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THE MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES

CREDIT UNION DEVELOPMENT PROJECT

USAID 612-0214

TECHNICIAN'S FINAL PROJECT REPORT

FOR THE PERIOD

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I. SUMMARY

This is a summary of the first two years of the READI/WOCCU/MUSCCO Project from the period of June, 1985 to May, 1987. It is the WOCCU Technician's review of the progress of the project and the prospects for the future.

The goals of the READI project are to increase the long-term financial viability of MUSCCO, its member credit unions and other institutions that would provide credit to small- and medium-scale entrepreneurs, primarily in the rural areas, to increase the technical and financial services provided by MUSCCO and others in order that the clients would derive maximum benefits from the credit, and to increase the operational efficiency and the overall effectiveness of these groups.

To accomplish the above for MUSCCO, loan funds were provided by the project to make short and long term loans possible. Monetary assistance for MUSCCO operations was made available, and technical assistance was provided for through two organizations, the World Council of Credit Unions and Africare. The WOCCU technician was to be one that would direct his attention to MUSCCO financial management and planning. Attached is a Job Description that details the activities that were expected of the WOCCU Technician, (Appendix A).

Prior to the inception of the project, three major institutional weaknesses were identified as areas that had to be overcome if MUSCCO would improve beyond its present status. The first was that the Societies would have to attract greater savings to become financially viable. The second was that training programs needed to be expanded to increase member understanding and participation in the movement; and third, that MUSCCO needed to improve its services while remaining a small and cost efficient organization.

In the two year period of the project, the Technician has refined the description of the above weaknesses and identified or dealt with numerous others that were a major contributing factor to a well run organization.

It is important to delve into these matters in this report because they are the basis for the direction of action and what changes in planned operation were made. All projects, I assume, need a little fine tuning. This one appeared to be in need of some major strategic maneuvering. The process was akin to peeling the leaves of an onion. One problem analysis led to the discovery of another closely intertwined with it.

From a historical view point, it is probably best to take the above three identified weaknesses and analyze them to clarify existing problems. The first, and what turns out to be by far the most important, was the mobilizing of more savings in the societies.

It is quite clear now that in previous years, the type of person attracted to membership in the credit union has been almost exclusively a borrower. Individuals interested in saving have been using other

institutions, or other ways of saving for a multitude of reasons. A survey done during the course of these two years identified the low rate of dividend and the difficulty of withdrawing savings by members as prime reasons for not saving in the credit unions. The READI Project proposal also identified these problems with a quote from the Price Waterhouse report of 1983. Almost all members wanted to borrow the maximum amount every year. All the funds that they put into the credit union were immediately borrowed back by the same people, always in hope that they might gain a little more by leverage. As they became aware that no significant larger sums were readily available, they tended to hold onto their present loan, described as "their money", and were not willing to pay the loan back, nor the interest due. The lack of interest earnings meant that the credit unions could not pay dividends, thus discouraging future savers and giving rise to a feeling that the credit unions are not successful. They could neither provide excess funds for credit in any substantial amount, nor could they pay a return on savings. If a credit union could pay a dividend, it was limited by law to 5%, which did not in any way compete with available rates of 10.75% at the Postal Savings or other banks.

As time progressed and operational expenses were met by share money rather than earnings, it became difficult for the credit unions to meet even the share secured loan demand of their members. The cycle of distrust and delinquency then intensified. The degree of problems magnified as the credit unions became older and larger. Average savings per member was K59.00.

In a way, the emphasis on the credit aspects by the staff worked at odds with the goals of increased mobilization of savings. Time and resources were concentrated on the difficult task of implementing the new credit program to the detriment, or at least the postponement, of the efforts needed to begin a strong drive to increase savings.

In the minds of most members, the main purpose of managing their co-operatives was to provide credit, which was somehow going to come from other sources. Since few of the members were of a savings type, the vision of the resources available to them by savers in their own village was not something that they could imagine. Through surveys and analysis during the last two years, it is now clearer what that potential is, and it has been incorporated in the new projected outputs (Appendix C).

I will move now to the second identified problem, that of the training programs. Lack of skilled staff is not an insurmountable problem, but staff that could cope imaginatively with the above problems in an effective manner certainly have to be at a premium. The existing staff had concentrated in the area of auditing of the societies. This is a whole area of work that was not identified in the planning stages, nor specifically allowed for in the budgeting process. The responsibility for performing these audits was that of the Ministry through the Co-operative Department. For their own reasons, they had been unable to perform this duty, but since it was an obvious necessity that audits be done, the MUSCCO staff assumed that role. It was estimated that this task was taking them up to one third of their working time. Under

these circumstances, time left for training of existing credit union officers and their members, or the organization of new societies, was severely limited. This was particularly true of the Northern and Central regions where a concerted effort was made to penetrate the distant rural areas.

Over the years it was hoped that "education of members" would provide for a greater mobilization of savings. In practice, for the most part, the definition of savings meant a permanent investment in the Society. A member in need of cash had the option of borrowing against this savings or of closing his membership. Certainly, the aspect of risk insurance fostered this worthy ideal, but in my opinion, a very limited amount of money would be saved this way by farmers. Most farmers recognize the need to save for emergencies or the unexpected. It is precisely at this time that they do not wish to borrow or commit themselves to repayment. They want access to their money. In many instances, it is good disciplinary strategy to take a loan instead, and force yourself to repay, or "replenish your savings", but that is a very sophisticated message to teach to even those used to a cash economy. The options the farmer has of a similar nature of investment is a fixed deposit at 14% and a loan at 19% at the bank (if the bank is available). He could put it in the Post Office Savings Book at 14% and withdraw it at the end of the term of the deposit. If he wishes to withdraw it when needed, he would receive 10-3/4%, tax free. Now, a borrower would put money in a Credit Union to hopefully earn a 5% dividend and, hopefully, leverage 10% to 30% more on a loan. This preoccupation with leveraging would clearly lead them to think of "their money" and "loan money" as separate things. This has been the result over the years. Idealism and commitment to build for the future needs to be encouraged. The need for credit is so strong now.

What is needed now is some planned strategy to encourage the credit unions to make withdrawals easier. The bylaws already provide that the Board may require 30 days' notice before withdrawal. This is probably not sufficient, and it should definitely not be interpreted to mean only total withdrawal or closing of membership. A staged number of advance days' notice needed before withdrawal, going up as the amount increases, could be very effective and flexible. It would permit a credit union to seek very short-term loans from Central Finance for the purpose of honoring withdrawals. The basic capital must come from the members, who save as they do in other institutions, and do not need to borrow the entire amount back each planting season. Nearly half of the officers of credit unions have indicated to me that they have such types of savings at other institutions.

The financial statements of borrowers on long-term loans, reviewed by MUSCCO, have also indicated a similar pattern among that calibre of member. No one knows how much of the 65 million on the Post Office Savings Bank could be switched to the credit unions, given a higher dividend rate and easier access to the savings. But if even one million was switched, it would double the size of the credit union movement in Malawi. That one million is five times as much as the present loan volume of Central Finance.

*C.U.'s a
minor
player in
financial
system.*

Other training services that MUSCCO provided centered around bookkeeping education. A new system of bookkeeping had been introduced and was being used by about half of the credit unions. The new system, while being much more informative in the final monthly report, was considerably more complex. It was, and is, a difficult system to teach to volunteers with few years of education.

The third area of weakness that was identified was the need for MUSCCO to improve its services and to improve in self-sufficiency. This is a multi-faceted area, but quickly focuses on the Central Finance program as a major component. The Central Finance at MUSCCO could best be described as in a state of near collapse at the beginning of the project. Responsibility for the department had been assigned to the Assistant General Manager, but his duties also included the supervision of the field staff, the auditing program (of which he did much personally) the Insurance program, a major component in the training programs, and numerous other duties that fell under the job description of the Assistant General Manager. The bookkeeping of the Central Finance was the responsibility of the Bookkeeper, who was incompetent as bookkeeper and had no understanding of credit facilities. In addition to that, it was later discovered that he had been involved in embezzlement activities that started almost six months prior to the beginning of the project.

All records of Central Finance were out of balance. Establishing correct records was hampered by a sloppy record filing system and unwillingness on the part of the Bookkeeper to disclose information. Complete accuracy could not be established for six months, at which time the embezzlement was discovered. Delinquency rates were about 80% and rising. Nearly all current loans were those that did not have a payment as yet due. No interest was being paid on a quarterly basis, as was called for by the policies. Increased capitalization requirements were often being met by loan advances. Payment of dues was also often met by Central Finance loans with payment schedules going eighteen to twenty months. No loans were being disbursed nor were applications being approved. The last approval, six months prior, was still waiting for disbursement. Operations of a credit union could not be properly analyzed as their financial statements were inaccurate and often not available. Two of the three Credit Committee members were newly elected to the position one month after the project started. The following month was the beginning of the season for the 1985 agricultural loans. At that time, only 23 of the credit unions were eligible, even at minimum standard criteria to be able to borrow from Central Finance. Most of the loans were less than \$1,000.00 in size. To all of this we were under pressure to design and begin to implement a credit program to grant large business loans to people in the rural areas.

Other aspects of self-sufficiency and control systems were impossible to even assess for sheer lack of data from the accounting department. Even the past MUSCCO audits were of no assistance. The 1983 audit had just been completed, but nothing meaningful had been gleaned from it either on paper or by a management report. The 1984 audit was started in September of 1985, and all bookkeeping records needed to be brought

up to date in order to perform the audit. The auditors were hired to do this. They completed their 1984 and 1985 audit in June, 1986.

There were some other major problems that MUSCCO faced that were not identified in the project document prior to the inception of the project. First and foremost of these was some internal dissention going on in the Northern Region. Since this was the area of the largest credit unions, the manner in which they responded to MUSCCO's leadership in development greatly affected the past and present output figures for the project.

The dissention was instigated and fostered by a single outsider in the Northern Region who had access to special funds to hire staff to carry his message, and to, in effect, bribe the societies into the type of behavior he desired of them. His advice and his recommended actions were all geared to causing a division between MUSCCO and a select group of the Northern Credit Unions. He urged non-cooperation with the aims of the MUSCCO Project, the non-payment of dues or capitalization, and the non-payment of loans due to Central Finance. This conflict presented an ongoing problem that consumed much time, energy and resources. It appears at this point to have been finally resolved, but it remains to be seen, in time, if this is really the case.

Another ongoing problem that perhaps could not be seen or anticipated was the degree of difficulty in getting decisions or responses from the government office under which MUSCCO was regulated. This feature not only consumed time, but in many cases tended to compound problems that needed to be dealt with in order to progress. The activities of the cooperatives are a lower priority in the managing of the affairs of the Ministry of Trade, Industry and Tourism. Their influence was acutely felt during the time of hiring the new MUSCCO Accountant. The hiring process was complicated enough in itself, but due to the government influence in this decision, the process took over eight months to position the new man.

The interest and dividend rate structure set in the cooperate law is at the heart of most of the societies' problems. The low rate of interest on loans did not even compensate for the average inflation rate over the past years. A member would be foolish not to borrow all he could at the stated rate of 15% per year. This rate, in turn, made it impossible to pay a competitive rate of dividend, or interest on deposits, even if it had been allowed. This problem was not highlighted because the members in the credit unions were there primarily for the purpose of borrowing. Action to change the law on this was severely slowed by the inactivities and lack of understanding of the problem, by the people responsible. As is often the case, the learning curve was slow because of preconceived knowledge in this area and the reluctance to change established patterns.

The project plan called for the construction of a building for MUSCCO. The land was to be donated by the Government. The Government's requirements for the building it wanted MUSCCO to construct on the site made it impossible to construct within the allowed funds. This was

finally resolved by the purchase and remodeling of an existing building, but again, the time consumed in that process was extensive.

Finally, the project called for a work plan for how MUSCCO intended to accomplish the goals of the project, and one that could be used by the auditors and the coordinator to monitor the progress of MUSCCO. The plan submitted by MUSCCO at the inception of the project was not deemed to be acceptable, and a new planning process and report system was introduced to MUSCCO to accomplish this task. This process, while necessary and extremely valuable, consumed extensive hours of time. It would be safe to say that approximately a total of three full weeks' time of each of the MUSCCO management staff was spent in complying with this requirement in the second quarter of the project.

It is with the background of all of the above-mentioned activities and problems that I now list the specific activities that MUSCCO was involved in for the first two years of the project. An addendum of the original project implementation schedule and outputs is attached (Appendix B). Revised projections for outputs through the extended period of the project -- to December, 1989 -- are listed on a separate attachment, which included the new target outputs (Appendix C).

II. OBJECTIVES OF THE PROJECT

The objectives of this project, while stated in a general way by the READI Project document, are probably best defined in particular by a review of the Technician's Job Description (see attached). It was obvious from previous studies that strengthening of the societies was a great need and that the MUSCCO office needed systems of control in multiple areas. In addition, there was need to establish a management system of planned development, and this related specifically to the development of the Central Finance.

A. Financial Management

The Technician's Job Description called for implementing a financial system in the accounting area. It included statement preparation, budgeting and budget controls. With the advent of the accountant in July, 1986, all this was accomplished and made a regular part of the Board meetings in an understandable manner. In addition, the General Manager receives frequent reports of various natures. The area of improvement needed here is for specific training of the General Manager in how to use this information. Local training classes are now available and the Technician has recommended that the Manager, together with the Accountant, attend these classes.

The adaptation of income generating policies was called for. To collect dues, policies were adapted to require dues to be paid before Central Finance loan applications could be reviewed. Additionally, MUSCCO Board members had to have dues paid on time in order to retain their seat on the Board. Voting at Annual General Meetings was permitted only to dues-paying members. Finally, a 5% discount of dues was offered to those societies who paid on time. The progress in this area was outstanding. In August, 1985, only 10 credit unions had paid the current years' dues. By December of that year, all but 14 had paid the current dues, and two had arranged to pay previous years' dues over a period of time. By August, 1986, all but eight had paid the current years' dues, and by December, 1986, all had paid except seven, three of which paid part of their dues. By March, 1987, 29 had paid dues in full and one made a partial payment. Ten have not paid as yet.

It should be noted that some of the societies had extra difficulty paying dues during this period, because the paying of their Central Finance loan meant the paying of previous years' dues, which had been deducted from a Central Finance loan advance.

The collection of quarterly interest in Central Finance, or monthly on large loans, was an important aspect of income generation. This discipline was difficult for the societies

to learn, because they had not previously done it, nor were they used to planning ahead for even next month's expenses. In the lean months of the year during the crop growing season, they tended to put off all obligations. No new Central Finance loans were given if the society was behind on its obligations, and a reduced rate of creditworthiness if they were even deficient in this area. Advance notice of interest due was sent to the societies and quick follow up was made by letter or field staff if they failed. Most societies were prompt. A few were one or two months late, and only a couple were put on the delinquent list for being two or more months behind. Dividends were not paid to those who were put on the delinquent list. At this point, there is no reason to feel that interest or principal payments will increase the delinquency rate except for perhaps the possibility of some of the long term loans which are difficult to access at this time.

It was necessary for political reasons and for practical reasons to lower the planned 9% interest rate on Central Finance loans at the beginning of the project. The spread available to the credit unions with their regulated rate of 12% was insufficient to cover costs. However, the lending of loans for businesses under the Project loan fund was done at 11% and 16% respectively, which compensated some for this loss. Ultimately, preferably by August, 1988, all Central Finance loans should be at 11%. This will be both income-producing and good for the societies. It will force them to raise their rates to 16% or 18%, which will then enable them to pay a 10% dividend. This strategy is currently being written into an institutional work plan.

A system to receive regular, monthly payments of insurance has been initiated in 1987. At present, only 35% of the participating societies pay monthly. A number are paying twice a year. Income for MUSCCO is based on premiums collected.

Policies regarding interest on staff loans need to be adjusted. At present, no future staff loans are being given and past debts are being collected. A small amount of income was expected from collection of fees for the auditing of societies. This was not closely monitored and it was apparently difficult to collect, as the Co-operative Department made a point of not assessing fees. Under the new suggested changes in the Act, the responsibility to audit will be that of MUSCCO, and an audit department will be set up. It is being planned to set up a system of daily charges for auditing. This will hopefully encourage the societies to both cooperate more in the audit, and keep their records in better condition.

A new account has been opened in the New Building Society to enable MUSCCO to acquire interest on savings on a daily

basis. In 1986 an account of this sort would have realized an additional K4,000.00 during the year. Other areas of income generation are really expense control, and are gradually being instituted by the accountant and the general manager as they get a handle on the processes.

The job description called for assistance, as required, with the Central Finance Officer. What actually happened was that the Technician became the Central Finance Officer. The Central Finance policy manual was rewritten after numerous changes were made, and the manuals and education on all aspects of Central Finance were done by him. In January, 1987, these duties were handed over to MUSCCO staff and, at the present time, there seems to be no slippage in the quality of work being performed. The present Central Finance Officer had been working somewhat closely with the Central Finance Department for a number of months and is also well acquainted with the inner workings of the societies. He is well acquainted also with the subtle working system of the preapproved loan system that had been initiated last year. Because of the distance that the Credit Committee has to travel and the need to disburse money in a timely fashion during the growing season, this system was introduced. It gave the Committee time to analyze the credit unions' operations during the course of the year, and then concentrate more attention on problem credit unions at the time of the loan request. As is evident, this department represents the greatest tool for control over the management behavior of the societies, and, of course, it is the most important source of income to MUSCCO.

Another loan type introduced was a modification of the existing development loans. A policy was made to use this type of loan in Central Finance to finance the cost of stationery, cash boxes and calculators for newly registered credit unions. The supplies for these credit unions are then sold at cost and an interest rate of 6% applied to the loan. This aided both the bookkeeping problems of the societies and set up a monitoring system for the collection of stationery bills. In addition, it brought the society into the mainstream of Central Finance activity and is the impetus for the formal registration of the society with MUSCCO. The registration fee for MUSCCO membership is deposited in Central Finance as an entrance fee.

The development loans are also anticipated to be used to help credit unions acquire low-cost office space. None have been done to date, and it will take a close analysis to determine the feasibility of the credit unions to be able to pay back the loan. The cost of the buildings is very small, and it is likely that a credit union of K5,000.00 might be able to handle the loan if the payments could be staged properly over the present five year limit.

B. Planning

The job description calls for the Technician to, in conjunction with the MUSCCO Board and staff, develop action planning systems consistent with the societies' needs and resources. This process has only recently been initiated in the Southern Region with the societies, but it is detailed in the work plan for the next two and a half years. The plans are simple in nature, but felt to be a reasonable approach to the abilities of the volunteers.

The planning at the MUSCCO Board level is also just beginning. To date, most planning has been done by MUSCCO staff with review and approval from the Board of Directors. With the accumulation of data, the Board is now indicating a desire to be part of the planning process. They feel both more of a sense of ownership of the position and a responsibility to perform their duties in this area. Regular meetings and a systematic approach to giving them information is the major reason for this.

From a practical standpoint, the MUSCCO staff in the past has been attempting to get the societies to do the basic planning of meeting financial obligations on time and developing a system of producing regular reports. Strategic planning has been, in effect, delegated to education committees which may or may not be active in the societies, and to date only small doses of education have been provided to these groups of volunteers.

The Board now has the beginnings of a policy manual which puts them in touch with all past policies that they have approved relating to many aspects of management. Many policies were considered approved after discussion at the Board meeting without formal decisions being voted on. These procedures are gradually being incorporated into the manual. Additional office policies are being collected for the purpose of compiling a manual for the staff. Any present policies that are written are incorporated in the "conditions of service" set up some years ago. These are mostly adhered to, but there has been some slippage in vague areas. The Board of Directors now all have copies of this document.

A great deal of strategic planning went into the formation of the new additions in the Cooperative Act and the corresponding changes in the societies' bylaws. The changes incorporated here will affect the basic operations of the societies for many years to come. Due to the pressures of time, again, the Board could not play an active role in this process. They were kept informed and did add some items before the final draft. Some of the key changes were in the reserve requirement and the interest and dividend rates.

The entire planning process of writing quarterly, yearly and project work plans, required by the READI coordinating director, has been a great education for the MUSCCO staff. Initially, much of the writing was actually being done by expatriate staff, but at the present time, the Malawian staff has taken over that role. The process of writing out what and how they intend to accomplish specific goals has helped to clarify their own plan of action. Of course, it has made them more committed to achieving these goals. Since many aspects of the project were constantly changing, due to unforeseen circumstances, a great amount of practice in this activity was gained. The prospects for clear planning of the next five-year project are enhanced.

C. Administrative Systems

The strengthening of the MUSCCO administrative system included a hope for an improved office management system, a personnel management system, recruitment of staff and policy and procedure manuals.

The office management systems underwent a great deal of change during the course of the two years. Cash flow and documentation systems were streamlined and introduced and have worked satisfactorily for over a year and a half. Procedures for handling registered mail were changed to increase efficiency. Filing systems were put on an alphabetical system, brought up to date, and old records cleaned out. The mail distribution system was changed from a pattern of all mail going through the General Manager's desk to departmental routing. Systems of reporting from departments were then initiated, and, as of the last six months, weekly management staff meetings were initiated. As upper level management has assumed new tasks, jobs have shifted downward to lower level management. The tasks performed by one secretary of limited abilities at the onset of the project, are now performed by an administrative secretary and two assistants. Supervision of the messenger/janitor has also been delegated to that department. The administrative secretary is part of the management team. Clear job descriptions have been made difficult because of frequent changes in staff to accommodate changes in emphasis implementing the project as it developed, but this has not proved to be a serious matter. In most cases there was fairly clear understanding of what tasks were to be done by each, and with close cooperation and common cause, the staff seldom developed conflicts based on unclear job descriptions. It was simply that job descriptions were not written down as they changed.

Other matters of a personnel management system left much to be desired. The biggest of these is the evaluation of staff. There are now some planned goals to tackle this problem in the next two years, but specific steps have not yet been set. It probably will be an extremely difficult task, as it seems to

be almost contrary to the culture to dig into or expose incompetencies of an individual. As the staff gets larger, management can build on the strengths of individuals and steer each towards his or her potential, but until then, some tasks will have to be done by certain staff in order to have planned growth and development of the credit unions. Steps being considered toward individual accountability for field staff for certain societies may go a long way toward tackling this problem. While at the office level, tightening up accountability for sick time and weekly expenses and such things will also improve performance.

The hiring of staff is undergoing some changes at the present time. In the past it was felt that the Board needed to take a very close and active part in the selection of staff. This could be because of the concern about the strong family ties in the culture. At any rate, any job advertisements can bring as many as two hundred applications. After shortlisting, interviews are completed and references checked, there is often as much as a three month notice required before an employee may leave a job. Now with lower-echelon staff, this process is shortened by delegating it to the General Manager.

As was mentioned earlier, most office-type policies, if they were written, were incorporated in the "conditions of service paper" which is given to each employee. There is a need now, particularly with the expanded staff and the departmentalization of the office, to accumulate the other office standard practices in a manual. In recent months, a number of conflicts and confusion have arisen because of unclear processes for handling regular matters. The weekly management meetings have ironed these out nicely, but to date no one has had the time to accumulate this information in a written manual.

D. Training

Training programs have been carried out in the two years for members, at large, officers, Study Clubs, field staff, and MUSCCO Board members. Local seminars for members have decreased due to lack of time of the field staff. This needs to be intensified in order to strengthen the grassroots nature of the movement. The training of officers has greatly improved and expanded to those officers not reached in the past years. The staff has clearly identified the training needs in this area. The approach to what will be the most effective way to go about this is now under discussion. Urban and rural societies are recognizing sufficient differences in their operations to be calling for more specialized training. Smaller groupings may be more effective and even less costly, due to transportation and boarding costs. Field staff training is now firmly established as a quarterly meeting and on-the-job supervision will begin with the coming of the Training Technician. This appears to be the critical area in

the staged development of MUSCCO and the societies. There are obvious weaknesses in field staff that are affecting the operations of societies. Other office staff are picking up their training on the job, or on special programs in or out of the country as they may develop.

The formal training of MUSCCO Board members has been minimal. Only two days in the past two years were allocated for this. However, the on-the-job training has been extensive, and great changes are quite apparent in the manner in which they perform their Board functions, and the quality with which they perform the Credit Committee tasks. The functions of the MUSCCO Supervisory Committee are non-existent. One attempt was made to get members involved in something in this area, but nothing came of it. Board members now have a policy manual and other materials, and are now getting a clearer vision of their role of setting direction.

E. Institutional Development

The original institutional development plan has been referred to above. The planned implementation schedule and outputs were adhered to during the two years and the results as of the year-end 1986 are enclosed in a separate attachment. (Appendix B). The planned increase in membership and savings in the societies would have meant a lower average savings per member. It did not work out that way. The average savings is now K76.00 per member and the target for the coming years has been set in Appendix C. The education going on in the societies is to press for better quality members and those that will more actively save. This is to be stressed at least until a stronger credit union develops that can then incorporate and educate weaker members. For example, a small credit union of high quality members has achieved an average savings of almost K300.00 per member. This type of measurement is probably the best indicator of the trust and confidence members have in their credit union.

A major effort in the development of societies has been the concentration on the excessive delinquency. It seems that for the most part, the delinquency was a paper entry only. Most loans were secured by the members' own shares. It is felt by the staff that many of these loans represent an effort on the part of members to withdraw some or all of their savings. The members did sign a paper, printed in English, that was a combination loan application and promissory note, but again, it is felt that maybe they didn't understand what they were signing, or that perhaps they did it anyway just to get "their money". The credit unions, on the other hand, were unaware how to deal with these loans after they became even six or seven years delinquent. During this last year, they have begun to close these accounts, and the average delinquency is rapidly falling. The end of the year figures show delinquency at about 40% (accuracy of figures is much better, but still in

error), and the targets for watching this progress are also listed in Appendix C.

The basic developmental strategies, of course, have been the changes made in the law to permit interest and dividend rates closer to market rates. As the legal process was underway, the educational process with the societies began. In my opinion, there seems to be a strong receptivity to the raising of both loans and dividend rates, and some societies have already done so prior to approval. Actually, when it was suggested to the societies to charge 16% on their long-term business loans, it was anticipated that the Government would be able to approve these higher rates prior to the collection of payments. This did not happen, but all of these loans are out at 16%. The ten percent maximum dividend rate is close to the passbook rate of the other institutions, and the societies have the advantage of life savings insurance, the closeness of location, the advantage of credit, and of course, the pride of development and ownership that can help to overcome the disadvantages of lack of security and previous bad reputation of cooperatives in the country.

A key step was taken in August of 1985 in developing a program called "Class A" credit unions. This program set standards of operational procedures that the unions could strive for and emulate. A small package of benefits was awarded to those credit unions who had achieved these standards, and a framed certificate was presented to them. The pride that this engendered and the efforts to maintain these standards is story in itself. The standards may be a little loose by outside viewers, but they were attainable in the first year by six credit unions and again, the targets for this program are in Appendix C. It will be quite easy to tighten up or increase the standards in future years, and I would recommend it. Due to the riskiness of the long-term business loans, it could have been planned to have these loans available to only Class A credit unions. Some detail in this direction is being written into the new workplan.

F. Audit and Inspection

Previously mentioned was the whole field of auditing and inspection of the societies. This activity is rapidly undergoing extensive changes. As has been noted, the official responsibility for doing the audits was that of the Cooperative Department. Due to a variety of reasons, they were unable to perform these over the years, and since it was an extremely necessary function, the MUSCCO staff assumed that role. In the first year of operation a society is not given a full audit. The only inspections are the routine inspections given to all societies at each visit. With the rapid growth of societies, this function began to consume noticeable amounts of time during these last two years.

It was estimated that approximately one third of staff time was spent on this. In the second year, even with increased staff and some help from the Cooperative Department, about seven of the active societies had still not received an audit. Others had not had the benefit of staff follow-up on audit recommendations. Even the quality of audits was showing greater disparity and lack of uniformity, probably due to new personnel. The head of the activities was called upon for many other activities, primarily for the assumption of the duties of General Manager during the five months of the General Manager's training in the U.S.A.

During the redrafting of the Cooperative Act, it was a decision most welcomed by the Cooperative Department to separate the legal responsibilities for the inspections of the unions, to require that the Cooperative Department would assume the role of annual examination of the loan portfolio and other assets of the credit unions, and MUSCCO would officially have the responsibility for the rest of the audit process. On the basis of this plan, MUSCCO began plans to set up an audit department and allocate special funds and personnel for this task. This process should greatly affect the activities of the field staff and enable them to concentrate on the education and training of officers of the credit unions. It will also permit increased time to be spent on developing Study Clubs which are constantly clamoring for attention. Additional powers of authority were granted to both the Cooperative Department and to MUSCCO to enable either to enforce compliance of the Laws.

Resident Advisor's Job Description

Position: Financial Management and Planning Advisor

Supervisor: Executive Director, The World Council of Credit Unions,
or others as delegated

The Technician will be responsible for providing on-site technical advice to the Malawi Union of Savings and Credit Co-operatives (MUSCCO) and its affiliated credit unions, in addition to normal project liaison and project reporting.

Description of Duties

A. Financial Management

In collaboration with the Association's Board and General Manager, the Technician will develop and implement financial management systems such as accounting, financial statement preparation, budgeting and budget control and income-generating policies. The Technician will work closely with the Central Finance Officer and the Risk Management Officer in the development of appropriate policies and procedures for these programs and will assist, as required, in implementing the programs.

B. National Association Planning

1. The Technician will work in close collaboration with the Association's Board and staff to develop and implement strategic and action planning systems consistent with affiliates' needs and resource availability.
2. The Technician, in collaboration with the Board and General Manager will develop a Management planning and control system for MUSCCO.
3. The Technician will assist the Central Finance Office officer in identifying and developing strategy planning, management lending and collection policies, information retrieval and financial accounting for the Central Finance facility.

C. Establish Central Administration of National Association

In collaboration with the Association's Board and General Manager, the Technician will assist in the establishment of Central administrative systems, including: office management systems, a

personnel management system, recruitment and hiring of staff as necessary; and developing relevant procedural and policy manuals.

D. Training

In collaboration with the Board, the General Manager, and the Field Service Supervisor, the Technician will advise on the content of training programs, participate in formal training programs as appropriate, and assist in the preparation of written manuals, training materials and audio-visual teaching aids.

E. Institutional Development

In collaboration with the Board and the General Manager, the Technician will assist through both formal and on the job training, in assuring that the institutional development program functions and processes are being accomplished. This will involve periodic performance evaluations of those responsible for the processes, and helping develop strategies to accomplish the objectives of the program.

F. Inspection and Auditing

Together with the General Manager, the Board, and various consultants, the Technician will help establish regular inspection and auditing services for local societies.

APPENDIX B1

	Projected*		Status
	<u>Year 1</u>	<u>Year 2</u>	<u>Dec. 31, '86</u>
1. Number of local seminars	12	50	15
2. Number of members participated local seminar	1,260	5,250	800
3. Number of regional seminars		3	3
4. Number of committee employee and members trained		150	175
5. Number of national seminars		1	1
6. Number of committee members trained		50	64
7. Number of staff trainings	1	1	4
8. Number of staff trained	9	9	31
9. Number of trainings for Credit Committees	3	3	3
10. Number of Credit Committee members trained	135	135	95
11. Number of Central Finance workshops		3	3
12. Number of workshop trainees		135	210
13. Annual general meetings		1	1
14. Number of new societies organized	2	10	11
15. Number of new societies registered	1	7	2
16. Total number of societies registered	48	55	58
17. Number of societies affilaited to MUSCCO (38)	42	47	47
18. Total membership in societies (13,386) (000)	14	16	14
19. Total members' savings (MK 809,000) (000)	815	848	1,090
20. Loan outstanding (own funds) (MK798,000) (000)	844	907	1,203
21. Central Finance loans (MK 35,300) (000)	170	300	187
22. Societies participating in Risk Management (Insurance) program	40	45	42

	Projected		Status
	<u>Year 1</u>	<u>Year 2</u>	<u>Dec. 31, '86</u>
23. Members savings insured (MK 571,000) (000)	631	678	950
24. Loans insured (C.U. funds) (MK 530,000) (000)	675	725	832
25. Loans insured (Central Finance) (000)	170	300	
26. Number of societies participating Central Finance	40	45	46
27. Societies share savings in Central Finance (MK 13,000) (000)	27	30	36
28. Societies deposits in Central Finance (000)	4	10	2
29. Number of borrowers (societies) from Central Finance	30	35	39
30. Societies inspected/visited by MUSCCO staff	47	54	55
31. Number of societies audited	40	45	46
32. Financial statistical report from affiliates	40	40	52
33. Number of societies buying stationery/ supplies	37	54	52
34. Cross sales of stationery/supplies (MK)	1,000	4,500	5,050
35. Income/margin from sale of stationery/ supplies	200	900	300
36. Dues from affiliate societies (MK)	3,100	5,900	6,089
37. Income/margin from Central Finance (MK)	3,500	8,800	10,622
38. Risk Management (Insurance) commission (MK)	420	1,400	653
39. Equipment sale margin (MK)	400	600	
40. Audit and other fees (MK)	500	550	229
41. Investment income (MK)	2,000	2,500	3,184
42. Seminar fees (MK)	400	450	530

*Year 1 = June 1, 1985 to May 31, 1986

Year 2 = June 1, 1986 to May 31, 1987

MUSCCO

Projected Implementation Schedule
(by quarters)

	<u>Year 1</u>				<u>Year 2</u>				<u>Status</u>
	1	2	3	4	1	2	3	4	
1. Recruit/select Financial Mgmt. Advisor	x								Complete
2. Recruit new MUSCCO staff:									
-Field operations supervisor				x					Changed: assigned to AGM
-Asst. field officers				x					Complete
-Clerical staff				x	x				Complete
3. Post financial mgmt. advisor	x								Complete
4. Prepare/design 3 yr. workplan				x					Complete
5. Acquire commodities:									
-Vehicle				x					Complete
-Motorcycles				x	x				5 or 7 purchased
-Furniture/Equipment				x	x				In process for new building
6. Construction of MUSCCO office					x	x			Building purchased
7. Train MUSCCO staff					x				Ongoing
8. Revise MUSCCO central finance credit policy					x				Complete
9. Conduct central finance workshop				x	x				Complete
10. Consultant on:									
-Training								x	Complete
-Management							x		Complete
-Central finance					x				Complete

Projected Implementation Schedule (Continued)

	<u>Year 1</u>				<u>Year 2</u>				<u>Status</u>
	1	2	3	4	1	2	3	4	
11. Conduct seminars/ training									
-Local			x		x	x	x	x	Ongoing at a reduced rate
-Regional							x		Complete
-National							x		Complete
12. Train credit committee members						x			Ongoing
13. Submit report on credit funds			x		x	x	x	x	Ongoing
14. MUSCCO annual general meeting							x		Complete
15. Prepare and submit quarterly monitoring report			x		x	x	x	x	Ongoing
16. Review/modify MUSCCO budget			x		x	x	x	x	Complete
17. Establish MUSCCO regional offices						x			In progress
18. Revise/update/ develop training materials			x		x	x	x	x	Ongoing
19. Design and implement data collection system			x		x	x			Ongoing
20. Provide technical assistance to societies			x		x	x	x	x	Ongoing
21. Promote new societies			x		x	x	x	x	Ongoing
22. Conduct project monitoring/assessment							x		Ongoing
23. Develop 5-year plan					x	x			Postponed
24. Hold quarterly meetings with organizations participating in the project			x		x	x	x	x	Ongoing

Projected Implementation Schedule (Continued)

	<u>Year 1</u>				<u>Year 2</u>				<u>Status</u>
	1	2	3	4	1	2	3	4	
25. Project evaluation									
26. Participate in annual project review				x				x	Complete
27. Review MUSCCO work-plan								x	Complete
28. MUSCCO audit					x				Complete through 1985
29. Design MUSCCO mgmt. planning and control system					x	x	x	x	Ongoing
30. Develop lending and collection policies, information retrieval and financial accounting for central finance				x	x				Complete
31. Repatriation of technician									Complete

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Projected MUSCCO Outputs

No.	Activities	1986	1987	1988	1989
1.	Number of local seminars		30	30	30
2.	Number of members participating in local seminars		1,500	1,500	1,500
3.	Number of regional seminars to be conducted	9	6	6	6
4.	Number of committee employees trained		360	360	360
5.	Number of National seminars to be conducted	1	1	1	1
6.	Number of committee members trained	50	70	80	90
7.	Number of staff training	4	4	4	4
8.	Number of staff trained	9	9	12	12
9.	Annual general meeting	1	1	1	1
10.	Number of new societies organized	9	15	10	10
11.	Total number of societies registered	59	68	78	88
12.	Total membership in societies	14,090	15,000	17,000	19,000
13.	Number of societies affiliated to MUSCCO	47	60	70	80
14.	Total members shares (savings)	1,907,846.00	1,500,000.00	2,500,000.00	4,200,000.00
15.	Loan outstanding	1,236,505.00	1,600,000.00	2,600,000.00	4,500,000.00
16.	Central Finance loans	187,000.00	255,000.00	300,000.00	350,000.00
17.	Societies participating in risk management	43	58	68	78

No.	Activities	1986	1987	1988	1989
18.	Average Savings (shares per member)	K77.00	K100.00	K150.00	K225.00
19.	Number of societies participating in Central Finance	46	58	69	80
20.	Societies shares savings in Central Finance	K37,000.00	K55,000.00	K110,000.00	K200,000.00
21.	Society deposits in Central Finance	K2,000.00	K3,000.00	K4,000.00	K5,000.00
22.	Number of societies (borrowers) from Central Finance	34	54	63	70
23.	Number of loans	59	69	87	100
24.	Financial/Statistical monthly reports from affiliates	71%	80%	85%	90%
25.	Dues from affiliates	K6,089.00	K7,500.00	K20,000.00	K30,000.00
26.	Number of societies paying dues	39	39	50	60
27.	Income margin from Central Finance	K10,022.00	K20,000.00	K25,000.00	K35,000.00
28.	Investment income	K3,184.00	K4,000.00	K8,000.00	K15,000.00
29.	Seminar fees	K530.00	K500.00	K600.00	K700.00
30.	Number of societies paying dividends	6	10	20	25
31.	Society delinquency	40%	25%	20%	15%
32.	Monthly payment of Insurance premiums	50%	60%	80%	85%
33.	Central Finance delinquency	12%	9%	8%	6%
34.	Societies with paid or part-time treasurer	29	35	45	50

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No.	Activities	1986	1987	1988	1989
35.	MUSCCO self-sufficiency	21%	22%	25%	30%
36.	Societies audited	46	55	62	70
37.	Societies inspected/visited by MUSCCO	54	68	78	88
38.	Audit fees		K450.00	K500.00	K600.00

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REPORT ON FIRST MONITORING REVIEW,

OF READI PROJECT (JULY 1986)

FOR USAID/MALAWI.

AUGUST 1986

- 1.17 Further, we recommend that management undertakes a thorough review of all sub-projects in default or in trouble, and follows up with appropriate action - either provision of support or foreclosure - to reduce the default level. As noted above, we also recommend that management instigates a wide-ranging, active search for new dynamic sponsors and new viable projects, and tightens up loan appraisal and disbursement procedures, to raise the quality of the projects in the portfolio.
- 1.18 SECTION 5 turns to MUSCCO and examines loan policy and operating systems in the light of weaknesses and suggested improvements set out in our Inception Report. We were pleased to find that considerable progress has been made in most of the areas of concern. Central fund loan policy has been clarified, and workable criteria for assessing the creditworthiness of societies have been developed and implemented. Societies have responded encouragingly in terms of improved financial performance and reporting, together with reduced delinquency. MUSCCO has developed further its procedures for loan applications, disbursement and monitoring, which appear simple and workable.
- 1.19 A key area of remaining concern is MUSCCO's internal accounting systems, which are incomplete and do not provide adequate information for effective financial planning and control. This problem results from a lack of adequate accounting personnel in the past, which has, hopefully, been addressed with the recent recruitment of a new accountant. We have agreed a short-term action plan with the accountant, setting priorities for strengthening the basic systems.
- 1.20 SECTION 6 reviews MUSCCO's institutional development plans. The plans do show a clear sense of purpose and, for the most part, contain measurable objectives with achievable targets. Significant deficiencies of the plans, however, concern the role and training of field staff, where there is insufficient supporting information for the realism of objectives and strategies to be assessed; and the absence of budgets, cashflow forecasts or cost analysis as a basis for financial performance targets.

- 1.21 The lack of financial projections is related to the accounting personnel problems discussed in Section 5, and we recommend that a financial planning exercise be carried out, and incorporated into the institutional plans, as soon as sufficient information can be made available by the new accountant. We also recommend that MUSCCO speeds up the development of links with Dematt to assist field staff in relation to project monitoring activities, or develops alternative arrangements.
- 1.22 On the whole, although MUSCCO has yet to begin significant disbursements of READI funds, we consider that the organisation has made encouraging progress in internal strengthening and the development of mechanisms for providing the planned project support to the local societies.
- 1.23 In addition to the main text of the report, more detailed material is included in Appendices to this report, including:
- . detailed reviews of our findings on the ten Indefund clients covered by the client survey (Appendix 3); and
 - . system descriptions for the loan appraisal and monitoring systems at Indefund (Appendix 4).

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SECTION 5 - MUSCCO - REVIEW OF SYSTEMS

SECTION 5 - MUSCCO: REVIEW OF SYSTEMSINTRODUCTION

- 5.1 In our Inception Report, we expressed serious concerns about a number of weaknesses in MUSCCO's internal systems, procedures and controls. It was agreed in principle at the time that, in addition to improving internal accounting systems in general, the following improvements needed to be made to position MUSCCO to participate effectively in the READI Project:
- (a) redrafting central fund loan policy and terms, with clearer guidelines on loan ceilings and conditions;
 - (b) audit and classification of societies according to creditworthiness and technical competence as credit intermediaries; and continuing education of local societies on member's eligibility to borrow, and on loan approval and monitoring procedures;
 - (c) improved loan application documentation and appraisal, using MUSCCO field staff to assist primary societies, and improved loan agreement documentation and controls as a precedent to disbursement;
 - (d) increased frequency and collection of interest on outstanding loans, both to improve cash-flows and to provide early warning of possible loan default;
 - (e) closer monitoring of credit unions to which loans have been advanced, both through more visits by field staff and by improving the quality and reliability of financial reports to MUSCCO.
- 5.2 Considerable progress has been made in each of these areas since that report. The remainder of this Section describes MUSCCO's performance in each area, and includes recommendations for further improvement. We conclude with a review of MUSCCO's accounting systems.

CENTRAL FUND LOAN POLICY

- 5.3 Since our inception review, MUSCCO has prepared, approved and published a new loan policy document, clarifying both policy and procedures. Additional amendments are now being considered, but on the assumption that planned changes are adopted at the August 1986 Annual General Meeting, societies will be presented with a clearer statement of the basic rules under which the central fund will operate.

- 5.4 The specifics of this policy will be discussed in succeeding sections, but in general it includes guidelines covering:
- . minimum contributions, and therefore maximum credit available to individual unions;
 - . assessment of the creditworthiness of societies;
 - . assessment of specific loan applications.

CREDITWORTHINESS OF SOCIETIES AND EXTENSION WORK

- 5.5 As part of its loan policy statement, MUSCCO has established a series of checks to be applied to determine whether a society is creditworthy and competent to on-lend resources effectively. The essential criterion is whether the society is delinquent in payments due to MUSCCO. Other indicators include:
- (a) the record of payments on previous loans;
 - (b) delinquency rate of members;
 - (c) the growth of the society over time;
 - (d) the society's ratio of income to expenses;
 - (e) submission of regular financial statements;
 - (f) management strength as measured by:
 - . quality and timeliness of books and records;
 - . cash control;
 - . adherence to internal loan policies;
 - . whether risk insurance premiums have been paid;
 - . whether a competent, paid treasurer is in post.
- 5.6 In the past, evaluations have been undertaken only in response to specific loan applications. Now, however, MUSCCO is in the process of establishing pre-approved credit lines for each society, so that the process of evaluating individual loan applications may be expedited.
- 5.7 Some of the criteria are readily measurable (e.g delinquency rates), whilst others are more subjective in nature (e.g management capability). It will be important, therefore, to consider the effectiveness of these guidelines as part of our next monitoring exercise.

- 5.8 In the MUSCCO workplan, specific minimum thresholds for some of these measures are presented. Although MUSCCO wishes to retain an element of flexibility in the establishment of creditworthiness, it appears that a clear performance baseline has been established. It is not apparent, however, whether MUSCCO has determined over what period the society must continue to meet these minimum standards to be judged creditworthy. We recommend that this point should be clarified by the management of MUSCCO.
- 5.9 MUSCCO recognises that a significant indicator of success will be the degree to which member credit unions can be strengthened sufficiently to take part in the READI Project. At present, MUSCCO field staff continue to spend a high proportion of their time (up to 1/3) performing audits of credit union accounts. The management of MUSCCO are in discussion with the Co-operatives Department of MOTI to clarify responsibilities in this area, with the aim to shift a significant proportion of the audit work to the Department. Any reduction in the audit load of the field staff will enable them to devote progressively more time to advisory and educational activities.
- 5.10 The educational work of MUSCCO has increased during the past two years, and comprises a number of elements:
- (a) regional seminars for societies, officers and board members;
 - (b) local seminars, either for officers and board members or for general membership, depending upon the topic;
 - (c) individual training at the local level delivered as and when required.
- 5.11 These activities focus either on specific operational problems societies may face (e.g. delinquency, risk management), or on disseminating information on new policies and procedures. MUSCCO has established a number of targets for further activity in this area, against which future progress can be measured in achieving sub-borrower training and institutional strengthening objectives.

SOCIETIES' PERFORMANCE AND DELINQUENCY

- 5.12 During the past year, the record of credit unions in meeting basic MUSCCO performance tests has improved considerably. For example:
- (a) All member unions use a uniform accounting system, and the proportion of unions submitting monthly financial statements has increased. Currently about 75% submit returns of an acceptable standard regularly within one month of the date they are due;
 - (b) 75% of all unions are paying their risk insurance premiums in full;
 - (c) Delinquency rates on central finance loans have dropped from 85% last year to about 12% this year. (This decline is less dramatic than these figures imply, however, since over the same period the volume of loans outstanding has risen from MK 50,000 to over MK 138,000. It is a substantial improvement nonetheless.)
- 5.13 According to the management of MUSCCO, these improvements have resulted from increased pressure on unions to meet performance criteria, combined with the attractions of obtaining READI Project loans, which can only be approved for unions in good standing. It is believed that these two factors will result in continued improvements in societies' performance.
- 5.14 Interest due on short term loans to societies is now payable on a monthly basis, and MUSCCO has developed a simple monitoring system to gauge performance. Records are kept by union, which provide basic loan details, interest due dates and arrears by period. Standard advance notices of interest due are in use, as are standard reminder notices. The latter are rarely used, however, since it is believed that in most cases circumstances vary sufficiently to make a standardised approach inappropriate.
- 5.15 At present, this system is run by the WOCU Adviser, although he anticipates delegating a proportion of this work once the central finance bookkeeper is in place. It appears to be a suitably simple system, which is kept up to date and provides all necessary information for monitoring purposes.

LOAN PROCEDURES AND MONITORING

- 5.16 In our Inception Report, we recorded our view that, whilst loan approval and disbursement procedures appeared to be adequate, we felt that initial application and loan agreement documentation seemed inadequate for verifying the purpose of the loan and ability to repay, and that there was no effective program of loan monitoring. Since the report was written, however, MUSCCO has made considerable progress in developing and clarifying procedures in these areas.
- 5.17 Applications for central finance loans must be submitted in a standard format, with the endorsement of the sponsoring credit union. These are vetted by the Africare adviser, who determines:
- (a) whether the application is in accordance with policy guidelines;
 - (b) the need for additional information before project feasibility can be judged, and from what sources it may be obtained (e.g. Government extension staff).
- 5.18 Brief feasibility studies are then undertaken and project management plans are drawn up, usually by the Africare Adviser. These evaluate project viability, and the supervisory and management capabilities of the sponsoring unions and the sub-borrower. These documents must be approved by the sponsoring unions prior to submission to the MUSCCO Credit Committee, and within MUSCCO, all proposals are accompanied by a standard worksheet to ensure relevant details are included.
- 5.19 MUSCCO has introduced a new standard promissory note for all loans, which clearly specifies the terms and conditions of the loan, as well as securities and the obligations of the sub-borrower and sponsoring union. Disbursements are staged to enable MUSCCO to determine whether monies are used appropriately before releasing additional funds.
- 5.20 Project management plans specify the structure of monitoring, and highlight any points to which particular attention must be given. Monitoring is undertaken in a parallel fashion, with both a volunteer and a member of MUSCCO staff responsible (at present the Africare Adviser and/or his counterpart). There are no standard visit checklists in use, but according to the WOCCU Adviser these will be developed as the portfolio grows. In future it is hoped that more responsibility for monitoring can be given to sponsoring unions (once they have become more familiar with what is required of them) or to Dematt staff in the field.

- 5.21 It is apparent from our review of MUSCCO files, and discussions with staff, that the new procedures are being implemented effectively, and should permit the organisation to control its operations more tightly.

MUSCCO'S ACCOUNTING SYSTEMS

- 5.22 At the time of our inception visit, we identified the following main weaknesses in MUSCCO's accounting systems:
- . low calibre of book-keeping staff;
 - . no management accounts;
 - . lack of integration of loan accounts into the General Ledger;
 - . no listing of debtors.
- 5.23 It was our view at the time that these weaknesses were all likely to be exacerbated as READI funds became available, and were likely to constrain MUSCCO's lending capacity under the Project.
- 5.24 Subsequent to our visit, in October 1985 the previous book-keeper was caught embezzling funds, and was sacked. (The money stolen apparently has been recovered). From November 1985 to April 1986, a Peace Corps volunteer worked at MUSCCO as accountant. He maintained a cash receipts and cash payments book, but did not write up the general ledger and appears to have discontinued other records which existed previously (e.g bank/cashbook reconciliations, payroll summaries). Whilst he did design a new chart of accounts for MUSCCO, and draw up an accounting policy manual, neither of these was implemented.
- 5.25 At the time of our visit, the cash receipts and cash payments books appeared to be up-to date, with all supporting vouchers neatly filed and well referenced. However, no attempt had been made to post monthly totals to the general ledger, and so it is not possible to ascertain from these records whether there is cash on hand to meet current expenditure.
- 5.26 Other accounting records were either not being maintained at all or were not up-to-date (e.g creditors ledger, debtors ledger, purchase journal, monthly wages summary, fixed asset register). As a result, monthly trial balances have not been extracted, and therefore no management accounts have been prepared during 1986.

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- 5.27 Two other problems came to our attention:
- (a) paid invoices are not being marked "paid"; there is therefore a danger of duplicating payments;
 - (b) tax deductions from employee's salaries (PAYE) are being under-computed, with the obvious risk of problems with the tax authorities at the year end.
- 5.28 Immediately prior to our visit, however, MUSCCO had recruited a new accountant to take control of this situation. His first act was to complete a reconciliation of the cash book and the bank statements to June 1986, which appears not to have revealed any major problems.
- 5.29 We have agreed with the accountant and with MUSCCO management detailed action plans to get the accounts and management information under control before our next monitoring visit (see Table 5).
- 5.30 In summary, we believe the framework exists for MUSCCO to have adequate control over income (revenues from sale of stationery, insurance premiums), and control over expenses is exercised by the general manager as cheque signatory. However, budgetary controls are virtually non-existent - viz. the rapid growth in stationery costs, vehicle running expenses and seminar expenses between 1984 and 1985. Although all these activities were planned in advance, to support MUSCCO's activities under the READI Project, insufficient attention was given to finding the necessary increase in income to fund them.

CENTRAL FINANCE LOAN ACCOUNTING

- 5.31 Because of the accounting difficulties identified above, since October, 1985 the Central Finance Department has run a wholly separate loan accounting system, maintained by the WOCCU Adviser. This system, based on a standard ACOSCA package, is the same as that installed in all member credit unions. It was implemented at MUSCCO in order to gain better control over central finance in the absence of an effective accounting system for MUSCCO as a whole.

- 5.32 The system has five elements, as follows:
- . cheque book, used only for central finance disbursements;
 - . cash book recording all funds incoming;
 - . payments book for outgoings;
 - . general ledger;
 - . loan ledger, with all details kept on a separate page for each union.

5.33 Monthly reconciliations are carried out, and, based on our observations, all records were complete and up to date. At present, the system does not distinguish between READI Project loans and others, but this feature could be added were it deemed necessary.

5.34 The virtue of the system is its simplicity; in its present form it could be run effectively by a bookkeeper with a minimum of supervision, without loss of control. It may become more difficult to manage as the portfolio expands, but we believe that it should be adequate for the medium term.

5.35 The WOCCU Adviser is keen to keep the central finance system simple and under the control of his department. As currently maintained, however, the Loan Accounting System is not integrated into the main general ledger, and neither are the costs of operating the central fund properly allocated to it. In this sense an incomplete picture is presented of MUSCCO's true financial position, which we recommend should be rectified in the monthly reports to management, to permit effective departmental control and to allow self-sufficiency to be measured accurately.

CONCLUSION

5 36 In summary, we are encouraged by the progress made by MUSCCO to improve internal systems and controls. Some issues seem to have been resolved satisfactorily for the immediate future, and although internal accounting remains a problem, steps have been taken to address it.

5.37 What is less clear, however, is how robust these systems will be as the activities of MUSCCO, and its loan portfolio, expand over time. The current emphasis on simplicity is, in our view, entirely appropriate, but places very heavy reliance on a few key staff members, who could easily become over-extended. In subsequent monitoring visits, therefore, particular attention will be given to gauging the effectiveness and adaptability of these systems as the workload grows.

SECTION 6 MUSCCO - REVIEW OF INSTITUTIONAL
DEVELOPMENT PROGRESS

SECTION 6 - MUSCCO: REVIEW OF INSTITUTIONAL DEVELOPMENT PROGRESS

INTRODUCTION

- 6.1 The previous Section suggests that MUSCCO has made some significant progress in improving performance in those areas identified in our Inception Report as requiring urgent attention. Nevertheless, it appears that there remain some systems problems to resolve; equally MUSCCO has yet to implement fully its promotion, appraisal and lending activities.
- 6.2 In this Section, we review the MUSCCO Institutional Development Plans against the same criteria described for Indefund in Section 4. The version of the plan we reviewed was dated May 1986, and had been approved and adopted by the Board of MUSCCO.
- 6.3 In general, we thought that the structure of the MUSCCO plan was reasonable, although there was a substantial amount of repetition within the text which detracts from ease of comprehension. Unfortunately, the Africare Adviser's workplan was not integrated into the MUSCCO plan, although in our view it should be, since the two workplans must come under a unified management control.

REVIEW OF PLANS

- 6.4 The definition of MUSCCO's purpose and activities is clear from the plan: to foster rural savings and credit. The plan also recognises that MUSCCO's success is ultimately measured through increasing the strength of its member societies.
- 6.5 Four strategies are proposed to achieve this objective:
- . management/operational strengthening of MUSCCO;
 - . financial strengthening towards self-sufficiency;
 - . training and assistance to the best societies;
 - . provision of credit through the central fund.
- 6.6 Whilst this section of the plan is adequate, we think it would have been improved by a more detailed discussion of target sectors and project types (covered in the lending guidelines), and of the training and support strategies that will be put in place to assist sub-borrowers.

- 6.7 However, detailed action plans are proposed to implement each of these differing strategies, and targets and timetables are established, covering:
- . internal reorganisation;
 - . the need for improved accounting and management information systems;
 - . the role and training of field staff in strengthening credit unions;
 - . the definition of central fund policies, procedures and decision criteria, and the role of the agribusiness department.
- 6.8 From our review of progress to date, we believe that the first, second and fourth areas are developing well, although requiring further effort to become established and fully effective. It would be undesirable, however, for MUSCCO to attempt to achieve its objective of reducing external technical assistance too early, since it has not yet developed suitable capabilities in-house.
- 6.9 In the third area, the role and training of field staff, we are concerned that there is insufficient supporting information on workplans, methodologies or training plans to enable us to form a view of the realism of the MUSCCO support role to unions. Whilst promotional and educational activities remain the same, operational audit and advisory activities will represent a major new area of work for MUSCCO and its staff. These need to be well planned and implemented if MUSCCO is to achieve its objectives to strengthen credit unions, and it will be an area we review carefully on our next monitoring visit.
- 6.10 Most of the activities proposed in the plan are detailed in the quarterly workplan, although responsibility for implementation is not always clear. It is unfortunate that we were only provided with the workplan for the second quarter of 1986, and not also for the third; whilst we can review achievements after the event, we cannot comment on future priorities, or test in advance whether management sets itself sufficiently demanding targets.
- 6.11 A major deficiency of the plans, which we have discussed with management, is the absence of any budgets, cash flow projections, or even cost analyses to support apparent plans to reduce costs, or to highlight the effect on MUSCCO's financial performance of achieving the non-financial targets which it has set itself. There is therefore no reliable basis on which to measure progress towards self-sufficiency of the central fund, or to assess the adequacy of existing subsidiary agreements.

- 6.12- We accept that, until now, MUSCCO has not had the accounting personnel or up-to-date information with which to carry out such financial planning, although we note that the absence of budgets (and budgetary control) has adversely affected MUSCCO's financial performance in 1985. We strongly recommend that such an exercise should now be carried out as soon as possible, in addition to the tasks set out in Table 5 above, and we will look for annual and medium term financial projections on our next monitoring visit.

CONCLUSION

- 6.13 MUSCCO has apparently made real progress in the first year of the READI Project, both in terms of internal strengthening and in establishing the mechanisms of providing the planned project support to the local societies.
- 6.14 The union has achieved, or over achieved, a number of targets it set itself for this year, including those on promotional and educational activities related to the Project, numbers of members and member unions, the reduction of credit union debts to MUSCCO to position them to take advantage of READI funds, the implementation of sub-borrower accounting and reporting mechanisms, and the number of project loan applications in the pipeline.
- 6.15 In addition, MUSCCO seems likely to achieve targets related to internal staffing and training, strengthening of accounting systems, and (as far as we can tell from the audited financial statements) progress towards financial self-sufficiency. (The target for 1986 is to achieve own income, from interest and dues, amounting to 15% of total expenditure. This looks feasible, against actual achievement of 11% of own income to total expenditure in 1984 and 1985, although MUSCCO should give serious thought now as to how it plans to achieve the 20% target set for 1987).
- 6.16 One important area where progress is substantially behind plan is in developing links with Dematt in relation to monitoring MUSCCO projects. MUSCCO has developed an innovative approach to ensuring close monitoring of projects but, because of personnel and policy changes at Dematt, has not yet reached agreement on cooperation. This needs to be resolved quickly, or else suitable alternative arrangements made. We will review progress in this area on our next monitoring visit.

- 6.17 Another area of slow progress is the targeted increase in loan interest rates and dividends on savings. These are needed to encourage savings, and to improve the viability of both local societies and MUSCCO. Although already approved by the MUSCCO Board and Annual General Meeting, the proposed increases are still under discussion with the Co-operatives Department of MOTIT. Early implementation is vital to the project. Again, we will review progress in this area on our next visit.
- 6.18 In summary, progress to date has been significant and, in our view, the Board and staff of MUSCCO are to be commended for the serious efforts they have made to implement the READI Project. We think the key activities for the next year will be the completion of MUSCCO's internal strengthening, and development of a major focus on external activities (e.g credit union strengthening, appraisal and disbursement of central fund loans).

REPORT ON SECOND MONITORING REVIEW OF THE READI PROJECT (FEBRUARY 1987)
FOR USAID/MALAWI

SECTION 1 - INTRODUCTION AND SUMMARY

- 1.1 This report presents the findings and conclusions from the second half-yearly monitoring visit of the READI Project, undertaken from 3 February to 11 February 1987. Our visit was shorter than would normally be the case for three reasons:-
- (a) Our first monitoring report (July 1986) was transmitted by USAID to Indefund and MUSCCO only in November 1986. The institutions, therefore, had only a limited period in which to react to our report and implement the changes we recommended.
 - (b) A new General Manager for Indefund was appointed in January 1987. We felt it appropriate to focus our efforts on discussions of major issues and ideas for change, rather than a detailed review of internal systems.
 - (c) The General Manager of MUSCCO was away for four months' training from August 1986, and then on leave until mid-January. Again, we thought it prudent to concentrate on key changes and issues for future action, rather than an in-depth review of internal systems.
- 1.2 Nevertheless, the second monitoring visit followed the scope and objectives of the three monitoring activities described in our Inception Report (September 1985), as follows:-
- (a) reviews of loan approvals and disbursements under the credit component of the Project;
 - (b) assessment of proposed development plans, targets and budgets, under the institutional development component;
 - (c) completion of the survey of Indefund sub-projects, and analysis of project progress and the adequacy of support services, under the private sector support component.
- 1.3 We would like to thank all of those people who assisted us in our review, from Indefund, MUSCCO and USAID. A full list is included in Appendix 1.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

- 1.4 The structure and main conclusions of this monitoring report are as follows:-
- 1.5 SECTION 2 presents the results of our audit of loan approvals and disbursements. It shows that the draw-down of Project funds to date has been very slow and, therefore, it seems very unlikely that the READI funds will be disbursed during the current life of the project
- 1.6 At Indefund, no new sub-projects have been approved since December 1985. This is a product of the lack of promotional activity, combined with an unwillingness to utilise what it regards as an expensive line of credit, which is targetted solely at "high risk" areas of business.
- 1.7 Overall, the Indefund portfolio has changed little since our last monitoring visit. The quality of project proposals received remains poor (and indeed may be diminishing), and there has been a more general slow-down in lending activity. During the past six months, management has concentrated attention on reducing debtors, taking stronger action on defaulters, and (owing to foreign exchange constraints) halting all new lending to projects which require imported raw materials.
- 1.8 After some expansion in long term lending at MUSCCO during the past six months, MUSCCO has decided to change its emphasis in favour of short term lending to strengthen member societies. This shift has occurred since it became apparent that most societies would be unable to meet their obligations to sub-projects channelled through them.
- 1.9 SECTION 3 describes recent institutional developments and future prospects at Indefund. The financial position of the Fund is extremely weak, and recent projections produced by senior management show that, even under very optimistic assumptions, losses will continue at least until 1991. At the same time, however, it is evident that shareholder support is waning, and it is unlikely that Indefund's shareholders will be prepared to accept such losses.

- 1.10 Although Indefund management has taken action to reduce debtors and the interest costs of project funds on-lent by GOM, we believe that these do not address the Fund's real weaknesses. These can be addressed only through cost reduction (or efficiency improvement), combined with portfolio expansion. We were surprised to note, therefore, that Indefund management had few concrete ideas on these matters. We accept that the new General Manager has been in post for a short period, and therefore has had only a limited period to familiarise himself, but we believe firm, carefully planned action is required to stave off the Fund's demise and place it on a stronger footing.
- 1.11 Our examination of Indefund's institutional progress revealed certain welcome changes, including the appointments of the new General Manager and EIA Adviser, actions to improve the initial project screening process, and greater attention to debtors and defaulters. We were particularly encouraged by the new General Manager's resolve to attack institutional problems of long-standing. Apart from these positive features, however, we noted little change from our previous findings at our operational level.
- 1.12 The key issues for Indefund in future are to:-
- (a) Initiate an active search for new, viable projects and sponsors. (In this respect, it is vital that Africare provides an appropriate replacement for its previous adviser).
 - (b) Improve the effectiveness and productivity of project appraisal activities.
 - (c) Introduce more regular, focussed monitoring and follow-up of projects after implementation.
 - (d) Provide appropriate advisory services to projects when signs of trouble are first evident.
- 1.13 We appreciate that these tasks are considerable, and can not be implemented in the short term. In order to forestall further erosion of shareholder support and to further the objectives of the READI Project, however, we believe it essential that Indefund produces a coherent, consistent action plan for the current year to address these issues. We recommend that the preparation and implementation of this plan should be the new General Manager's primary task for the immediate future.

- 1.14 SECTION 4 turns to MUSCCO, and examines its progress during the past six months. We are encouraged by MUSCCO's considerable improvements in financial and accounting control, as well as the positive steps taken to strengthen member societies.
- 1.15 We remain concerned, however, by a number of points. Because of its shift in emphasis toward short-term lending, promotional activity for long term lending has virtually ceased. We understand, however, that some societies are sufficiently strong to undertake their obligations under the long term lending program. We recommend, therefore, that the Africare Adviser should continue promotional activities with the best member societies; as other societies develop their capabilities they can be included in this sphere of activities.
- 1.16 There are also several management issues, the resolution of which will have an impact on MUSCCO's future development. First, the WOCCU Financial and Management Adviser will leave Malawi in May and, although WOCCU is seeking a replacement, there is a danger that the quality of financial control could diminish in the intervening period. We recommend, therefore, that in order to provide additional assurance to USAID and MUSCCO management, we undertake our review of loan approvals and disbursements on a quarterly basis.
- 1.17 Second, MUSCCO's emphasis on strengthening societies relies, to a considerable extent, on the quality of the organisation's field staff. An appropriate training plan for the field staff has yet to be formulated, however. In this respect we were encouraged by the prospect, currently under consideration, that WOCCU might supply a second adviser to undertake field staff supervision and training, and that the Peace Corps may be approached to provide three volunteers to augment the field staff. We fully support these initiatives, and believe that such additional assistance could do much to augment MUSCCO's capabilities.
- 1.18 Finally, we noted with some concern that MUSCCO has yet to formulate an adequate workplan for 1987. In part this may be due to the absence of the General Manager, who was away on a training course in the United States. As in the case of Indefund, we recommend that a coherent workplan should be drafted as a matter of urgency.

- 1.19 SECTION 5 outlines our conclusions regarding the future of the READI Project. It is apparent that it has yet to gain any real momentum. Given Indefund's internal weaknesses and its short project pipeline, and MUSCCO's necessary change in emphasis, it will be impossible for the Project's objectives to be met in any substantial fashion within the current Project period. We believe these can be achieved only through the provision of more effective technical assistance (largely within current contracts), as well as an extension of the Project completion date.
- 1.20 We remain extremely concerned by Indefund's performance, and its capability to implement the Project. We hope that the new General Manager can begin to deal with its weaknesses, and inject new vitality into the organisation. If, however, during our next monitoring visit we see little progress in grappling with Indefund's problems, we believe that USAID should reassess critically its continued involvement with this project institution.
- 1.21 In addition to the main text of the report, more detailed material is included in the Appendices, including:-
- . a summary of Indefund's progress against the recommendations of our first monitoring report;
 - . our findings on the ten Indefund clients covered by our client survey.

MUSCCODraw-down of Project Funds

2.21 By the end of December, 1986 MUSCCO had approved 15 long term loans to sub-projects, and all but one of these was in disbursement. The total amount approved for these was MK 58,921, or an average of MK 3928 per sub-project. The approved sub-projects include:-

- | | |
|--------------------|------------------------------|
| . 4 tobacco farms | . 2 brickmaking operations |
| . 2 pig farms | . 2 ox carts |
| . 1 vegetable farm | . 1 tailor |
| . 1 poultry farm | . 1 second-hand clothes shop |
| . 1 retailer | |

2.22 The total draw-down of project funds is shown in Table 5 below. The relatively slow draw-down of long term loan funds results from MUSCCO's shift in priorities from emphasising long term lending in favour of short term loans to strengthen member societies. Although MUSCCO plans to continue long term lending as viable proposals are put forward, it does not intend to promote such lending as vigorously as hitherto. Given the weakness of most member societies, and their apparent inability to provide appropriate services to sub-projects, we believe this shift in emphasis is wholly appropriate.

TABLE 5 : MUSCCO -- DRAW-DOWN OF READI FUNDS

	<u>MK</u>
(a) Long term loans disbursed to:	
June 30, 1986	3,490
September 30, 1986	25,956
December 31, 1986	45,320
(b) Short term loans disbursed to:	
June 30, 1986	105,842
September 30, 1986	154,619
December 31, 1986	223,184
(c) Grant funds disbursed to:	
June 30, 1986	352,822(*)
September 30, 1986	367,256
December 31, 1986	456,666

NOTE: (*) Includes MK186,000 paid for purchase of building.

Long Term Loans

- 2.23 Table 6 shows the sectoral breakdown of MUSCCO's long term lending programme. As expected, the portfolio demonstrates an emphasis on agricultural projects, with a reasonable spread in other areas of activity. The analysis of applications shown in Table 7 also exhibits a predominance of agriculture and agro-industry, although a considerable number of applications have been received for trading ventures (mainly retail shops), which MUSCCO does not wish to support.
- 2.24 The low proportion of approvals to applications is indicative of the poor quality of applications sent to MUSCCO, many of which are either for inappropriate ventures or are forwarded by societies which do not meet the minimum lending criteria of the Central Fund. This buoys MUSCCO's belief that considerably more work is needed to strengthen member societies before they will be able to undertake the obligations imposed through long term Central Fund loans.
- 2.25 Tables 6 and 7 also show the regional breakdown of projects and applications. It is noteworthy that the highest proportion of both applications and approvals are for the Northern Region. This area likely is most in need of such long term loan funds, although historically it has been less receptive to MUSCCO's role as an apex organisation. Surprisingly few applications have come from the Central Region, which could indicate that promotional activities have been greatest in areas away from MUSCCO's head office in Lilongwe.

Loan Approvals and Disbursements

- 2.26 We reviewed a selection of loans made during the period July 1986 through January 1987, to ascertain whether approvals and disbursements were made properly. This covered both short and long term loans.
- 2.27 For the long term loans examined, basic documentation and follow-up procedures appear satisfactory, and all loans disbursed have been properly authorised by the Credit Committee. We believe, however, that improvements could be made in the records of loan requests, through providing additional information on the status of requests, final disposition, reasons for actions, etc.
- 2.28 For short term loans there is little or no evidence on file of what information was considered in deciding upon loan requests. Although there is a pre-printed form which sets out the information required, this does not appear to be used.

TABLE 6 : ANALYSIS OF MUSCCO PROJECTS.

	<u>No.</u>	<u>%</u>
Agriculture	8	53
Manufacturing	2	13
Trading	2	13
Services	3	20
	---	---
	15	100 (1)
	===	===
South	4	27
Central	4	27
North	7	46

Note: (1) Figures do not sum due to rounding

TABLE 7 : ANALYSIS OF MUSCCO LONG TERM LOAN APPLICATIONS

	<u>No.</u>	<u>%</u>
Agriculture	35	30
Agro-Industry	24	20
Manufacturing	9	8
Hotels	6	5
Trading	34	29
Services	9	8
	---	---
	117	100
	===	===
South	41	35
Central	19	16
North	57	49

All disbursements of short term loans have been approved by the Credit Committee. In one instance, however, the Credit Committee authorised a short term loan of MK 7,000, having reduced it from the requested MK 8,500 because of the society's previous delinquency record. During the following month, however, a further MK 3000 was disbursed on the authority of the General Manager. Although this was authorised subsequently by the Credit Committee, we are concerned by this incident, since it is not entirely clear whether the General Manager is empowered to order such disbursements without the prior approval of the Credit Committee. We presume that this was an isolated incident which will not recur, although it does raise questions regarding the clarity of financial control mechanisms in MUSCCO.

Loan Accounting and Reporting

The status of loan accounting and reporting in MUSCCO is acceptable in general terms. Central Fund accounting is now integrated with the general ledger, and monthly management accounts are prepared.

It is not always clear from loan files, however, whether all conditions imposed on lending have been met by the borrowing societies. In addition, it is often difficult to review the status of an individual society, since details of the society's financial position, short term loans and long term loans are not integrated.

We suggest that financial control would be facilitated if all records relating to societies were kept in a central file. This would include, by society:

- (a) summary of long term loan approvals, rejections, and evidence that any conditions precedent are met;
- (b) short term loan approvals, rejections, etc;
- (c) current financial position (i.e. latest CU 10 report);
- (d) pre-approved credit lines.

We recommend that such an integrated system be implemented by MUSCCO as soon as possible.

CONCLUSION

- 2.33 In summary, the draw-down of READI Project funds continues to be slow. At Indefund, this is the result of a lack of promotional activity, combined with an apparent unwillingness to use what management perceives as an expensive line of credit which must be directed to "high risk" areas. In MUSCCO's case, draw-down increased considerably since our last visit, but has slowed in recent months. This follows a shift in MUSCCO's priorities to emphasise short term lending to strengthen member societies. Given the inability of most unions to provide appropriate services to long term loans to their members, this new focus seems appropriate.
- 2.34 Our review of loan approvals and disbursements revealed some progress in addressing systems weaknesses, although improvements at Indefund are still required in a number of areas. MUSCCO's systems appear adequate in general terms; in one case, however, it is not clear whether proper procedures were followed in extending a loan to a member society, and we therefore remain concerned about the adequacy of control in this aspect of the organisation's activities.
- 2.35 We were encouraged by the apparent success of Indefund's recent drive to reduce debtors and to take stronger action against defaulters; and also note that more timely statistics of debtors are being produced. We look forward to observing continued improvements in these matters during future monitoring visits. We recommend, however, that Indefund should improve its accounting for funds advanced for on-lending to sub-projects through production of more regular reconciliations.
- 2.36 At MUSCCO, whilst we observed considerable improvements in loan accounting and reporting, we believe further action is required to consolidate records. At present, the dispersion of records relating to societies makes it the overall financial position of societies

SECTION 4 - MUSCCO: REVIEW OF PROGRESS

INTRODUCTION

- 4.1 This section describes developments in MUSCCO and its member societies since our last monitoring visit. We are pleased to note that many of the recommendations made in our most recent report are being acted upon, and MUSCCO continues to strengthen itself as an institution.
- 4.2 Shortly after our last visit, a consultant from WOCCU conducted a study of MUSCCO, which was completed in October 1986. Many of the recommendations contained in this report dovetail with the findings of our first monitoring report. Both of these reports were to be discussed at a MUSCCO Board Meeting, to be held shortly after our departure in February 1987. As a result of these discussions, MUSCCO intends to formulate a plan to implement the recommendations of both reports. Reviewing progress against this implementation plan will form an important focus of our next monitoring visit.
- 4.3 Because of the level of detail contained in these reports, which could lead to a number of internal changes, we take a broader approach in this section, focussing on:-
- . internal financial control;
 - . Central Fund lending activities;
 - . efforts to strengthen member societies;
 - . overall management and direction.

INTERNAL FINANCIAL CONTROL

- 4.4 In our previous monitoring report, we noted with some concern that MUSCCO's internal financial control had deteriorated due to the absence of appropriate accounting support. MUSCCO's accounts had fallen into disarray, and Central Fund accounting was being run on a wholly separate basis. We agreed a programme of action with MUSCCO's new accountant, and recommended that the central finance system should be integrated into MUSCCO's main accounting system when possible.
- 4.5 We are pleased to note that all of our recommendations in this area have been acted upon, and the accounts are fully up to date. In addition, monthly management accounts are being prepared, all loan accounts are integrated into the general ledger, and debtors listings are reasonably current.

- 4.6 Budgetary controls are improving as well; and variances are reported to management on a monthly basis. Field staff must now provide weekly time and expense summaries so that their expenditures can be monitored more carefully. Control of stationery expenses remains a problem, but the accountant is considering ways to improve this.
- 4.7 Active consideration is now being given to the installation of a micro-computer to ease the burden of record-keeping. The accountant is familiar with computer-based accounting systems, and is keen to have such a system implemented in MUSCCO. We believe that this could be beneficial in that it could streamline the accounting process both for MUSCCO as a whole and for the Central Fund. We are concerned, however, that reliance on such a system involves both benefits and risks, and recommend that issues of hardware and software suitability, local technical support, and staff training be carefully considered before a decision is made to proceed with procurement.

CENTRAL FUND PROJECT PROMOTION

- 4.8 As noted in Section 2 above, long term lending by the Central Fund has virtually halted, while attention is shifted to strengthening member societies. It has become apparent that a large number of societies have neither the capability nor the commitment to undertake their obligations under the scheme, whether in project appraisal or in monitoring. For this reason, we fully support MUSCCO's shift in emphasis.
- 4.9 Such a shift created a problem, however; the Africare Adviser is in post to assist primarily with project promotion and preparation. He has no direct responsibility for working to strengthen societies or to provide development support to MUSCCO. As a result of the shift in emphasis to strengthening member societies, a considerable proportion of his responsibilities has diminished, and at present his energies are directed to supporting the existing portfolio only.
- 4.10 We believe that the Africare Adviser can and should make an important contributor to developing MUSCCO's long term portfolio. Certain member societies are able to meet their obligations under the Project, and should be encouraged to do so. We recommend, therefore, that the Adviser should continue to undertake promotional activities with the best member unions, in order to develop viable long term project ideas. As other societies develop their capabilities they can be included in this sphere of activities.

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STRENGTHENING MEMBER SOCIETIES

- 4.11 MUSCCO's efforts to strengthen member societies have followed several tracks simultaneously, and include:
- . efforts to instill financial prudence via reducing loan delinquency and promoting regular payment of insurance premiums;
 - . encouraging the submission of regular financial statements;
 - . continuing to grant qualifying societies pre-approved lines of credit;
 - . working with the Co-operatives Department of MOTIT to clarify responsibilities, in order to free field staff to spend more time working with societies on improved financial management, rather than audits;
 - . actively seeking to amend the Co-operatives Act, both to improve societies' management and, by increasing permitted dividend rates, to encourage savings.
- 4.12 Each of these avenues has met with considerable success, although delinquency rates can alter rapidly. On balance, between 50% and 70% of unions are in good standing with MUSCCO Central Fund, and pay their insurance premiums regularly. (The percentage seems to vary with seasonal agricultural cashflows). Between 70% and 90% submit regular monthly financial returns, although toward the end of the year submission rates were improving.
- 4.13 Although final details have yet to be worked out, an agreement in principle has been reached with the Co-operatives Department of MOTIT, under which the Department will undertake to examine, on an annual basis, societies' assets, loans and delinquency rates. These reviews will be used by MUSCCO as an early-warning device to indicate when an in-depth audit is required. It is hoped that through this agreement, the audit burden on field staff (currently comprising more than one-third of their time) can be reduced.
- 4.14 MUSCCO field staff would, however, retain the main responsibility to improve societies' internal management, and to monitor lending activities. Emphasis on general training seminars for societies has been reduced, since they seemed to be almost wholly ineffective, and MUSCCO believes a more direct approach is required.

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- 4.15 Finally, MUSCCO has been actively involved in amending the Co-operatives Act. Again, final agreement has still to be reached with the Registrar, and societies must be persuaded subsequently to amend their bye-laws, but these changes should provide a significant boost to credit union activities. Major provisions include:-
- (a) increasing dividends on members' savings to 10%;
 - (b) removal of delinquent officers from societies' boards;
 - (c) raising the maximum interest rate on members' loans to 18% per annum;
 - (d) designating MUSCCO as co-ordinator of all registered societies, setting conditions of membership, and having the power to forbid those not complying to use the name "credit" or "savings" co-operative.
- 4.16 The main purpose of these changes, apart from augmenting MUSCCO's role as an apex organisation, is to expand the rate of savings through credit unions. MUSCCO believes that a 10% dividend should provide a strong boost to the savings movement. At the same time, the higher maximum lending rate should enable societies to earn a sufficient spread to provide appropriate support to borrowers.
- 4.17 At the same time that these changes come into force, MUSCCO intends to raise the Central Fund loan rate to 11%. Unless unions increase their lending rates (from the current 12%) to a rate high enough for them to earn an appropriate spread, the Central Fund will refuse to extend further loans to them.
- 4.18 We regard all of these changes as positive developments, which should strengthen both the credit union movement and MUSCCO's role as an institution within the READI Project. We will pay particular attention to the success of these initiatives during our next monitoring visit.

OVERALL MANAGEMENT ISSUES

- 4.19 Despite the developments of the last six months, we remain concerned about a number of areas of MUSCCO's management. These include:-
- (a) the need for continuing financial advice;
 - (b) the need to strengthen field staff, so that their important role is played effectively;
 - (c) the absence of an appropriate workplan for 1987.

Financial Advice

- 4.20 Since the Project's inception, management of the Central Fund has been the responsibility of the WOCCU Financial and Management Adviser. Although much of his administrative responsibility for the Fund has been handed over to the recently-appointed Central Finance Officer, his departure in May 1987 will create a considerable gap.
- 4.21 We believe that there remains an important need for technical assistance, both in the supervision of the Central Fund and to assist with more general financial management issues for MUSCCO as a whole. We were pleased to learn, therefore, that WOCCU plans to replace the present adviser as rapidly after his departure as possible.
- 4.22 Although officially in charge of the management of the Central Fund, the WOCCU Adviser has had an important voice in the strengthening of MUSCCO in general. Since August 1986, when the General Manager left for study leave in the United States, he has been responsible as well for the management of the field staff, and has played a key role in formulating many of the changes noted above.
- 4.23 Whilst WOCCU intends to replace this officer, it is unlikely that a replacement could be in post until August, and would then require some time to acquaint himself with the organisation. After the current Adviser's departure, however, it is unlikely that other management staff will have sufficient time to devote to supervision of the Central Fund and providing general financial management support. There is a risk, therefore, that the overall quality of financial control could be weakened until a new Adviser is in place and fully oriented.
- 4.24 We recommend, therefore, that WOCCU should be asked whether short term technical support can be provided as an interim measure. Furthermore, to provide additional assurance to MUSCCO management and USAID regarding the quality of financial control, we recommend that our surveys of loan approvals and disbursements should be conducted quarterly, rather than half-yearly, and consider all lending, whether short term, long term, or for refinancing.
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Strengthening Field staff

- 4.25 As noted above, MUSCCO plans to place increased reliance on its field staff in strengthening member societies and monitoring the lending programme. It has been recognised for some time, however, that the abilities of the field staff require strengthening if they are to play their vital role effectively.
- 4.26 In our last monitoring report, we noted the need to develop a training programme for the field staff to augment their capabilities. We were concerned to discover on our recent visit that this has yet to be done.
- 4.27 We learned, however, that a different avenue is being explored to improve the calibre of MUSCCO's field staff and the quality of its work. Consideration is being given to the placement of a second WOCCU technical adviser to supervise and train the existing field staff, with the Deputy General Manager acting as his counterpart. The field staff would, in addition, be supplemented through the recruitment of three Peace Corps Volunteers to work directly with societies and to help diminish further the audit burden borne by individual field officers.
- 4.28 We fully support this idea, and hope it can be implemented rapidly. We feel it is essential that the quality of the field staff is improved, particularly since Dematt seems unable or unwilling to provide support to augment the breadth of MUSCCO's assistance to member societies. Without such improvement, MUSCCO will not be effective either as an apex organisation or as a financial intermediary within the READI Project.

Forward Planning

- 4.29 For four months at the end of 1986, the General Manager underwent training in co-operative management in the United States. From our discussions with him, it is evident that he returned with broader knowledge of management in general, and new ideas to improve the management of MUSCCO in particular. We believe that as a result of this experience, he is in a stronger position to lead the organisation.
- 4.30 Unfortunately, these ideas have yet to coalesce into a coherent agenda for future action. Although MUSCCO has drafted a workplan for 1987, this was done in the General Manager's absence. In its present form it is wholly inadequate, and provides no clear picture of the organisation's specific objectives (as opposed to operating philosophy), targets, or implementation timescale and responsibilities.

- 4.31 Whilst we are encouraged by MUSCCO's continued progress, we believe this situation should be rectified as a matter of urgency. Although the general direction that MUSCCO intends to follow was evident to us, the lack of a coherent action plan makes it virtually impossible to gauge the organisation's success. On our next monitoring visit, therefore, we would expect to see such a plan in place, and being followed by MUSCCO.