which these newly established SACCOs and those being revived, need in order to progress satisfactorily and to adopt newly installed systems and procedures.

USAID's support ended in early 2002, having achieved the objectives set out in the agreement of expanding and strengthening rural SACCOs. MUSCCO itself is a much stronger organization technically and financially, as a result of the support received over the 1999-2002 period. However, MUSCCO will need additional support in the future for it to continue to support the expansion of savings and credit societies, particularly in rural areas, and in order to be able to meet potential demand for the services they need. Marketing efforts, in particular, need to be supported to increase membership and to make societies financially viable in the long term.

3. Conclusions

The SSDP has achieved its objectives of improving MUSCCO's financial management; it has helped to increase its financial self-sufficiency through the appropriate use of the Central Finance Facility; the numbers of rural SACCOs have been increased (in partnership with NASFAM) and some existing SACCOs have been strengthened; and there is a heightened awareness of the importance of savings and the ability to do so through rural SACCOs, as a result of a media campaign carried out as part of the support provided by SSDP.

Some common bond SACCOs have yet to seriously consider the possibility of opening up their membership to a broader spectrum of the community, so as to increase their membership and, to potentially provide more and better services to existing and new members.

Marketing efforts in some SACCOs, despite assistance from MUSCCO to enlarge membership through special loan funds from the CFF, are insufficient and only a small fraction of possible members are joining. DANIDA had planned to provide assistance in marketing, but unfortunately did not do so before leaving Malawi. MUSCCO needs to do more to market the kinds of services SACCOs can provide in both urban and rural areas.

As part of these efforts, a better understanding is needed of the potential market, for which marketing studies could contribute. SACCOs do not have the resources either human or financial to carry out such studies on their own. MUSCCO's own resources are inadequate to finance the kind of a media campaign that would be required to make a meaningful contribution to public awareness of SACCOs, including the services that they can provide, and their benefit to members.

At this point, the use of manual systems virtually guarantees the development of serious management and financial accountability problems: confusion in accounts, lost revenues, misappropriation, and failure of a SACCO to operate as an efficient business organization. Many SACCOs have failed to computerize, due to lack of resources to do so; some are still operating in rented facilities (such as the Dedza teachers SACCO) where electricity supplies are undependable or entirely lacking for months on end (because the owner, in this case the municipal council, does not pay its electric bill).

Supervision of savings and credit cooperative societies is insufficient. Though MUSCCO does a good job of providing advice, this advice is often ignored. Where members' savings are put in jeopardy by improper management or operation of a SACCO, outside supervision and the imposition of sanctions are necessary.

4. Recommendations

Recommendation 1

Additional support is required to allow MUSCCO to expand and provide services through SACCOs to a higher proportion of the population, particularly for those living in rural areas.

Recommendation 2

Resources should be concentrated on SACCOs with the highest likelihood of success, regardless of their location. Malawi is a rural country, and the linkages between urban segments of the population and agriculture are extremely close. Therefore, even the development of urban SACCOs favors the rural population.

Recommendation 3

Collaboration with NASFAM in establishing SACCOs in conjunction with its members should be encouraged and supported by USAID and MUSCCO; however, such collaboration should include opening of these SACCOs to a broad spectrum of the communities they serve, while recognizing and dealing with the higher risks associated with members who are not associated with NASFAM by differential procedures, loan levels and guarantees. (Collaboration with LOL for SACCOs for its dairy farmers should also be considered.)

Recommendation 4

Marketing campaigns should be a major focus of future work with MUSCCO to increase and broaden membership in existing SACCOs. Special efforts are needed to encourage membership by women, who are still underrepresented. USAID should support MUSCCO's efforts to improve the marketing of SACCOs and the services they offer.

Recommendation 5

Loan collection efforts need to be more vigorous and need to start immediate after a single payment becomes overdue. This may require additional resources (motorcycles, laptop computers, etc.), which USAID should consider providing, in view of the encouragement it has provided for SACCOs to form in hard-to-serve rural areas.

Recommendation 6

The actuarial study being proposed of the loan life insurance fund should be carried out, as is proposed by British Aid. However, in view of past experience in fund operation, which is highly positive, no programs should be deferred, held in abeyance pending study, or unless these programs are cancelled as a result of fears of the impact of AIDS on the program.

Recommendation 7

As rural, community-based SACCOs develop, better communications will be needed. MUSCCO should have the resources to provide an initial grant to such SACCOs of a sufficient number of motorcycles to insure adequate supervision of delinquent members. A radio system, such as that already being used effectively by NASFAM, should be considered as well.

Recommendation 8

Weekly radio programs are needed to promote membership in SACCOs, as one part of the more general media campaign to promote recognition of SACCOs and to market their services.

Recommendation 9

Accounting systems at all new SACCOs and retrofitting of systems at existing SACCOs need to be computerized. If the operation is too small to justify the cost of computerization, consideration should be given to closing them, or merging them with other SACCOs that are financially viable. Where power interruptions or voltage fluctuations are problematic, consideration should be given to using laptop computers whose batteries make operations possible, in spite of these problems. SACCOs operating in premises not having electricity should be helped to move to locations that do.

Recommendation 10

Supervision of the system needs to be upgraded, either by transferring this responsibility to MUSCCO itself or by supporting the development of such capability within the Registry of Cooperatives. In view of the importance of supervision to the safe operation of a savings based system and in view of the long-term support of the savings and credit cooperative movement, USAID should consider providing some of the resources needed to introduce effective supervision into the system.

Recommendation 11

If any dispute remains over the disposition of SSDP funds, a local audit should be commissioned to clarify outstanding issues and provide a full accounting and complete accountability for these funds. There are reliable, internationally affiliated, Malawian audit firms with competent national and international staff. These firms are well versed in auditing donor-provided funds.

5. Lessons Learned

- Correcting misconceptions of the role of savings and credit cooperative societies takes a long time and a concerted effort. When a program has started initially with the wrong approach -- using donor grants instead of savings for loan capital and providing low interest loans to the poorest-of-the-poor instead of market rate loans to those able and willing to repay them -- it is hard to convince members to put their SACCOs on a sound financial basis and to run them in a businesslike way.
- Future similar programs should be based right from the start on sound business principles and should pay market rates of interest to attract savers, and should charge borrowers what it costs to obtain funds from savers, or by institutional borrowing plus the transactions costs of doing business. (This approach was adopted by NASFAM from the start for its affiliated clubs and associations and should be emulated by MUSCCO and by similar institutions for their member SACCOs.)
- Savings rather than donated loan capital should be the basis for most lending in savings and credit cooperatives. However, where most members are farmers requiring loans all at the same time, to finance planting and other crop operations, access to external sources of funds may be necessary. In the longer term, a broader spectrum of membership may be necessary for the internal generation of savings combined with bulk borrowing of funds (possibly with guarantees such as that which could be provided by USAID's Development Credit Authority) needed for lending to finance members' farm operations.