

PD-A-BB-570

ISBN 67812

Impact Evaluation of the Malawi Union of Savings and Credit Cooperative Organizations Project

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February 1989

Prepared for the U.S. Agency for International Development under contract number PDC-5315-I-05-8101-00 by Development Alternatives, Inc. (DAI) and the Institute for Development Anthropology (IDA), under a joint venture agreement between DAI, IDA, and Research Triangle Institute (RTI).

DAI

Development Alternatives, Inc.

IDA

Institute for Development
Anthropology

FOREWORD

In September 1988, the U.S. Agency for International Development's Africa Bureau (A.I.D./AFR) launched a three-stage exercise to assess the impact of assistance in the area of rural credit. This effort was carried out in collaboration with Development Alternatives, Inc. (DAI) and the Institute for Development Anthropology (IDA), under a contract to provide technical assistance to the Agency.

The exercise was undertaken for three principal reasons:

- First, A.I.D. is responsible for ensuring that its assistance to governments in Africa is as effective as possible. This implies looking not only at the efficiency with which A.I.D. funds are channelled to recipients but also at the impact these expenditures have on the lives of people over time.
- Second, as a problem-solving organization with limited resources, A.I.D. must constantly be searching for better ideas. This implies periodic re-examination of experience to look for ways in which performance could have been improved.
- Third, in any particular sector such as that of rural credit, there are lessons to be learned from experience: theories to be disproved or refined, implementation alternatives to be tested, and unwanted effects to be avoided.

The first stage of this impact evaluation exercise was a review of project documentation and other pertinent literature. The results of this review are laid out in the document, "An Impact Evaluation of Rural Credit Projects in Africa: A Summary Review of the Literature."

The second stage of the exercise was a series of field assessments conducted by multidisciplinary teams in Cameroon, Malawi, Kenya, Lesotho, and Liberia in late 1988. Each team prepared a report of its findings, conclusions, and recommendations. These individual country reports form the basis of the final synthesis.

The last stage was the preparation of a final synthesis report, which has been issued as a separate document entitled "Credit for the Rural Poor: The Experience in Six African Countries."

February 1989

PREFACE

This report is a part of a coordinated effort described in the Foreword by the contracting companies, under A.I.D./AFR guidance and direction, to assess the impact of five rural/agricultural credit projects in Africa. The report was produced by a multidisciplinary team in Malawi for a total of three weeks, following a three-day team planning meeting (TPM) in Washington, D.C.

In general, these studies constitute a backward look at terminated A.I.D.-financed projects; the residual impact can appropriately be assessed in this way. In the Malawi case, we found that the project is ongoing. While the MUSCCO project was an independent A.I.D.-funded project from 1980 through 1985, it has continued to receive funding from USAID through the READI project. In studying the effects and impact of credit unions in Malawi, we were unable to separate what happened as a result of the original project from what has been brought about by the continued effort under a somewhat different umbrella. Therefore, this report, with its analysis and recommendations, is based on and tied to a project still in progress.

Our work in Malawi was greatly facilitated by excellent support from the USAID mission in Lilongwe and by the staff of MUSCCO, at both headquarters and field office levels. We extend to those who were so helpful our grateful appreciation for their assistance.

Malawi promotes its growing tourism sector with the slogan, "Discover Malawi, the warm heart of Africa." We of the impact evaluation team have discovered an attractive country with friendly people, and our visit to Malawi has been both educational and pleasant. We hope that our efforts in this study will somehow benefit the people of Malawi and other Africans.

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EXECUTIVE SUMMARY

MALAWI UNION OF SAVINGS AND CREDIT COOPERATIVE ORGANIZATIONS

An Impact Evaluation

The economy of Malawi depends heavily on agriculture, which provides employment for 85 percent of the population -- now over 7 million and growing at 3.2 percent per year. Although commercial estates producing tobacco, tea, and sugar account for over 90 percent of export earnings, the key to the country's future is likely to be increasing the productivity of the 1.3 million small farm households. These households emphasize subsistence production of maize, the staple food and leading crop; they also produce pulses, cassava, and rice. Many of them are unable to meet their own subsistence needs, due mainly to the small size of their holdings (averaging 1.1 hectares), but the area of cropland cannot be expanded to solve this problem.

Improving the technical production packages used by smallholders would increase their yields and therefore their food security. For maize at least, an improved package has been developed; its efficacy in increasing yields is widely accepted by farmers. The small farmers, however, do not use the package because they do not have the cash to purchase the inputs, primarily fertilizer and improved seed.

Formal financial markets provide depository facilities in the form of postal savings and banks, with many well-distributed outlets. An unmet need for savings facilities does not appear to exist in Malawi. The need for credit exists, however, because of the seasonality of agricultural and household expenses and income. Postal Savings provides no credit program, while commercial banks have collateral requirements that smallholders cannot meet. The National Rural Development Program (NRDP) provides credit to farmers through Farmers' Clubs, but the clubs' loans are only in kind; they provide no help or flexibility for emergencies; they are selective as to membership, and NRDP's harsh loan-recovery methods reduce the popularity of Farmers' Clubs.

Credit unions have been promoted in Malawi since the early 1970s, first by the Catholic Church, then by the Promotion, Education and Advisory Committee (PEAC), and since 1980 by the Malawi Union of Savings and Credit Cooperatives (MUSCCO). Credit unions mobilize the savings of individuals for investment in local individual activities. USAID funded the MUSCCO project directly from 1980 to 1985, and has continued to support it through the Rural Enterprises and Agri-Business Development Institution (READI) project, which also funds other kinds of credit programs.

MUSCCO's purpose was to establish a national cooperative savings-and-credit society financial system, having viable member societies serving as local savings and lending agencies, with the central agency assisting the local societies and eventually being supported by its own and its members' resources and activities.

MUSCCO has made great progress toward these goals. The number of societies and their loan volumes have increased well beyond projected targets. Growth in the number of members has not achieved its targets, however. Details are provided in the report and its annexes.

Difficulties encountered have included the poverty of the target membership and their inability to save large amounts; members' ignorance of financial management, and limits on the training they could absorb because of their low levels of literacy and numeracy; the strongly seasonal nature of both demand for loans and availability of cash for repayment of loans; occasional instances of lack of integrity on the part of local officials and employees; adverse experiences of rural people with earlier cooperatives and reluctance to entrust a new and untested organization, even their own, with their hard-won savings; and difficulties of communication and transportation, related to the general level of development of the country.

Factors that have assisted or benefited the credit union movement have been the real and perceived need of the rural poor for both productive and provident loans; the existence of an effective and popularly accepted package of improved agricultural practices; availability of the inputs for that package for purchase with few constraints; a pricing system that has provided incentives for expanding production beyond subsistence needs; well-qualified and dedicated personnel at the head of the organization; and a strong urge toward entrepreneurship on the part of a great many rural Malawians.

Nevertheless, MUSCCO and Malawian credit unions generally have not achieved desirable levels of involvement of women as members, borrowers, and officials; loan delinquency remains a persistent problem; and the number and size of individual loans are still far from saturating the demand. But these difficulties are recognized at the top management level, and programs to improve the situation are being developed.

It is apparent that credit unions in Malawi are not reaching the poorest of the rural poor, but this is inevitable from their nature. A lending institution must restrict its loans to only the creditworthy, and the poorest have neither the resources to make loans productive nor the capability of repaying loans.

Credit unions in Malawi are benefiting a relatively well-off stratum of rural people. They are helping farmers and small business people to help themselves to become better fed, better able to provide for themselves in matters of health and education, and better able to survive and function in a monetized economy. Credit unions should be assisted as necessary to continue to expand their influence.

PROJECT DATA SHEET

1. **Country:** Malawi
2. **Project Title:** Malawi Union of Savings and Credit Cooperative Development
3. **Project Number:** 612-0205
4. **Project Implementation:**
 - a. Project Proposal: 4 August 1980
 - b. Grant Agreement: 22 September 1980
 - c. Final Obligation: To be made in FY 1989
5. **Project Funding:**
 - a. USAID Original MUSCCO project: \$ 759,777
Added under READI Project: \$ 945,000
 - b. Malawi Government: _____⁰
Total \$1,704,777

ACRONYMS USED IN THIS REPORT

ACOSCA	African Cooperative Savings and Credit Association
ADD	Agricultural Development District(s)
ADMARC	Agricultural Marketing and Development Corporation
AID	United States Agency for International Development
CUNA	Credit Unions National Association
DEMATT	Development of Malawi Traders Trust
EOP	End of Project
GDP	Gross Domestic Product
HRID	Human Resource and Institutional Development Program
INDEBANK	Industrial Development Bank of Malawi
INDEFUND	Industrial Development Fund of Malawi
MUSCCO	Malawi Union of Savings and Credit Cooperatives
MK	Malawi Kwacha (monetary unit)
NRDP	National Rural Development Program
PEAC	Promotion, Education and Advisory Committee
READI	Rural Enterprises and Agri-business Development Institution
SEDOM	Small Enterprise Development Organization of Malawi
SME	Small and Medium Enterprises
USAID	United States Agency for International Development
UTM	United Transport of Malawi
WOCCU	World Council of Credit Unions

I. PROJECT SETTING

Plumes of smoke drift from clearings in the distant folds of wooded hillsides, while nearer the tarmac, small fields, ridged and bare, cover the slopes and valleys. Marshy bottomlands are pieced with patches of greewn. Otherwise the landscape runs to reds, grays, and browns. It is October, the end of the dry season in Malawi, time to prepare gardens for the coming rains, to buy fertilizer and hybrid maize seed, to hire extra labor in the fields, perhaps even to buy food if stored stocks have run low. It is also the start of the school year, when school fees are due. In short, it is a time when most Malawians need cash or credit.

Malawi's economy is planted firmly on an agricultural base. Agriculture provides employment for 85 percent of the population, now over seven million people and growing at a rate of 3.2 percent. Agriculture also accounts for over 90 percent of Malawi's export earnings. Nearly all of these exports are produced on commercial tobacco, tea, and sugar estates.

Since independence in 1964, Malawi has followed an outward, export-led growth strategy based on estate agriculture. For some years, the results were impressive: the economy grew at an annual rate of nearly 3 percent per capita between 1964 and 1979. By 1978 the prospects for continuing this remarkable economic performance were dampened, however. A series of external events, including a decline in the international prices for Malawi's major export products, increases in import prices-- especially oil -- and a gradual disruption and, finally, closure of the country's main transportation routes through Mozambique, had a profound effect on the economy. The drought in 1980/81 reduced the volume of exports and forced Malawi to import maize for its internal consumption. These events in combination with internal policy weaknesses, resulted in economic stagnation, a decline in per capita income of over 8 percent between 1979 and 1981, and a budget deficit of over 15 percent. By 1981, the government had begun to undertake structural adjustment efforts in cooperation with the IMF and implemented a number of agricultural development actions aimed at promoting the growth of both the estate and smallholder sectors.

While the estate sector has led Malawi's impressive economic growth in the past, the key to the country's future is likely to lie in increasing the productivity of the 1.3 million small farm households, who not only farm but pursue a variety of economic activities, from providing labor to the estates and nonfarm businesses to owning and operating their own small businesses. Intensifying production in the smallholder sector and facilitating the growth of small enterprises are therefore top priorities.

Smallholders grow local maize, the country's main staple, in addition to pulses, cassava, and rice for their own consumption. Besides selling any surpluses of these crops, larger farmers in the smallholder sector produce hybrid maize, tobacco, cotton, and groundnuts for commercial sales. Many of the small farmers cannot meet their own subsistence needs, however, since their landholdings are too limited: average farm size is only 1.1 hectares.

Future prospects for improving the productivity and income of the smallholder depend on diversifying and on increasing production per unit of land. Land resources are stretched to the limit; farm sizes continue to be reduced as the population grows. The pressure on land resources is evident from observing farming on marginal land and very steep slopes, particularly in the south. Increasing productivity in the smallholder sector will require suitable technologies to improve the production of existing crops and to diversify the mix of crops grown, timely availability of inputs (especially greater access to fertilizer and seeds), and appropriate pricing and marketing policies. Raising the incomes of the very small farmers will require growth in small and medium enterprise as sources of employment.

To foster the growth of agriculture and small- and medium-scale enterprises (SMEs), the government has facilitated the development of a variety of credit organizations that attempt to provide adequate financing to farmers and businessmen who can use it productively.

In Malawi, basic conditions for using credit productively are in place. A package of improved maize seed and fertilizer has been developed, and these inputs are available for purchase by anyone with money to pay for the package. Given the decline in soil fertility, most farmers know that without chemical fertilizer their yields will be very low. The problem is that when fertilizer is needed cash is short. On the other hand, marketing services are available throughout the country through the Agricultural Marketing Development Corporation (ADMARC), and private traders are now beginning to enter the market as a result of recent policy changes. Moreover, pricing policies have generally remained favorable for both cash and subsistence production, although there have been occasional exceptions.

Various types of lending institutions, formal and informal, exist in Malawi. In addition to using banks and the postal savings system, some people turn to relatives or friends for interest-free loans. The main difficulty with the latter is that lenders often are not able (even if willing) to lend as much as borrowers need. Particularly in commercial centers and cities, a person who urgently needs a short-term loan may be forced to turn to a local moneylender, known as a *katapila*. The *katapila* is likely to be a relatively small businessman, or someone with a substantial cash income. Interest charged on a loan of this sort can be 50 to 100 percent or more of the amount borrowed, to be repaid along with the principal in three or six months. People resort to moneylenders only if they see an opportunity for windfall profits or are facing desperate emergencies.

Commercial estate farmers rely on the two commercial banks for their credit needs: the National Bank of Malawi and the Commercial Bank of Malawi. In addition, the Investment and Development Bank of Malawi (INDEBANK) provides medium- and long-term credit to estates and businesses. The Small Enterprise Development Organization of Malawi (SEDOM) was established in 1982 to promote investment in small businesses.

Smallholders are not serviced by the commercial banks. Over 90 percent of smallholder agricultural credit is supplied by the Ministry of Agriculture through the National Rural Development Program (NRDP). Only 16 percent of smallholders received credit in 1985/86 from NRDP, however, because of the selectivity and

strictly enforced repayment practices of the Farmers' Clubs. This selectivity has meant that repayment rates have been remarkable -- 97.4 percent between 1969 and 1985 -- but also that many farmers are unable to increase their production because they cannot obtain fertilizer when it is needed.

Beginning in the early 1970s the Catholic Church, and, later, the Promotion, Education, and Advisory Committee (PEAC), began promoting and developing credit societies. The purpose of these societies was to mobilize savings and invest them in local development activities. In 1976, recognizing the potential contribution these societies could make to increasing savings and getting credit to people not being reached by the banks, the government asked the African Cooperative Savings and Credit Association (ACOSCA) and the World Council of Credit Unions/Credit Unions National Association (WOCCU/CUNA) to conduct a feasibility study on the potential development of Malawi's savings and credit cooperatives. Following several studies and the writing of a project proposal, USAID agreed to fund a five-year project to provide assistance to the Malawi credit union movement.

II. PROJECT DESCRIPTION

The project goal was to develop a national cooperative savings and credit society (credit union) financial system in Malawi that would provide needed savings and low-cost credit services to low-income people, especially in rural areas, so that they could increase production, raise their incomes and standards of living, and meet other development needs.

The objectives of the MUSCCO project were to develop MUSCCO's central organization, to develop member societies, and to achieve substantial progress toward financial self-sufficiency. At the close of the initial project, at the end of December 1985, MUSCCO was to be capable of performing routine internal management functions and providing essential financial and technical support services to member societies. The member societies were to have significantly improved operational capabilities, with resultant increases in total system membership, savings, and loans. While MUSCCO was not expected to be self-sufficient by the end of project, it was expected to have established an institutional base by which it could eventually become self-sufficient. This base was to be a central finance facility capable of lending funds to individual societies on a profitable basis.

More specifically, the purposes of the MUSCCO project were to:

- (1) Promote and expand the number, membership, and volume of savings and productive lending of financially viable cooperative savings and credit societies in Malawi.
- (2) Develop a financially viable national association of societies capable of providing required technical and financial services to its membership.
- (3) Increase society member savings and borrowing capacities, especially for agricultural production and rural small-business development purposes.

- (4) Improve management throughout the system.
- (5) Improve the financial management skills and creditworthiness of individual members, societies, and the national association.

The Malawi Union of Savings and Credit Cooperatives Development Project was designed to provide technical, financial, and commodity assistance to the Malawi credit union movement for five years ending 31 December 1985. Technical support was to be provided to MUSCCO and PEAC, its predecessor. Long-term technical assistance for a minimum of three years was to be provided by the WOCCU/CUNA Global Projects Office under an operating program grant. Short-term assistance for a minimum of five years was to be provided by the Global Projects Office and ACOSCA, the African Cooperative Savings and Credit Association. Funds were to be provided to cover MUSCCO's operating expenses for five years, and to establish a central finance capital fund, which would provide institutional development assistance and loanable funds to the member societies. Commodity support included one project vehicle, motorcycles for field workers, audiovisual equipment, training materials, and office equipment.

Through the project support, MUSCCO was supposed to become free of the need for long-term technical assistance by the end of the project (EOP). Areas of key objectives were MUSCCO development, society development, and financial self-sufficiency (see Appendix H).

Technical assistance was provided as planned, and MUSCCO was registered as scheduled on 1 September 1980. Implementation of the organizational structure, with accompanying qualified staff, was delayed for over a year, however, to 1 March 1982. Within a year and a half of implementation the field officers were overloaded with work. Turnover among the field staff was high. Although planning is now showing significant progress, development of a planning system was completed more than three years behind schedule. Lack of initial emphasis on planning by the board of directors, and the long-term advisor's overload with day-to-day operations explain the delay. Bookkeeping and auditing were substandard through 1986. A former bookkeeper was guilty of fraud, and audit reports were flagrantly late. Despite these shortcomings, which were due more to bureaucratic delays and lack of adequate oversight than to project design problems, MUSCCO and its societies have blossomed into a significant institutional presence in Malawi. The number of societies and volume of loans far exceeded EOP targets. The 35 percent self-sufficiency target was recognized as unrealistic early in the project, and 11.5 percent self-sufficiency was achieved under the initial project. As of 31 August 1988, MUSCCO was 28 percent self-sufficient, meeting that proportion of its total expenses from operational income (see Appendix E).

Beginning in the fourth quarter of 1985, MUSCCO was funded under the READI (Rural Enterprises and Agro-Business Development Institutions) Project. MUSCCO had been placed under READI's administrative auspices in 1984, along with the Industrial Development Fund of Malawi (INDEFUND), another financial intermediary. This funding is scheduled to end on 31 December 1989. A five-year plan to address 1990 to 1995 is currently being formulated.

III. INSTITUTIONAL IMPACT OF THE PROJECT

As the goal of the project was to develop a national cooperative savings and credit society financial system, the institutional impact is of paramount importance. Unlike projects that have attempted to modify existing financial organizations, MUSCCO was created as a new entity. It was established to quench the thirst of then-existing infant societies for education and training and to provide a central finance facility capable of supplying additional funds to the societies for lending to individual members.

Findings

Since the inception of the project in 1980, MUSCCO has developed into an operating institution. It obtained continued funding in 1985 under the READI Project. It is now meeting 28 percent of its total expenses from operating income, and it provides central funding for loans to member societies. It operates three regional field offices, each with a staff of two Malawi field officers and one Peace Corps volunteer, as well as its central office in Lilongwe. It provides educational and advisory services to organize and strengthen member societies. Involved in forward planning, MUSCCO is developing a five-year plan, for 1990-1995. It has resisted over-rapid expansion and has chosen not to disburse available funds to societies not yet capable of sound loan administration.

MUSCCO and its member societies mobilize local groups in rural and urban areas, who study and receive training and ultimately become credit unions. They are thus undertaking self-help efforts on a grass-roots level (see Appendix D).

The number of societies and Malawi kwacha (MK) value of loans outstanding had increased well beyond projected targets by the originally scheduled EOP, and have grown 60 percent and 45 percent, respectively, since then. Individual membership in the societies and aggregate member savings increased dramatically, but failed to attain targets set for EOP. Since EOP, aggregate savings have increased by 45 percent, while individual membership has declined by 6 percent. A portion of the decline is attributed to the writing-off of bad loans. Table 1 lists some specifics of the system's growth.

Regional staff have heavy workloads because the number of societies has tripled since 1980. They are not able to visit or support each member society on a regular monthly or bimonthly basis. At present, 80 societies, 22 active study groups (groups studying the fundamentals of organizing a society), and 18 groups who want to organize are on a waiting list. Several of these are employee groups, similar to the United Transport of Malawi (UTM) employee society. MUSCCO is not staffed to handle this increase, especially the employee groups, because of the higher level of expertise required when working with them.

TABLE 1

SYSTEM GROWTH

Indicators	Actual Start-of- Project 12/31/80	Projected End-of- Project 12/31/85	Actual End-of- Project 12/31/85	Actual Continuing 6/30/88	% Increase Projected 12/31/85	% Increase Actual 12/31/85	% Increase Actual 12/31/85 -6/30/88
<u>Society level</u>							
Number of societies	24	39	50	80	63	108	60
Membership	7724	16213	14528	13599	109	88	-6
Member savings (MK)	363000	1044100	937414	1360187	188	158	45
Family							
beneficiaries	38710	81065	73548	68845	109	90	-6
Loans outstanding (MK)	362700	939700	989755	1433000	159	173	45
<u>MUSCCO level</u>							
Central fund total (MK)	0	107700	125768	222659	-	-	77
Member shares (MK)	0	67700	29733	50554	-	-	70
Earned income (MK)	300	21000	18382	67500	6900	6027	267
Expenses (MK)	10549	60787	159843	286400	476	1415	79
Percent							
self-sufficient	3	35	11.5	24	1067	283	109

Some societies are experiencing shortages of stationery and other supplies, such as loan applications, promissory notes, and training materials.

Central finance lending, especially in the area of long-term loans, has been much less than anticipated.

Many of the societies are being run and managed on a purely volunteer basis. For some societies, the insufficiency of qualified volunteers has resulted in problems of access to services.

Lack of offices and office space creates problems for storing supplies and for keeping funds secure. Having a building is seen as an important symbol, demonstrating that the society is a reputable savings institution.

Aggregate loan levels are limited by aggregate savings levels. The main incentive for share purchase is the opportunity to receive a loan, so the ownership of shares is heavily influenced by the demand for loans. Loans are generally granted at the level of 1.5 to 3 times shares held, at the discretion of the individual society. Rural societies are generally more conservative in this respect than are urban wage-oriented ones.

Many societies are poorly managed due to lack of integrity or managerial talent. Some have proven vulnerable to improper loans or embezzlement by unscrupulous officers, especially chairmen, bookkeepers, and treasurers. Numerous societies are in need of additional training and technical supervision from MUSCCO. Self-government and selection of officers are among the topics to which attention is given.

Loan delinquency rates in the Northern and Central Regions, which have 69 percent of all loan volume, exceed 27 percent. Delinquencies exceed 50 percent in 19 societies, or 25 percent of the societies in Malawi (see Appendix F).

The rate of literacy in Malawi is barely more than 40 percent, with only 45 percent of the population over age 5 having had any formal education. This is a significant barrier to participation in credit-society activities, and it forces MUSCCO field staff to become involved in the basic education of society members. MUSCCO has difficulty locating trained people to hire, and most societies find that no people in their area have the skills necessary to run a society. Even in situations where trained personnel can be found, the salaries MUSCCO pays are not competitive with government and private industry. The dedication of the present employees is evident, as they continue to work under these conditions.

MUSCCO has made a proposal to the Human Resource and Institutional Development program (HRID) to fund a training and certification program for MUSCCO personnel. This is designed to overcome the present lack of trained people.

As MUSCCO looks to expanding its training, increasing its staff in order to accommodate employee credit unions, and increasing salaries to retain and attract staff, it will encounter further difficulties with achieving self-sufficiency. These activities, although necessary for MUSCCO's long-run viability, will produce significant short-term cost increases. The degree of self-sufficiency will accordingly suffer in the short run, but this should not be considered a sign of weakness or failure.

The pre-independence cooperatives that collapsed after 1964 have left a lingering mistrust, which has affected cooperative savings and credit societies.

Analysis and Conclusions

MUSCCO management, by choosing to select long-term loan recipients with care from among the applications that poured into the headquarters in 1987, avoided disastrous consequences of loan misuse and delinquency. This action resulted in a much slower than anticipated use of long-term funds, which could mistakenly be interpreted as a weakness rather than a strength.

The ability of MUSCCO to provide services to its societies is severely limited by shortages of: personnel; specialized training for present staff; transportation; facilities for communication; commodities; and training materials, particularly at the regional level.

The high delinquency rates that plague MUSCCO have a compounding effect on delinquency. If other borrowers fail to repay and are allowed to get away with it, a potentially good borrower has little incentive to repay his loan. In the Northern region, many societies have been plagued with unscrupulous individuals. There is a lingering belief that societies are welfare instruments. In the Central region, there has been frequent staff turnover, resulting in only intermittent supervision of the societies. Assuming that delinquency continues at the present rates, the share capital of the individual societies will continue to erode, and they will soon fail. This will in turn prevent MUSCCO from reaching its objective of self-sufficiency. The delinquency rate needs to be reduced to below 5 percent.

Information on default rates was not collected. The default rate is believed to be much lower than the delinquency rate.

Savings in MUSCCO member societies are limited to the level of loan demand at present. Until the societies have established reputations as secure, well-managed places to save money, and can compete with banks in terms of interest rates and other banking services, savings levels will continue to be limited.

One explanation of why the MUSCCO societies did not reach the level of savings projected by the original EOP is that the estimate of the loan-to-savings ratio at 0.90:1 was too low. Prior to the project, the ratio was 1.043:1; this increased to 1.055:1 at EOP in 1985 and remained very close to

that ratio, at 1.0536:1, on 30 June 1988, supporting the finding that the level of savings is determined by the demand for loans.

IV. SOCIAL AND ECONOMIC IMPACTS

Findings

MUSCCO Savings and Credit Societies reach only a tiny segment of Malawi's rural population today. The impact of the MUSCCO credit project on production, income, and employment is difficult to measure quantitatively. MUSCCO loans, made in cash, not in kind, are obviously fungible; there is no certain way of determining how any particular loan was used. Based on our interviews and on pertinent survey reports, however, it appears that the impact of these societies on their members and on the communities in which they are operating has generally been positive. Still, there remain significant social barriers to the spread of credit unions among the segment of the population that MUSCCO was originally expected to reach. The team found that:

- In Malawi, credit unions are meeting a real demand for savings and credit by both farmers and small-business people. They have succeeded in reaching people with lower incomes than those reached by credit disbursed by the Department of Agriculture through Farmers Clubs. In the process they provide their members with training and experience in saving and investing productively.
- Through the provision of a savings and credit mechanism many individuals are benefiting from:
 - Increased income associated with investments in agriculture and small business;
 - Employment generated by these investments;
 - Improved food security;
 - Increased access to education and health services; and
 - Life insurance.
- Savings and credit societies have to overcome the negative reputation of earlier types of cooperative credit groups in rural development schemes.
- MUSCCO and its member unions serve primarily the upper fifth of small-holders, those who cultivate two hectares or more. Credit unions do not reach the poorest of the poor, and it is doubtful whether MUSCCO can or should try to reach lower-income households than it already does.

- MUSCCO and its member unions reach only a small proportion of Malawi's women farmers, who are the main farm labor force and play a major role in farm-level decision making. It should be possible to increase the proportion of women members.

Analysis and Conclusions

MUSCCO member societies are providing affordable credit to people who would ordinarily not be able to obtain loans from other credit institutions because they cannot meet normal down-payment, collateral, or other requirements.¹ The member societies can do this because they assess creditworthiness on the basis of character, industriousness, loan repayment experience, and benefits of the proposed investment.

MUSCCO itself plays a useful educational role for its societies and their members. MUSCCO and its member societies mobilize local groups in rural and urban areas to undertake self-help efforts on a grass-roots level and provide training so that they can manage their savings and credit unions properly. Members cited MUSCCO's training as a good reason for joining, noting that the things they learned could be applied to their own business ventures as well as to managing the credit society. Some expressed interest in having MUSCCO provide training and training materials for entrepreneurs.

Short-term loans were increasing both food security and farm income from cash crops. The prime reason for wanting short-term loans, according to most of the rural society members interviewed, was to buy fertilizer for their crops, including both cash and subsistence crops. Credit society members claimed that applying fertilizer even to local varieties of maize could double, possibly quadruple, yields. On fields of under one and one-half acres, it could make the difference between raising enough food for a year and running short. Fertilizer made even bigger differences in yield for hybrid maize -- a cash crop -- and was necessary for growing tobacco as well.

The response of maize to fertilizer use, as calculated in Appendix C, is large enough to have a major impact on the family's food supply. The typical agricultural loan of MK 70 will finance the improved package of practices on one acre, resulting in production of an extra ton of maize. The value of that amount of maize, at controlled prices used in the source report, is about MK 120, which represents a return on the investment of over 70 percent.

Many borrowers generate rural employment with the use of their loans. Hiring farm labor was a common reason for borrowing. Long-term loans funded small rural enterprises, such as a brickyard employing as many as twelve workers, the members of three subcontracting families. Since recent studies maintain that it is small-

¹ Most of Malawi's farmers continue to hold land under "customary tenure," and cannot use land as loan security. The experience of MUSCCO and its member societies demonstrates that land registration is not a prerequisite for credit, nor is customary tenure a barrier.

scale businesses and the larger of the smallholder farmers that will generate new employment in the near future, it is important to facilitate their growth (USAID/Malawi 1987).

"Provident" (as contrasted with "productive") loans increased access to education and health services. A majority of the members interviewed had taken out short-term loans for school fees for their own children or, often, for nieces and nephews. A minority had taken emergency loans to pay for transportation to medical facilities, to pay charges at mission hospitals, or to buy food after a severe drought.

Life insurance, provided by MUSCCO on loans and shares, is a magnet for some of the men, often those who are well-placed, middle-aged, and prosperous. Life insurance is not generally available to small- or medium-scale farmers in the countryside. MUSCCO insures shares at double their value in the event of a member's death, and pays off any outstanding debt as well. As one society board member put it, "When a man begins to grow grey hairs on his head he knows he is beginning to 'flower,'² and it is time to take care of his children so that they will take care of him." Another, a "Teba" (South African mineworker recruited by the Teba Company) returnee, noted, "It means your family gets a little something to live on and pay school fees if anything happens to you."

Nevertheless, credit unions do not reach the poorest of the poor. Very few members of the credit unions the team visited farmed less than two acres of land. Some societies had no members with as little as two acres. Yet the percentage of Malawi's population cultivating two acres or less, under 30 percent in 1968, had risen to 81 percent by the time of the National Sample Survey of Agriculture in 1980-1981. Moreover, the poorest farmers are themselves painfully aware that they are not good credit risks. As Hirshmann and Vaughan (1984) note:

More than half of the women in our sample said they did not want credit. Many said they were scared of it because either they were uncertain whether they would be able to pay it back, or they were quite certain they would not be able to (p. 134).

MUSCCO member societies have had to overcome people's reluctance to associate themselves with a cooperative organization. Several types of cooperative organizations that existed before the introduction of credit unions either collapsed completely, as did a maize cooperative in the Lilongwe district, or took such strong punitive measures for delinquency that their members hesitate to become involved with anything similar. Agricultural Development Districts (ADDs), which provided in-kind credit for fertilizer and seed, for example, punished the entire membership of Farmers Clubs for the delinquency of any of their number by denying credit to the entire club the following year and by confiscating community property to repay the loan. To MUSCCO's credit, it has succeeded in drawing initially wary members to its

² Possibly an allusion to the tobacco plant, which flowers at the end of its productive life.

societies in several areas once they saw how the local union operated and noted that it benefited its members.

Lack of education in rural Malawi has a negative impact on MUSCCO's ability to accomplish its aims. With illiteracy nationwide at nearly 60 percent, the serious lack of literacy and numeracy in remote rural areas is a barrier to participation in credit society activities. One regional worker noted that some societies are forced to operate with "untrainable" treasurers because no member has enough education to learn to keep the books.

Credit societies still largely serve men, and may thus not be providing credit to the primary farm managers. Societies with women constituting as much as a fifth of their membership were rare. This predominance of male members may affect whether loans have an optimum impact on farm production, but the precise consequences are not easy to determine. Women dominate in farming activities and appear to lead in decisions concerning crop choice, planting patterns, and produce marketing, but men apparently play an important role in decisions concerning cash expenditures and credit for farm inputs. (Appendix B presents further details on this topic.)

V. IMPACT ON FINANCIAL MARKET DEVELOPMENT

Effective financial markets perform functions that are essential for broad-based economic growth. Financial markets:

- Mobilize savings for productive investment;
- Provide a variety of financial instruments;
- Consist of a variety of financial institutions; and
- Link informal financial markets with formal financial institutions.

The MUSCCO project has had a number of effects on financial market development. One key objective was to contribute substantially to increasing the rate of growth of domestic savings in Malawi.

Findings

Savings increased as a result of the project, although not as much as projected.

Members of many rural societies have needs for credit far in excess of the loanable funds their credit union can generate through savings.

Other banking and savings institutions, already widespread in rural areas, serve as depository facilities. The National Bank and the Commercial Bank have 27 branches, 28 agencies, and 130 mobile branch locations. Deposits amounted to MK 230,000,000 in 1985. The Post Office Savings Bank, with 269 branches and agencies, at that time had over half a million savings accounts and remains the most accessible depository in the country. Its deposits amounted to MK 65,000,000 in 1985, while MUSCCO had MK 1,000,000, and 14,000 accounts at the same period.

Major cash needs in rural areas are for fertilizer, school fees, hired labor, and seed. All these are highly seasonal; the highest demand for cash occurs during the first months of the rainy season, in October and November. The bulk of loan repayment occurs after harvests in May and June.

Recently organized credit unions have included groups of urban and salaried persons, whose savings capacity is greater and whose credit needs are far less seasonal than the rural groups. This represents a deliberate decision by MUSCCO to diversify member groups in an attempt to even-out loan demand and cash flow.

Interest rates in Malawi have been below the rate of inflation periodically since about 1978.

Loan levels are limited by savings levels (share purchases); at this time the level of savings in the credit union system is determined largely by the demand for loans and the low income levels of the members, which limit cash available for saving.

MUSCCO and member societies are making deposits in the commercial banking system.

MUSCCO and the credit societies have provided training and experience to many people who never before had experience in formal financial markets in either saving or borrowing.

Analysis and Conclusions

Savings Mobilization

"Savings is a religion with MUSCCO" (MUSCCO central office staff member).

"A tambala can be turned into a miracle" (UTM Credit and Savings Society member, referring to the benefits derived from share purchases).

The extent to which the project has contributed to a net increase in savings is unclear, but indications are that it is negligible. Little is known about the savings behavior of rural Malawians. There have been no studies concerning the savings habits of smallholders, the value of existing savings, potential savings in the

sector, or traditional -- perhaps nonmonetary -- savings methods. Many credit union members have a prior history of savings, mostly through the Postal Office Savings Bank. Some members also save with commercial banks.

To the extent that credit unions are reaching rural people who otherwise might not be saving at other institutions or are inducing larger savings because of the attraction of possible loans, there may be a slight increase in net savings. Still, MUSCCO savings represented less than 1 percent of the total savings collected by the banking system in 1985.

The members' primary motivation for putting savings in the credit union is to be able to get a loan large enough to cover their credit needs, as opposed to using the credit union to meet a need for a deposit facility. Savings in the credit unions could represent a net increase in savings, or a movement of funds from other savings institutions, or a mix of the two. Savings in the MUSCCO member societies will be limited to the level of their members' loan demand until the societies become attractive as depository facilities, however. To become attractive, the societies must be well managed, have established reputations as secure places to save money, and compete with banks in terms of interest rates paid on saving and other banking services.

The inability to mobilize enough savings to meet the credit demand, plus the requirement that the amount loaned be no more than 1 to 3 times the savings of an individual member, means that potentially profitable investments might not be undertaken. It also makes the credit unions look to the MUSCCO central fund for additional financing. MUSCCO, in turn, must secure capital for its central fund by borrowing in the domestic or international financial markets or securing donor funding.

Interest Rates

Negative interest rates are a disincentive for savings and are decapitalizing the MUSCCO financial system. In real terms the value of MUSCCO's capital and revenues earned from interest is declining. Interest rates in Malawi have been below the rate of inflation repeatedly since 1978. For example: interest rates on savings deposits in 1985 were 10.5 percent, short-term deposit rates were 11.5 percent, and time deposit rates were 12.75 percent, but the inflation rate was 15.75 percent, making real interest rates negative. In 1987 the rate of inflation accelerated to 26.8 percent. Presently interest rates on saving deposits are 10.75 percent, on short-term deposits 8.75 percent, and on time deposits 12.75-13.25 percent, while the rate of inflation is in the neighborhood of 25 percent.

The economy is quite liquid at present, but this seems to be a temporary situation resulting from a decrease in business activity. A study of small- and medium-scale enterprises (SME) conducted in Malawi in 1987 (USAID/Malawi 1987, known as the "Barriers" study) found a strong and positive correlation between changes in real interest rates and the level of savings. While the central bank has a stated policy of maintaining real interest rates and does make adjustments, real interest rates have not remained positive on a sustained basis.

Currently, contrary to expectations, negative interest rates do not seem to be affecting the availability of funds, as most banks and businesses are in a very liquid position. This may be due to a temporary decrease in demand by the government and businesses for funds and to limited access by businesses to foreign exchange. Once business activity increases, credit may once again be in short supply. The major constraint facing SMEs, as identified by the Barriers study, is the lack of capital for their initial investments and operating costs. The study predicted that in the next five years the gap between what SMEs can save to invest in their own businesses and the total investments required would not be filled by the level of credit expected to be available. MUSCCO and the private sector in general may be facing a credit squeeze once business activity recovers from the current recession.

The central government's share of total credit used has increased from 24.5 percent in 1979 to 65.9 percent in 1987. Meanwhile the private sector's share of total available credit has declined from 63.9 percent in 1979 to only 27.6 percent in 1987. MUSCCO has started admitting large, urban, employee-based credit unions in an attempt to increase the level of savings in the system, but it must find additional ways to increase savings and, in the short to medium term, look to donors to continue their support in capitalizing the central fund facility in order to expand the amount of credit available to credit union members.

Links between Informal and Formal Financial Markets

Although the project had an institutional development perspective from the beginning, it has had unplanned but significant impacts on the development of the financial market system in Malawi. MUSCCO has developed into a central support organization, and the number and management capability of its societies have increased. In addition, the number and types of financial institutions (i.e., credit unions) have increased as a result of the project.

Currently the credit unions are the only institutions operating in rural areas and offering both savings and credit facilities. Their members are learning how to save and productively invest their savings. In effect, they are learning how to manage money in a society that is becoming an increasingly monetized market economy. The savings and investment skills that individuals are learning and the financial management capability being created in the societies provide a grass-roots foundation for future economic growth. Savings, although small at present, are being mobilized. The unions and MUSCCO are placing a portion of these savings in commercial banks as deposits.

Finally, the project has promoted the widespread ownership of financial assets in the form of shares owned by individual credit union members. Some credit unions have already progressed to the point where they have paid dividends of between 5 and 10 percent.

VI. LESSONS LEARNED/RECOMMENDATIONS

1. A well-designed, well-managed credit union can increase food security and income for its members and can generate employment in rural areas. MUSCCO has done so.
2. Developing an institution like MUSCCO should be expected to require ten to twenty years. Donors and host governments should recognize that a long-term perspective and commitment is required before the institution becomes self-sustaining. Straining institutional capacity by forcing it to conform to a rigid disbursement schedule can lead to misuse of funds and high delinquency rates.

Recommendation

Credit institutions must carefully evaluate their own ability to absorb and manage funds and resist pressures to spend donor funds merely because they are available on a fixed time schedule.

3. An important aspect of sustainability is the institution's ability to garner continuing outside support until it can achieve self-sufficiency.

Recommendations

MUSCCO should begin searching soon for continued funding from the donor community after the READI project ends.

A.I.D. should decide if or how it will continue to support MUSCCO and should keep MUSCCO informed in order to avoid lapses in support.

4. Credit societies are not the proper vehicle for reaching the poorest of the rural poor. MUSCCO is reaching the relatively prosperous level of small-holders because they are the ones capable of saving and repaying loans.

Recommendation

Donors should avoid the temptation to make a welfare agency of credit institutions by forcing them to extend credit to the very poor, who are not creditworthy.

5. It takes special effort to bring women into credit societies. Although women play a major role in farming and farm management in Malawi, credit society members were mostly men.

Recommendations

MUSCCO should make an effort to get a qualified Malawian woman on the central office staff. This woman should take an active role in training study groups; her presence at training sessions will indicate that credit societies are not just men's domain and should encourage rural women to participate actively.

MUSCCO should consider establishing some credit societies solely for women.

6. In an environment of widespread availability of depository facilities, newly created institutions, such as MUSCCO societies, can expect to be driven more by the demand for loan funds than by the need for depository facilities. This means that: (1) appropriate steps are needed to foster the ability of credit unions to compete for savings in their communities, and (2) over the short term, a credit agency may need to tap other financial institutions for loanable funds.

Recommendations

MUSCCO should establish mechanisms for increasing its central fund to meet loan demands as they occur.

MUSCCO should continue to diversify its member societies, including urban as well as rural societies, to bring in loanable funds in the form of shares and deposits and to diversify further its loan portfolio.

MUSCCO should strive to enhance the image of its member societies as safe, secure savings institutions by advocating fidelity bonding of their officials and employees, and by promoting the building of offices for the societies.

7. The presence of credit and savings societies at the local village level and the delegation of lending authority to that level facilitate providing credit to those who would otherwise find it hard to get and who can use it productively.
8. Cooperative financial institutions based at the local level can provide a link between the informal and formal financial sectors and provide a means for mobilizing savings for productive investment. These institutions can develop financial management skills that form a foundation for market-oriented economic development.
9. Comprehensive training and technical assistance tailored to the needs of the specific credit institution, to enable it to train as well as to serve the borrower, need to be an integral part of an institutional development program. In addition to building institutional capacity, training can enhance the borrowers' individual abilities to develop and manage their own enterprises.

Recommendations

Training and technical assistance to MUSCCO and its member societies should be continued and, if possible, expanded. The written proposal MUSCCO has made for HRID would be an appropriate means of expanding the Union's training program. The cost of this training should not be allocated as an operating expense for MUSCCO or thus used in the calculation of self sufficiency. Such training expenses are the result of a national deficiency of trained personnel, and MUSCCO should not be penalized for it. Where this situation exists in other countries, it would similarly be appropriate to consider those expenses apart from the operating expenses of the financial institution.

Immediate specialized training or a new staff position is required to handle credit societies and study groups of the employee type.

APPENDIX A
FIELD METHODS EMPLOYED BY THE EVALUATION TEAM

APPENDIX A**FIELD METHODS EMPLOYED BY THE EVALUATION TEAM**

The MUSCCO Project impact evaluation team carried out a rapid rural appraisal to determine the effects of the MUSCCO project on both the institutions it supports and the beneficiaries of rural credit.

Unlike most impact evaluations, which assess the post-project effects of an activity that no longer receives support from USAID, the MUSCCO evaluation team found itself looking at a project that is still very much dependent on USAID funding. The READI project (1984-1989) is the conduit through which MUSCCO support is channeled today. Under the circumstances, it was not always clear to people we contacted why another evaluation team was on hand, though we did our best to explain the difference between our task and a mid-project evaluation. Although the continuation of project funding spoke well for MUSCCO's organizational ability to stay afloat in its early stages, it also made the task harder, as the team tried to disentangle the effects of the first MUSCCO project, which phased down in 1985, from the effects of the current one.

The team gathered yearly and, in some instances, quarterly or monthly balance sheets and operating statements from MUSCCO headquarters and from the local savings and credit societies visited, in addition to holding extensive interviews with MUSCCO central office staff. Interviews with individual credit societies were conducted as group interviews; occasionally the team of four split in two to meet with separate groups at the same time. Members of the team also interviewed individual credit society members, farmers, and representatives of ADMARC, DEMATT (Development of Malawian Traders Trust), and the Agricultural Development Districts (ADDs), as well as staff of MUSCCO's central office and field offices.

The team traveled to field sites from 5 October through 14 October 1988. The following pages present a summary of the research strategy and the protocols the team developed for farmer, entrepreneur, and credit union interviews. Appendix I lists the persons and groups contacted.

FARMER QUESTIONNAIRE

1. What crops do you grow for cash? for food? How much land do you use for each?
2. Are you married, divorced, widowed, single? How many dependent children live with you? Other dependents (e.g., elderly parents)?

SAMPLING CATEGORIES FOR FIELD INTERVIEWS

Sampling Criteria	Rationale
1. Site selection:	
The team conducted group interviews of credit societies in:	
<ul style="list-style-type: none"> - Northern, - Central, and - Southern communities 	<p>Sample regional differences, esp. in male/female predominance in farm management decision making.</p>
as well as:	
<ul style="list-style-type: none"> - urban, - rural roadside, and - rural off-road sites 	
Compare urban, rural, and remote respondents' views, opportunities, and concerns about savings and borrowing.	
2. Interviewees included:	
<ul style="list-style-type: none"> - "progressive farmers" (achikumbe); 	<p>Likely to have access to alternative forms of credit.</p>
<ul style="list-style-type: none"> - female farming household heads; 	<p>More modest resources.</p>
<ul style="list-style-type: none"> - male small-scale farming household heads 	<p>Variable cash and farm resources.</p>
<ul style="list-style-type: none"> - local (rural small-scale entrepreneurs (male/female); 	<p>Compare liquidity and cash needs to those of farmers.</p>
<ul style="list-style-type: none"> - credit union staff (malawian and Peace Corps volunteers; 	<p>Field representative view; informed outsider's view.</p>
<ul style="list-style-type: none"> - credit society members*; and 	<p>Reasons for belonging to credit society.</p>
<ul style="list-style-type: none"> - nonmember farmers.* 	<p>Alternatives for services offered by credit societies.</p>

*Category cross-cutting those above.

3. Do you pay school fees for children of your own? other children?
4. Who works in your garden or fields? (family members?) Are any family members employed elsewhere? Do you ever need extra labor? How do you get it?
5. What do you do with extra cash?
6. At what times in the year do you need cash or credit? Where have you gotten it? On what terms?
7. Does anyone ever come to you to borrow money (or produce)? Do you lend it? On what terms?
8. (For credit society members:) For what purposes do you intend to ask for a short-term loan? a long-term loan?

ENTREPRENEUR QUESTIONNAIRE

1. How and when did you enter this business? Where did you get the capital to set it up?
2. Are you married? Where is your spouse, and what does she/he do as an occupation? Do you have children?
3. Do you and your spouse(s) farm, too? If so, do you contribute cash earnings to farm inputs? Does your farm supply your family with its food for the year?
4. Do you ever need to borrow money? For what? From whom or where do you get it? On what terms?
5. Do you ever lend money? To whom? Under what circumstances and on what terms?
6. Do you have a savings account? Where?

CREDIT SOCIETY QUESTIONNAIRE

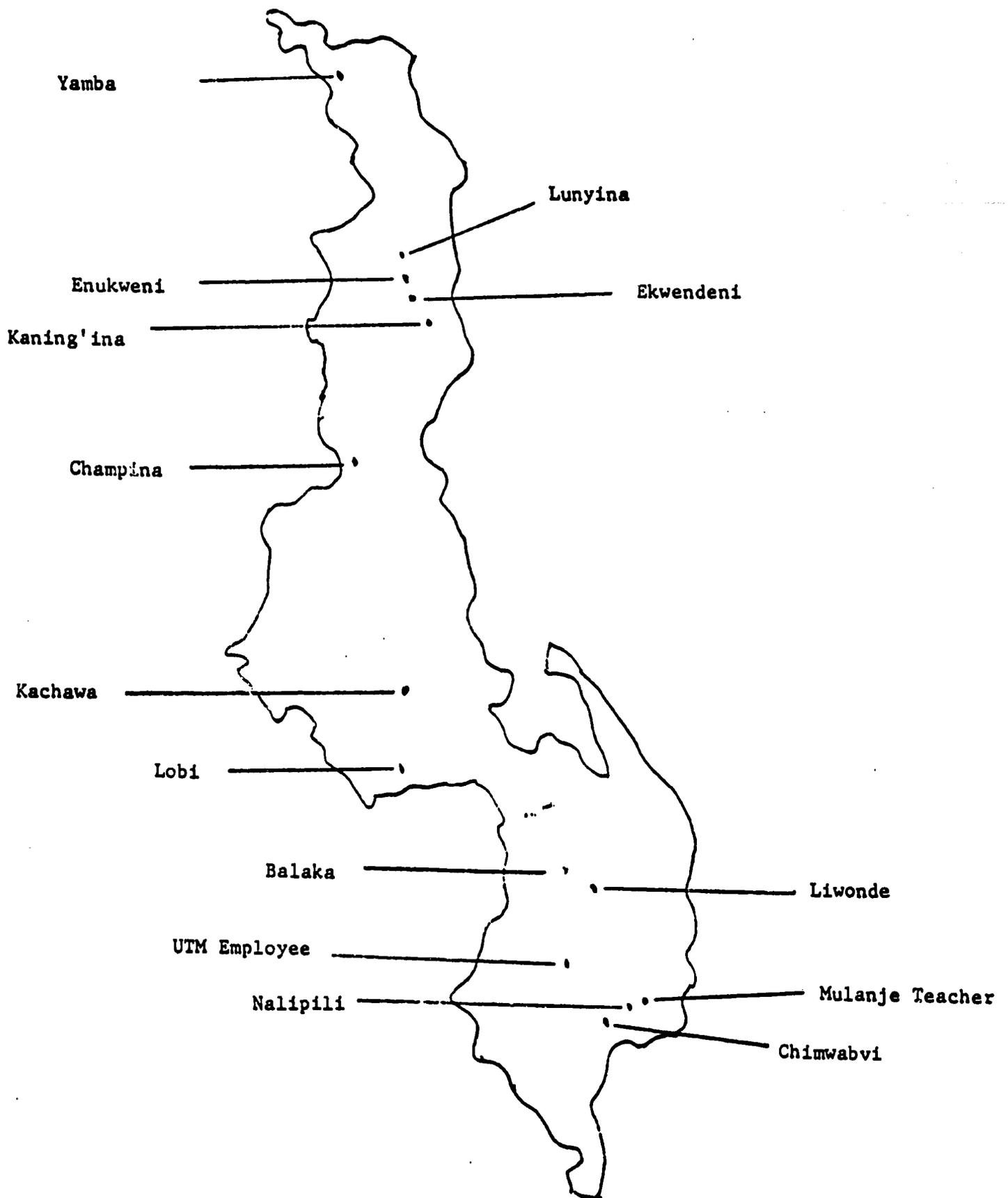
Credit society group interviews practically always started with a prayer, formal introductions of board members and the evaluation team, and a representative of the society's board giving us a short history of the society, including information on its founding, initial membership and shares, date of licensing, and current membership and shares. Our questions followed this presentation of basic information. For individual members at each meeting:

1. Why did you decide to join? For how long have you been a member?
2. Why do you intend to ask for a loan? (Short-term loans? Long-term loans?)
3. Have you had a loan from this credit society? For what purpose?
4. Have you had loans from other sources? From what source, and for what purpose?
5. Do you have a savings account at the Post Office or a commercial bank? For what do you use it? Are there any drawbacks to using it as you would like to? Any other ways you have used to save money?

For the society as a whole:

1. Where do your loan funds come from: shares, deposits, central fund loan? Do you have enough money to cover all good requests for short-term credit? for long-term credit?
2. How do you decide whether to make a loan?
3. How do you collect interest and principal due?
4. For what purposes have you made loans this year? (This was followed by a hand-count for the following types: school-fees; medical; fertilizer; hiring farm labor.)
5. If you take a loan from the credit society for fertilizer, do you still get agricultural extension services? (Loans for fertilizer often were given in kind by the Ministry of Agriculture, along with extension services, which focused partly on loan collection.)
6. How many women members do you have?
7. What problems have you encountered during the history of your organization? How have you overcome them? Do you have any problems you are facing right now?

Location of MUSCCO Societies Interviewed by the Evaluation Team



APPENDIX B
THE SOCIAL CONTEXT OF AGRICULTURAL PRODUCTION

APPENDIX B

THE SOCIAL CONTEXT OF AGRICULTURAL PRODUCTION

The original Malawi Union of Savings and Credit Cooperatives Project, funded by USAID, charged MUSCCO with the task of reaching Malawi's poorest farmers and, particularly, women. In practice, doing this has been very difficult if not impossible. MUSCCO has reached lower than other lending institutions in Malawi and has benefited people otherwise outside the purview of formal credit, but it has not reached the poorest of the poor. In fact, such a goal is probably unreasonable if MUSCCO is to become a viable and self-sustaining institution. To place in broader social perspective what MUSCCO has accomplished and what it can be expected to do, this annex will discuss the following questions:

- Who are the rural poor?
- How do Malawi's particular social institutions and cultural principles affect resource flows in rural areas?
- What roles do women play as farmers and farm managers? and
- What informal sources of loans exist in the countryside?

WHO ARE THE RURAL POOR?

Malawi is first and foremost an agricultural country. Ninety-five percent of its export earnings and about 40 percent of GDP come from the agriculture sector. Tobacco and tea are Malawi's major export crops; these two, along with sugar, account for over 80 percent of export earnings. Groundnuts, tung oil, cotton, and sunflower seed are additional exports.

Large estates, occupying over one-fifth of the arable land, provide approximately four-fifths of agricultural exports. The smallholder sector, supplying nearly 80 percent of agricultural production, is thus primarily geared to subsistence and internal food marketing. Maize reigns supreme in the southern and central regions; it is not only the main subsistence crop but, increasingly, a cash crop for small- and medium-scale farmers as well. Among the country's other food crops are cassava, rice, bananas, millet, sorghum, groundnuts, beans and peas, rice, potatoes, pumpkins, and fruits.

Over 90 percent of the country's population, which is fast approaching seven million, are engaged in agriculture, the vast majority of them in the smallholder sector where the size of individual holdings is shrinking. In 1968/69, 28.7 percent of these farmers were farming holdings of less than two acres and almost a fifth, nearly 19 percent, had six acres or more. By 1980, however, over four-fifths (81 percent) held two acres or less and only 2.5 percent had six acres or more

(Christiansen and Kydd 1985). Table 1 shows regional differences in size of holdings.

TABLE 1
RELATIVE DISTRIBUTION OF LAND-HOLDINGS BY SIZE (ACRES): 1980/81

Area	0-1.9	2.0-3.9	4.0-5.9	6.0+
All Malawi	81.0	13.9	2.6	2.5
Karonga	93.8	5.6	9.4	0.2
Mzuzu	76.6	17.4	2.5	3.5
Kasungu	55.0	25.3	8.6	11.1
Salima	83.6	12.7	2.2	1.5
Lilongwe	75.7	19.2	3.5	1.6
Liwonde	86.9	11.4	1.0	0.7
Blantyre	92.0	7.1	0.8	0.1
Ngabu	78.6	14.6	3.5	3.3

Sources: NSSA 1980/81, vol. I, Table 2.6.

From what this team was able to learn, the vast majority of MUSCCO society members farmed holdings of over two acres; many farmed over five acres, and some commercial farmers over a hundred. Thus they were not representative of the bulk of the rural poor.

RESOURCE FLOWS IN RURAL AREAS

The principles of land tenure and resource flows under customary rules are not the same in all parts of Malawi. The densely populated central and southern regions of the country, in which Chewa and Nyanja are the predominant groups, form part of what is known as the "matrilineal belt" of Africa. In these areas rights in land are inherited through female ancestors. Married couples normally reside in the wife's home area, although political positions, such as the headmanship of a village or a lineage segment, are conferred on males who are generally the brothers of the female heads of residential lineage groupings. These men, then, remain in their natal village. Farming work groups are typically composed of a mother and her daughters, residential groups of a more extended lineage through female lines. Both types of group are termed mbumba.

The principle of matrilineal descent undoubtedly constituted part of the cultural baggage African migrants moving into the Shire highlands and the central plateau brought with them from the east and south. British colonial efforts to

impress men into plantation labor through tenancy arrangements on the extensive estates they established shaped the way in which matrilocality and matrilineal inheritance were practiced in the central and southern regions. Men were forced to spend ever greater amounts of time away from their farms. As the estates flourished, their period of service coincided more and more with the peak labor period for subsistence farming. Women left at home to manage the family gardens thus became the primary farmers, women's work groups a crucial device for pooling labor, and women's inheritance of land rights in their natal village reasonable and, indeed, practical. The pattern of men's spending at least part of the year away from home, working to provide the family with some of its cash needs, is therefore not a new phenomenon but one that both reinforces and is reinforced by matrilineality.

In the northern region, on the other hand, lineages tend to be patrilineal: land resources pass from father to son, a system that foreign donors find more comprehensible, as it matches traditional European patterns. Donor bias toward considering men the primary farmers fits the north better than the south and central regions, though it is nowhere fully justifiable in Malawi.

HOUSEHOLD TYPES AMONG FARMERS

It comes as no surprise, then, that 94 percent of Malawi's female population are farmers, but only 62 percent of the males. The proportion of households headed by women varies from 19 percent in the northern region, to 23 percent in the central, and 34 percent in the southern regions; the proportion of households in which a woman is the de facto head of house is even larger. A recent survey of small farm production in the central region divides households into four major types:

- Male-headed households, in which an adult male household head is resident;
- "Teba" households, in which the male head is absent, working in South Africa (recruited by the Teba Company for migrant labor);
- Households in which the male head is absent at least 50 percent of the time but living and working in Malawi (termed FMalawi households by Peters); and
- De jure female-headed households (Peters 1988, p. 30).

In each of the last three types an adult female is acting as the primary manager and decision maker.

Levels of Wealth

The relative wealth and prosperity of a smallholder family depends in part on the acreage it controls, in part on its access to cash. Teba households are the

most affluent: the husband's remittances from work in South Africa provide cash for agricultural inputs and hired labor, which increase farm production. Moreover, Teba households typically have larger landholdings than the other three categories. Male-headed households are generally next. Their holdings are large enough to permit the household head to remain at home and add his labor to the rest of the family's. Female-headed households have smaller average holdings than those of male-headed households, but these are frequently large enough for the family to subsist and also generate a modest cash income from crops. (See Figures 1 and 2.)

The third category, households in which the male household head is working elsewhere in Malawi at least half the time, falls into two groups: those with acreage adequate at least for subsistence, which use the absent head's wages to provide cash for farm inputs and other uses; and those with fields of 0.7 hectares or less, which cannot rely on farming alone for subsistence. The first may fall between Teba and male-headed households in terms of wealth; the last constitute the poorest group of farm households. Their family members are forced to turn to wage labor to supplement farm production just to make it through the year. This frequently means working away from their own gardens at the very time when labor on their land would result in higher yields. They find themselves caught in a downward spiral.

Coping Strategies

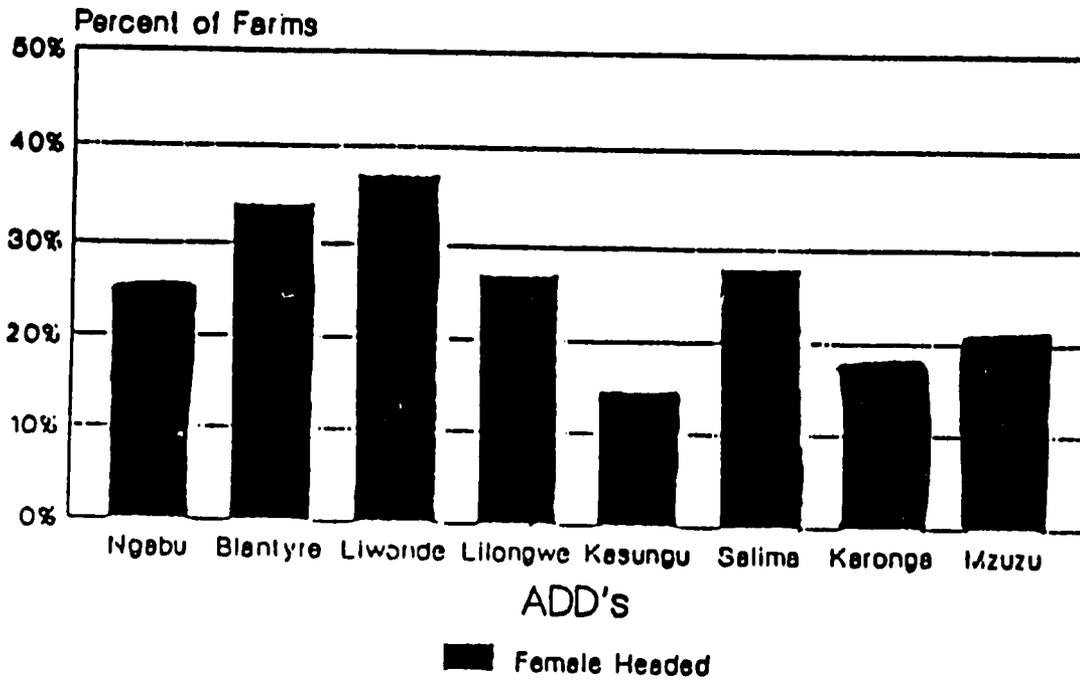
Families with holdings of three acres or more can earn cash for some of their needs by crop sales. Smallholders may grow maize, tobacco, groundnuts, tea, beans, or cotton as cash crops in addition to maize, cassava, and other vegetables for their own consumption. Remittances are a second source of cash. Running a small business -- a grocery or butchery -- or petty trading in fish, maize, used clothing, or other locally consumed commodities supplements cash income for some. Finally, especially for families at the margin of subsistence, casual labor is an essential addition to their farm production.

WOMEN AS FARMERS AND AGRICULTURAL DECISION-MAKERS

Women act as primary laborers on their own fields and also take major responsibility for farming decisions. In a sample survey of women farmers in Zomba district, Hirschmann and Vaughan found that women took the lead in deciding which crops to grow, determining planting patterns, and selling farm produce. Decisions to employ farm labor or ask for credit fell nearly equally to men and women; the only farm-level decision taken by men somewhat more frequently than women was purchasing fertilizer. Thus women took the lead in farm production decisions, but men had a larger say in decisions that involved cash expenditures including the decision to borrow (Hirschmann and Vaughan 1984, pp. 63-66). Tables 2 and 3 and Figure 3 present some of the Hirschmann and Vaughan results. These charts, which show findings based on a limited sample, are illustrative but cannot be considered comprehensive.

Figure 1

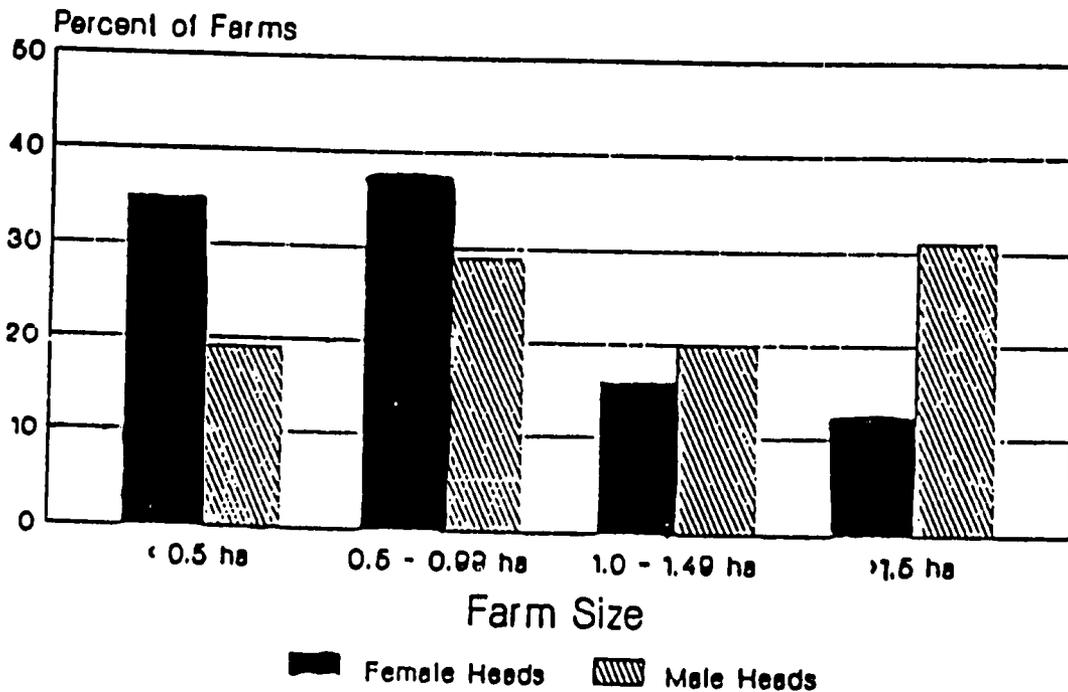
Female-Headed Households by ADD



Source: Republic of Malawi/National Statistics Office 1984, table 1.4 from 1980/81 NSSA report volume I

Figure 2

Farm Size by Sex of Household Head



Source: Republic of Malawi/ National Statistics Office 1984, tables 1.3 & 1.4 from 1980/81 NSSA report volume I

Tables 2 and 3

DECISION-MAKING, ALL HOUSEHOLDS:
AGRICULTURAL PRODUCTION AND SALES
(N = 70)

Type of Decision	Made by: ^a							T
	H	W	HW	C	M	S	B	
Which crops to grow	12	36	20	3	2	4	1	78
Employing labor	16	18	2	0	0	0	0	36
Buying fertilizer	21	16	4	3	1	0	0	45
Planting pattern	12	40	13	2	3	1	1	72
Selling dimba crops	6	30	5	0	1	0	0	42
Selling non-dimba crops	10	27	10	0	3	0	0	50
Selling poultry	5	13	8	0	1	0	0	27
Asking for credit	8	9	2	1	0	0	0	20
TOTAL	90	189	64	9	11	5	2	370

Type of Decision	Percent						
	H	W	HW	C	M	S	B
Which crops to grow	15% ^b	46%	26%	4%	3%	5%	1%
Employing labor	44	50	6	0	0	0	0
Buying fertilizer	47	36	9	7	2	0	0
Planting pattern	17	56	18	3	4	1	1
Selling dimba crops	14	71	12	0	2	0	0
Selling non-dimba crops	20	54	20	0	4	0	0
Selling poultry	18	48	30	0	4	0	0
Asking for credit	40	45	10	5	0	0	0
TOTAL	24	51	17	2	3	1	1

^a Abbreviations represent the following: H - Husband; W - Woman; HW - Husband and Wife together; C - Children; M - Mother; S - Sister(s); B - Brother(s); T - Total.

^b All percentages have been rounded off.

COMPARISON OF RESPONSIBILITIES BY AREA OF DECISION-MAKING: ALL HOUSEHOLDS
(N = 70)

Decisions Dominated by Women	Percent	Decisions Dominated by Husbands	Percent	Joint-Husband-Wife Decisions	Percent
1. Selling dimba crops	71% ^a	1. Buying fertilizer	47%	1. Selling poultry	30%
2. Planting pattern	56	2. Employing labor	44	2. Which crops to grow	26
3. Selling non-dimba crops	54	3. Asking for credit	40	3. Selling non-dimba crops	20
4. Employing labor	50	4. Selling non-dimba crops	20	4. Planting pattern	18
5. Selling poultry	48	5. Selling poultry	19	5. Selling dimba crops	12
6. Which crops to grow	46	6. Planting pattern	17	6. Asking for credit	10
7. Asking for credit	45	7. Which crops to grow	15	7. Buying fertilizer	9
8. Buying fertilizer	36	8. Selling dimba crops	14	8. Employing labor	6

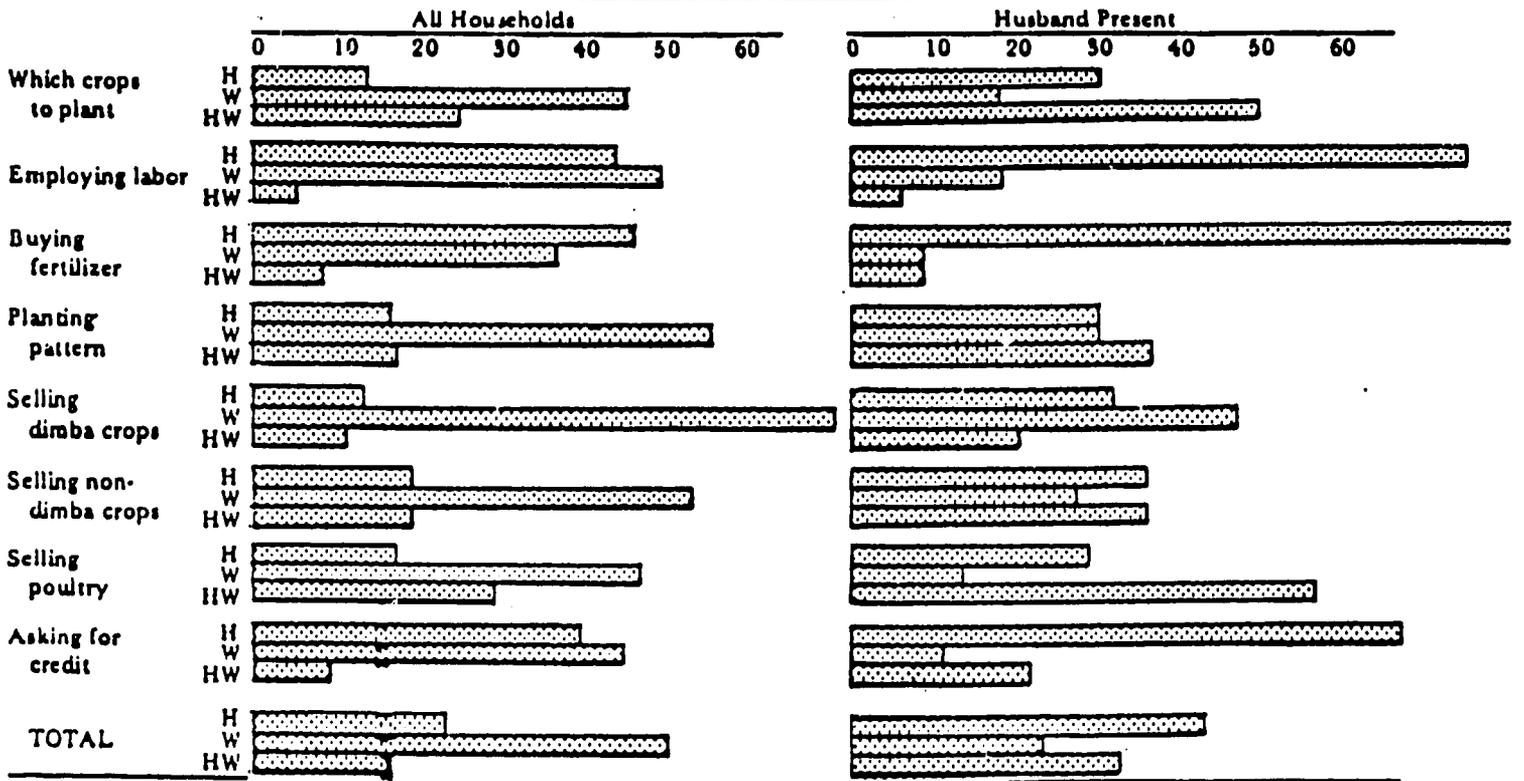
Source: Based on Table 7.1.

^a All percentages have been rounded off.

From Hirschmann and Vaughan 1984:64, 65.

Figure 3

DECISION-MAKING, AGRICULTURAL PRODUCTION AND SALES
(in percent)



Sources: Tables 7.1 and 7.5.

From Hirschmann and Vaughan 1984:67.

INFORMAL SOURCES OF CREDIT

In Malawi, basic conditions for using credit productively are in place. An improved maize seed and fertilizer package has been developed, making these inputs available for purchase by anyone with money to pay for it. Given the decline in soil fertility, most farmers know that without chemical fertilizer their yields will be very low. The problem is that when fertilizer is needed cash is short. Marketing services are available throughout the country through the Agricultural Marketing Development Corporation (ADMARC), and private traders are now beginning to enter the market as a result of recent policy changes. Pricing policies have generally remained favorable for both cash and subsistence production, although there have been occasional exceptions.

Various types of lending arrangements, formal and informal exist in Malawi, as discussed elsewhere in this report. In addition to the banks and postal savings system, people may turn to relatives or friends for interest-free loans, or, in commercial centers and cities, to a local moneylender -- or katapila -- who charges interest on loans of this sort at rates of 50 to 100 percent of the amount borrowed, to be repaid along with the principal in three or six months. People resort to moneylenders only for pressing emergencies, or if they see an opportunity for windfall profits.

The government loan program that addresses the same group of smallholder farmers as does MUSCCO is the Ministry of Agriculture's in-kind loans of fertilizer and seed, administered by the Agriculture Development Districts (ADDs) through Farmers Clubs, which are held jointly responsible for repayment. Delinquency rates on these loans are nil; punishment for non-repayment is severe. A club with a delinquent member is denied credit the following year, and government representatives have been known to raid the community of a delinquent borrower, seizing tin roofing and other property for resale to pay off the loan. One woman member of a MUSCCO credit society explained that she and her husband took out loans of fertilizer through the Farmers Club they had joined, but she would take a cash loan from MUSCCO at harvest time to repay any remaining part of the Farmers Club loan. This probably enabled the couple to store surplus grain at harvest time, when prices are low, and sell it off later in the year, when grain prices rise.

Traditional savings or mutual aid societies other than the work groups already described are not characteristic of traditional society in Malawi. Some urban wage-earners have set up rotating credit societies, in which everyone contributes a set amount every month and the entire kitty goes to one member, each member receiving it in turn. But, unlike other parts of Africa, where such societies are common even in rural areas, in Malawi these are a modern phenomenon.

Other ways of storing credit in material property include buying cattle and small stock in the north, or, for some women, growing a cash crop like beans, which store well. One MUSCCO woman farmer reported that she took out loans for fertilizer for cash crops, but for maize for home consumption she bought fertilizer

directly, saving until she had enough for a bag, purchasing it, and gradually stockpiling the amount she needed over the course of a year.

APPENDIX C

THE IMPACT OF CREDIT ON PRODUCTION, INCOME AND EMPLOYMENT

APPENDIX C

THE IMPACT OF CREDIT ON PRODUCTION, INCOME AND EMPLOYMENT

The usual rationale for credit projects in underdeveloped countries is that credit is expected to have a favorable impact on agricultural production and farmers' incomes. It is also commonly expected that employment will increase. In this annex to the Malawi Credit Impact Evaluation report, an attempt is made to quantify the impact of the MUSCCO project, or more specifically the impact, on agricultural production, farmers' incomes, and employment, of the credit made available to farmers through credit unions as a consequence of that project.

1. The Model and Problems in Assessing Impact

Conceptually, providing credit to farmers in an underdeveloped country will enable the farmers to acquire and use inputs for crop and livestock production that would be otherwise unavailable to them because they do not have sufficient cash or credit to buy the inputs. The use of these inputs will increase the yield and output of their crops, thereby increasing total production and farmers' incomes.

The model, presented above in simplified form, assumes the existence of an improved package of production practices, usually involving chemical fertilizer and improved seed; an extension program big enough and good enough to teach the farmers to use the improved package; availability of the needed inputs in the necessary quantity and on time; and incentives to the farmer in the form of expectations of profitable response, which presumes prices or value-in-use high enough to assure a return over costs, or other benefits sufficiently attractive to induce the farmer to use the newly available credit to finance purchase of the improved package.

In Malawi, these assumed conditions are in place, at least for maize, which, as the staple food and the leading crop, can be taken as an indicator of agricultural production generally. The extension service is not a constraint in this case, simply because the job of teaching the use of the package has already been done: familiarity with the improved package of practices for maize is widespread among farmers, and they give every indication of full confidence in its efficacy. There is, however, variation in the usage (or the completeness of adoption) of the package: some farmers use only one or two bags of fertilizer per acre, rather than the recommended three or four. They are likely to use less fertilizer on local varieties of maize (for home consumption) than they use on hybrid maize (produced for cash sale). In addition, variation undoubtedly exists in supporting practices, such as timeliness of planting, plant population and spacing, completeness of weed control, etc., although these elements were not investigated.

However desirable it would have been to calculate the impact of credit on production of maize in Malawi using original data, that was not possible in the context of a three-week consultancy. It would have been necessary to gather

input-output data by surveying a sample of farmers who used credit and another sample of farmers not having access to credit. Even had collection of such data been possible, the output data would have been suspect, if indeed usable. The standard problems of such surveys -- faulty memories and biased reporting -- would be encountered. There would also be a problem of inaccurate measurement, with insufficient time and knowledge of Malawi to develop corrections or adjustments. We were victims (or perpetrators) of such error.

Farmers told us of their yields in bags (a bag being 90 kg), and we talked of the area of their farms in acres. What we recorded as yield per acre borders on the incredible. Their typical yield figures of 15 bags per acre for local maize and 25 bags per acre for hybrid maize work out to 3335 and 5558 kg/ha, compared to average maize yield of 700 to 800 kg/ha in most countries of this part of Africa, and yields in the World Bank report (1987) of 900 kg/ha for local maize and 3500 kg/ha for fertilized hybrid maize. In retrospect, it appears that they were giving us either "conventional wisdom" or socially acceptable estimates, rather than their own figures.

Apart from such errors, the 90-kg bag may not be exactly that in practice. Experience and observation indicate not only that bags vary in capacity and completeness of filling, but that density of grain -- its weight per unit volume -- varies with moisture content, maturity, and other factors. Inaccuracies would be expected in reported areas of fields, too: farmers stated their field sizes in round numbers, almost never with fractions of acres.

There are reasons to question the usefulness of any attempt to measure or evaluate impact. These reasons include the following:

1. **Fungibility of the loan and substitutability of capital sources.** MUSCCO loans are made in cash rather than in kind, and thus are fungible -- usable for a variety of purposes -- and there is no way of determining for certain how a given loan was used. Provident loans, for such needs as school fees or health-related expenses, would hardly be expected to increase maize output. Even if the intended use of the loan as stated by the applicant were to buy fertilizer, it is not difficult to envision diversion of the funds, once obtained, to other needs seen then as more pressing. On the other hand, since there exist informal, traditional sources of funds in rural areas, it cannot be proven that the use of given inputs was the result of a loan; the inputs might have been obtained using funds otherwise acquired.
2. **Inseparability of effects of package components.** Separating the effects of fertilizer on maize yields from the effects of improved varieties, better weed control, or other factors can be done in controlled experimentation, but is of dubious validity when done by mathematical methods applied to survey results. Separating the effects of inputs from the effects of the credit that was (or may have been) the facilitator of the use of those inputs is virtually impossible.

3. **Substitutability of other practices.** A World Bank Staff Appraisal Report (1987) shows potential increases in maize yields in Malawi of from 600 to 1800 kg/ha, representing 67 to 180 percent increases over base yields. Of these increases, 352 to 1260 kg/ha was attributed to fertilizer, or 59 to 70 percent of the overall increase. In southeastern Zaire, however, the package of production practices offered by extension agents produced yield increases of about 100 percent -- comparable to the increases reported by farmers in Malawi -- yet in Zaire the use of fertilizer was not even mentioned because it was not available. Simply doing a better and more timely job of ordinary operations may have significant effect on yields, yet these inputs or practices may not even be recorded, despite their effectiveness. The use of fertilizer may be accompanied by more care and attention to details, such as weed control, which may be the real cause of yield increases.

An estimation of the impact of credit on production and income may nevertheless be attempted, with the caveat that its accuracy and usefulness are distinctly limited. Such an attempt has been made, and its results are summarized here.

2. A Farming Unit for Analysis

This exercise uses as its focus an ordinary farmer, a borrower-member of a MUSCCO credit union having customary (usufructuary) tenure of an average-size farm. The average size of holdings of MUSCCO's borrower members is not known, but in a number of meetings with officials and members of credit unions we found very few who had less than two acres. It was commonly felt that two acres was the threshold size for production of adequate amounts of food for the family. As maize is the staple food and leading crop, it is assumed that half the total area (one acre) is devoted to maize, while the balance is used for other food crops and for fallow. Assuming average-level production without use of fertilizer (see output data, Tables 1-3 below), 355 kg of maize will be produced from this area. If the family in question includes 6.5 persons, each of whom eats the normal 500 grams of maize per day, only 30 percent of the family's full-year requirements of 1186 kg will be produced. The gravity of such a shortfall and the farmers' recognition of the efficacy of fertilizer as a yield-booster make it clear why the demand is so strong for loans for fertilizer.

Estimation of the impact of credit on production requires certain assumptions. In this study, the following assumptions are made:

- The full proceeds of the loan are used for the stated purpose of the loan.
- The impact of credit is the impact of the crop input whose purchase was facilitated by the loan.
- Prices and other data of the source document satisfactorily represent the time period of the analysis.

The impossibility of gathering reliable data under the severe time constraints of the impact evaluation forces reliance on data from some other source. Fortunately, data that appear to be suitable and relevant are available. Adaptation of the data requires certain additional assumptions, which will be noted as they are encountered.

3. Input-Output and Price Data

The World Bank Staff Appraisal Report of the Malawi Smallholder Agricultural Credit Project (Report No. 6886-MAI, 9 October 1987) includes crop recommendations and fertilizer practices, yields and fertilizer responses, and crop budgets for maize. These data provide the basis for the presentation that follows.

A number of options for maize production are available to farmers: pure stand or intercropped maize; local, composite or hybrid seed; unfertilized, underfertilized, or fertilized according to recommendations. We did not query farmers about their use of these options; those who told us of their maize production did not specify whether they used pure stands or interplanted other crops, and composite maize was never mentioned. The World Bank report shows the relative usage of some of these options, however. An average of the inputs and outputs, weighted according to the usage of the various options, is assumed to represent adequately the farmers' overall maize production situation. This weighting is computed and presented in Table 1.

TABLE 1

AREA OF MAIZE PRODUCED, BY VARIETAL AND CULTURAL OPTIONS

	Cultivated Area	Percent of total (Weighting)
Local maize		
Pure stand	833	74
Intercropped	171	15
Composite maize	30	3
Hybrid maize	89	8
TOTAL	1123	100

Source: Calculations based on data from World Bank Staff Appraisal Report No. 6886-MAI. 1987: Appendix F.

The inputs and outputs of the several options are shown in Table 2. These are then combined as weighted averages for unfertilized and fertilized maize in Table 3. The rate of fertilizer application reported to us by farmers was usually three bags per acre, although use of four bags (two applications, each of two bags) was also mentioned, and some farmers acknowledged using only one or two bags. A bag of fertilizer weighs 50 kg and currently costs MK30; the prices used in Table 2 were drawn from a different time period.

Yields of maize reported to us ranged from 2 or 3 bags to 44 bags per acre (73 to 1603 kg/ha), but consensus yields of groups of farmers were about 15 bags per acre (546 kg/ha) of local maize and 25 bags per acre (911 kg/ha) of hybrid maize if fertilizer was used; there was general agreement that use of fertilizer doubled the yield. While these figures do not agree in detail with those of the World Bank report (in Table 2), the general pattern is supportive: use of hybrid seed and fertilizer both result in increases in yield as compared to local varieties and absence of fertilizer.

The prices received for the crop vary. Maize is bought and sold by local traders as well as by the parastatal marketing agency, ADMARC. Local maize is greatly preferred for home consumption because it is easier to grind and has superior flavor. Farmers raise local maize for their own use and hybrid maize to sell; apparently they place sufficient premium on local maize that their perceived value per acre is equal for the two options despite lower yields of local maize. However, in the absence of information on the market price of local maize, calculations are carried out using a standardized (ADMARC) price for maize: 12.2 tambala per kg, or MK10.98 per bag of 90 kg. The price is currently 16.6 tambala per kg (MK14.94 per bag), and it will increase to 24 tambala/kg (MK21.60 per bag) effective in April 1989. The out-of-date price is used in calculations to avoid mixing data from different time periods.

The total volume of MUSCCO loans outstanding as of 30 June 1988 was about MK1.433 million. The exact number of loans apparently was not determined at that time.

If the number of members -- about 13,600 -- is used as a proxy for the number of loans, an average loan of about MK105 is suggested. This average includes all loans, large as well as small, and for all purposes. Agricultural loans could not be separated out, but team members reached a consensus estimate of MK70 as the size of the average agricultural loan.

The aggregate proportion of MUSCCO loans made for agricultural purposes has not been calculated. When calculated for a few societies, proportions were found to range from 10 to 82 percent, with an average for this small sample of 55 percent. Therefore one can estimate the number of agricultural loans as 55 percent of the number of members (13600), and the volume of those loans as $(13600 \times 0.55 \times \text{MK}70 =)$ MK523,600, somewhat more than a third of the current loan portfolio. Informed observers agree that this is a reasonable estimate of the proportion of agricultural loans.

TABLE 2
INPUTS, OUTPUTS AND PRICES FOR MAIZE PRODUCTION

	<u>Local Maize, Pure</u>		<u>Local Maize, Intrpl</u>		<u>Composite Maize</u>		<u>Hybrid Maize</u>	
	Unfert	Fert	Unfert	Fert	Under-fert	Fert	Under-fert	Fert
COSTS								
Seed	4.19	4.19	13.35	13.35	12.50	12.50	31.50	31.50
Fertilizer	0.00	56.94	0.00	56.94	67.40	137.72	77.70	158.32
Sprayers	0.00	0.00	0.00	0.00	0.00	8.51	0.00	12.04
Transport	1.35	2.25	1.15	2.18	1.50	3.30	1.50	4.20
Miscellaneous (5%)	0.28	3.17	0.73	3.62	4.07	8.10	5.54	10.30
Total Costs	5.82	66.55	15.23	76.09	85.47	170.13	116.24	216.36
Yield kg/hectare	900.00	1500.00	765.00	1450.00	1750.00	3000.00	2000.00	3500.00
Price t/kg	12.22	12.22	12.22	12.22	12.22	12.22	12.22	12.22
Interpl. Pulses kg/ha	0.00	0.00	190.00	210.00	0.00	0.00	0.00	0.00
" " t/kg	0.00	0.00	40.00	40.00	0.00	0.00	0.00	0.00
Total Revenue	109.98	183.30	169.48	261.19	213.85	366.60	244.40	427.70
Gross Margin	104.16	116.75	154.26	185.10	128.38	196.47	128.17	211.34
Labor, Man-days	113.00	119.00	138.00	145.00	130.00	142.00	135.00	153.00
Gross Margin/Man-day	0.92	0.98	1.12	1.28	0.99	1.38	0.95	1.38
Labor Cost @ 77t/day	87.01	91.63	106.26	111.65	100.10	109.34	103.95	117.81
Return over all cost	17.15	25.12	48.00	73.45	28.28	87.13	24.22	93.53

Source: World Bank Report No. 6886-MA1, 1987: Appendix F.

TABLE 3
AVERAGE INPUTS AND OUTPUTS FOR MAIZE PRODUCTION
(Per Hectare)

	Non-fert. Maize	Fertilized Maize	Increment with Fertilizer		
			Per ha	Per Acre	On 2 Acres
COSTS					
Seed	5.73	26.32	20.58	8.33	16.67
Fertilizer	0.00	152.70	152.70	61.82	123.65
Sprayers	0.00	11.08	11.08	4.48	8.97
Transport	1.32	3.95	2.64	1.07	2.14
Misc. (5%)	0.35	9.70	9.35	3.79	7.57
Total Costs	7.40	203.75	196.35	79.49	158.99
Yield kg/hectare	877.25	3363.64	2486.39	*	*
Price t/kg	12.22	12.22			
Int'pl Pulses kg/ha	32.02	0.00	-32.02	*	*
" " t/kg	6.74				
Total Revenue	120.01	411.04	291.03	117.83	235.65
Gross Margin	112.61	207.28	94.68	38.33	76.66
Labor, Man-days	117.21	150.00	32.79	13.27	26.55
Gross Margin/Man-day	0.96	1.38	2.89	2.89	2.89
Labor Cost @77t/day	90.25	115.50	25.25	10.22	20.44
Return over costs	22.35	91.78	69.43	28.11	56.22

* Yields are unchanged on smaller plots.

Source: Calculated from Tables 1 and 2.

4. Impact of Credit: Calculation and Conclusions

A loan of the average size made by the credit unions in Malawi, estimated above as MK70, would finance the additional purchased inputs needed for using the improved package on about one acre, which is assumed to be the maize area of the typical borrower. The new level of production, at 1362 kg/a (3364 kg/ha) (Table 3), represents a very important increase of 1007 kg/a over the 355 kg produced on the same area of unfertilized maize. The improved level of production fully meets the family's annual maize needs from one acre, and leaves some to sell.

These figures undoubtedly overstate the increase to be obtained in the first year, when the improved package may not be fully and correctly applied. A further consideration is that most subsistence producers avoid hybrid maize, preferring local varieties for their flavor and ease of grinding. These local varieties respond to fertilization with yields of around 600 kg/acre (1500 kg/hectare) rather than the 1362 kg/a (3364 kg/ha) shown in Table 3.

The production from one acre of fertilized local maize, including this increase of 245 kg, does not fully meet the family's annual maize requirement, but it does constitute a substantial improvement over unfertilized maize. If the assumptions are changed to permit two acres of maize, the resulting production of 1200 kg meets the family's needs; of course this requires a larger loan to finance the improved practices on both acres.

The most realistic assumptions for the farming unit do not provide much, if any, maize to sell. This does not indicate a lack of benefits from fertilizer, for the maize used by the family has a value at least as great as its market price. Using ADMARC prices and hybrid maize yields, the additional maize resulting from use of improved practices is worth 123 kwacha, a very satisfactory return to the (roughly) 70 kwacha invested in those practices. With local varieties valued at ADMARC prices, the 245 kg increase in yield is worth less than half of the investment, yet we met many farmers who told us they were fertilizing local maize. Evidently these people place a high enough value on flavor and ease of grinding that local maize is worth far more to them than ADMARC's price for maize. The pay-off for using fertilizer on local varieties of maize must be, if not equivalent to that for hybrid maize, at least sufficient to attract rational decision-makers.

While these increases from use of improved maize production practices and the credit program that permits their use, viewed aggregatively (for the entire country) apply to so few persons as to be insignificant, they are important for the individual family because of the significant increase in maize available for the family's needs. If the program were to be expanded to cover a major portion of the populace, the impact would be extremely important on a national basis, and might well lead to a positive food balance for the country as a whole.

Additional impacts can be deduced. Success of this magnitude with maize would probably influence farmers to be more receptive toward other innovations, whether in agricultural production or in other aspects of life. Sale of the surplus

maize could lead to purchase of a variety of foodstuffs that would improve the nutrition, and possibly the health, of the family. The proceeds from sale of maize could pay school fees, contributing to more widespread education. Or these proceeds could be the nucleus or seed that would grow into a family business, generating employment, first for the family but perhaps eventually for others as well.

Impacts like these cannot at present be documented or quantified, but they seem very real to those who work with credit unions and their members. It is through impacts such as these that the investment in shares of a credit union truly could, as claimed by an enthusiastic member, turn into a miracle.

APPENDIX D
PROFILES OF SAVINGS AND CREDIT SOCIETIES

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ENUKWENI SAVINGS AND CREDIT SOCIETY

There is nothing distinctive about the sprinkling of dusty buildings lining the roadside at Enukwani -- nothing to indicate the presence of a savings and credit union except an elderly gentleman in a well-worn suit standing on the porch of a sleepy little store building waiting for us, with a woman standing in the shadows behind him.

But they conduct us ceremoniously into a small, immaculate wattle and daub house and provide chairs for us. As other members of the board arrive we have time to admire the thatchwork of the ceiling, neatly bound to circular horizontal supports. By the time everyone has arrived half a dozen men and another woman are present.

Our host explains the history of this credit union, which predates MUSCCO. Father L., one of the White Fathers from the nearby parish, first established the group which, at one time numbered over a thousand. Their numbers have dropped to under 500 in recent times -- among other things, many members were dropped for non-payment of loans, which the good fathers evidently considered a venial, not a mortal sin. They were often willing to bail out the sinners.

The present chairman has attended a couple of training sessions for credit union members at Bunda college. MUSCCO has also sent trainers out to explain the principles of savings and credit union management to the membership.

We ask the members what they have done with credit from their society. Three of them have used loans to pay school fees: one announces with pride that he has put two children through secondary school -- an expensive matter -- but that the eldest has now graduated, has a good job, and now helps him, in turn.

Another has build some iron-roofed brick houses and has set up a retail shop in one. Most have borrowed to pay for fertilizer, seed, and casual labor (ganyu). One reports that she has bought salt to use as pay for her workers. Other loans have gone out to help a butcher set up shop, for a grinding mill, and for an oxcart.

Delinquency has been something of a problem for this Class B society. They feel they need instruction on how to monitor loans better. Something of the charity mentality lingers among their members, though they are careful about whom they allow to join. The tenants of the nearby tobacco estates and itinerant road crews are most definitely not welcome.

At last they invite us to go with them to see their latest community project, a lower secondary school for which they have baked bricks and are in process of building. We follow a trail behind the row of houses back past the primary school to a brushy lot where the walls are indeed nearly up. "But," says one of the women, "we have no money for a tin roof. Do you happen to know some individual who would like to donate...?"

KECHAWA SAVINGS AND CREDIT UNION

A packed earth track leads across a remarkably flat plain in hilly Malawi. Fields of dark brown ridges spread on either side, ready for the first showers of the rainy season from the grey, cloud-filled sky. About a kilometer from the main highway we arrive at a compound and are welcomed into the main, square house. We find ourselves in a small living room, where we are seated on a cushioned sofa before a coffee table covered with a hand-embroidered cloth. Before us, the room and part of the adjoining dining area are filled with chairs occupied by some 30(?) neatly dressed men and, in the rear, three women in clean, bright dresses and head scarves.

These are members of the Kechawa Savings and Credit Society. After an opening prayer from the treasurer and a cheer clapped in unison in our honor, the vice-chairman reviews the society's history. Until 1985, the farmers of this group, located in the Lilongwe Rural Development Programme (LRDP) area, had received a limited quantity of fertilizer on credit from the government each year. As the LRDP phased down, a few of the farmers cast about for another source of credit for fertilizer. Having heard about MUSCCO, sixteen of them established their society in 1985. With MK18,000 in shares, they were able to borrow MK9,000 from MUSCCO's central fund and purchase fertilizer in bulk for themselves. When the fertilizer was distributed, each loan recipient paid the first three months' interest in cash; at harvest time the interest balance was paid with the principal. Unlike the case of government loans, interest charges were reduced for early loan repayment.

Word of a good deal spreads quickly; three years later their membership has risen to 69, their shares to MK47,165, as they prepare to apply for this year's central fund loan for their annual fertilizer purchase. The society's success and good management has overridden community reluctance to get involved in cooperative schemes after the collapse of an earlier maize-growers co-op. Their main concerns now are to plough profits into an office building, hire a paid bookkeeper, and increase their female membership from the 12 current members to about half, recruited largely from members' wives. One effect will be to increase the borrowing power of each couple.

Loans in kind are a rarity in credit-society members of MUSCCO, but this group is several notches above the average for Malawi small-scale farmers. No member holds fewer than five acres of land. The majority have farms in the range

of 15 to 25 acres; the largest are 46 and 69 acres. All of them grow burley tobacco; therefore, they explain patiently, they all have Commercial Bank accounts because the proceeds from tobacco sold at auction are automatically transferred to the sellers' accounts at the Commercial Bank. It is from these accounts that they withdraw the money they deposit as shares in their credit society.

The society has made other types of loans as well, in the three years of its existence. Several short-term loans have gone to middlemen trading in fish, burley tobacco, and local and hybrid maize, or for seeds or hoes. Two centrally funded long-term loans were granted to board members for buying an oxcart -- a three-year loan repaid in two -- and, recently, for establishing a tobacco farm. Several other applications for long-term loans from central funding are pending, one from an ordinary society member. Two-thirds of those present had taken out loans for school fees, about half for taxes, and a sprinkling for medical expenses. But the main focus is clearly on agricultural inputs -- fertilizer and labor. This month most of their assets of over MK50,000 are in the society's bank account gathering interest; by next month most will be disbursed as loans.

An air of satisfaction enfolds this group: they know what they want, they run a tight ship, their class A rating enables them to get their centrally funded loan promptly each year, membership in MUSCCO works well for them, and they are prospering.

BALAKA CREDIT AND SAVINGS

Balaka is a booming market town in the Southern Region of Malawi. Gateway to the Southern region, it is the first major town one reaches traveling south on the road from Lilongwe. Business opportunities in Balaka are abundant: people produce agricultural products -- maize and vegetables, for example -- in the rural areas surrounding the town, and Balakan townspeople provide such services to rural clientele as buying and selling farm products, manufacturing simple farm implements, grocery retailing, tailoring, carpentry, and brickmaking.

One cool evening in 1986 several Balaka men were gathered in a local tea hall exchanging local news. The discussion turned to the tremendous influx of new residents, mostly people establishing small businesses, who were settling in Balaka. Kanje Kandawire, the owner of the tea hall, asked his customers why more residents were not expanding their existing small businesses or starting new ones to take advantage of the growth taking place around them. "Why don't you expand your tea hall into a small restaurant?" asked the local tailor. "You always said you were a good cook and you worked in a large restaurant in Blantyre for a while," he added.

"Well," replied Kanje, "I did try to do just that. I went to the National Bank, where I have a small savings account, to ask for a loan for the restaurant project. I was told to go to the Zomba branch of the national bank. I closed the tea hall early one morning, paid my bus fare, and went to Zomba. I waited at the bank nearly the entire day to hear news about my loan request. Finally, I was told my

loan could not be approved because I did not have a current checking account. I explained that I already had a savings account and I didn't want or need a checking account. This made no difference. I was told again that my loan could not be approved. I returned home to Balaka late in the evening tired and discouraged. The next day I was so angry I withdrew all my savings from the National Bank."

"You know, I tried to get a loan from INDEFUND and had no luck," exclaimed a retired civil service worker. "I wanted to get a loan for an irrigation pump to grow Irish potatoes. You know they are quite in demand here and grow very well. INDEBANK explained to me that they only take loan requests that start at MK30,000 so they referred me to SEDOM. SEDOM told me that my loan request was within their limits but that I would have to have a down payment of MK1,000. Now Kanje, I ask where is a man like me suppose to get MK1,000?" "You know it seems these banks want to loan money to those people who already have money," he added.

"You bet!" exclaimed the blacksmith, who makes hoes for farmers. "There is a good market for hoes and I can't keep up with demand. I would like to buy a small welding machine to expand my business but I have no capital."

A retired teacher mentioned that he had heard about a national organization called MUSCCO that was helping communities to organize credit unions which enabled people to borrow money. The group asked the teacher to find out more about it and ask someone from the MUSCCO office to come and tell people in Balaka about credit unions.

The MUSCCO regional manager eventually came to Balaka. He explained the purpose and philosophy of credit unions and how to organize one. The group decided to form a study group, a requirement before a union can be registered. The study group learned the philosophy of credit unions, the importance of savings, and how to manage the savings and loan procedures. At first the small group of organizers had to convince their neighbors that a credit union would work. The study group had no office and no stationery. One resident asked a member of the study group, "What kind of a bank is this that has no office?" The problem, clearly one of confidence, was eventually overcome.

After several months of meeting as a study group, the Balaka Savings and Credit Union was formally registered in 1987, with 32 members and MK500 in shares. Today the union has 128 members and MK11,000 in shares.

The Balaka Credit Union has made a variety of short-term loans--for fertilizer, brickmaking, business inventories, school fees, and emergencies such as funeral expenses and hospital bills. Members can borrow up to three times the amount of shares they have in the society. Since the Union is new, it has not yet received the long-term loans that are needed by its members for business investments. Indeed, most of the members joined because they want to begin or expand a small business. They understand that they must continue to build up their shares and strive to meet the requirements of MUSCCO so that they can become a class "A" society and complete the procedures for applying for long-term loans from the central fund.

UTM EMPLOYEES CREDIT UNION

A major highway fork on the outskirts of Blantyre, Malawi's biggest city, faces the gate to the expanse of pavement, sheds, and cinder-block office buildings that is headquarters for UTM, United Transport of Malawi. On a narrow porch running along the front of an office block, at 4:30 in the afternoon, several credit union officials are waiting to welcome us. A cramped room behind a ticket window is the Credit Union's office, obviously too small for our meeting. We are ushered into a larger office. As the work day draws to a close, the UTM Employees Credit Union Board members begin to arrive.

UTM Employees Credit Union has its act thoroughly together. Speaking good English for our benefit, the chairman explains their history: founded in 1985, it now has 874 members, with a goal of 2,000. UTM has provided encouragement and support for the credit union: until last August it paid the MK1 membership fee for any employee who wished to join, contributing to the first purchase of shares as well. It also donates stationery and office space. The treasurer of the credit union, the chairman notes with satisfaction, has always been the company paymaster. This is convenient, because at the time paychecks are issued, the paymaster automatically deducts share contributions or loan repayments and deposits the funds directly to the UTM Credit Union account at the National bank. Their repayment rate is excellent.

The union has prospered. Its first profits went to hire a bookkeeper, then a second, more qualified, one as well, then a messenger.

Why, we ask, have the employees organized a credit union, and what kind of loans do they want from it? The first impetus, we learn, came not from the employees but from management. The expatriate manager, fed up with employees coming in for loans for emergencies and remembering that employees of a company he had worked for in East Africa had a mutual aid society, assigned a staff member to investigate similar arrangements here. What his staff had located was MUSCCO. The society had started with 140 members, 1,600 shares, and the blessing of the company. MUSCCO provided technical assistance and seminars for the members.

The credit union has done some wholesale buying for its members -- blankets at the start of the cold season one year; maize in bulk; "national" cloth -- six meters per member for their wives to wear on a national holiday. Short-term loans, even for these salaried workers, run to fertilizer and farm inputs and school fees. Members can borrow up to three times the value of their shareholdings, as long as their repayments remain less than a third of their salary. Like the credit societies of other salaried workers, fewer than half the loans granted are for productive purposes: of 53,000 loans no less than 9,000 were for school fees alone. City life is expensive, one member points out. Unlike members of the rural unions, who borrow and repay seasonally, this urban union's members borrow more evenly over the course of the year.

Transport workers are a far-flung lot, but they have a communication system ready-made. Employees from all parts of Malawi can be members; if they want a

loan they can send the application down to Blantyre by bus, and the loan can reach them the same way.

Employees also have the chance to seek business opportunities throughout Malawi, since for many of them work is travel. Long-term loans have gone to establish a maize mill, a fuel station, and a grocery store in promising rural locations.

Although the board is concerned about evaluating creditworthiness of borrowers, on the whole management is efficient. Three-quarters of the board are from the Accounting Office. Committees and procedures for loan evaluation are established and working. They have paid a dividend of approximately 10 percent on shares. They are concerned about office space, but the company has promised them a more adequate place when it moves to new quarters. Their 2,000 membership target represents all of UTM employees, from sweepers to management. And beyond UTM, "We are the ambassadors of MUSCCO," they assure us.

APPENDIX E
MUSCCO BALANCE SHEET AND OPERATING STATEMENT

APPENDIX E

MUSCCO BALANCE SHEET AND OPERATING STATEMENT

BALANCE SHEET AS OF 31/08/1988

	1988 (MK000)		1988 (MK000)
FIXED ASSETS		SHARE CAPITAL	
Furniture & Equipment	89.30	Central Finance Shares	60.60
Building	242.10		
Motor Vehicles & Cycles	63.30		
	394.70	DONATED CAPITAL	
Less: - Depreciation	81.70	Swiss Lantern	5.80
	313.00	W O C C U	150.40
INVESTMENTS		READI Project	761.10
Loans to Societies:			917.30
Short term	128.10	Reserve Fund	3.90
Long term	64.60	Accumulated Surplus	64.00
	192.70		
Less: - Provision for loss	29.70	CURRENT LIABILITIES	
	163.00		
	163.00	Short Term Deposits	34.60
Staff Loans	55.00	Accounts Payable	3.20
CURRENT ASSETS		Unspent Amounts	3.70
STOCKS	10.50	READI	49.00
DEBTORS		K A F	3.70
Travel Imprest & Staff advance	5.90		52.70
Dues & Stationery	11.80		
Less: - Provision	5.60		
	6.20		
Sundry Debtors	3.60		
Prepayments	1.70		
BANK AND CASH BALANCES			
Current Accounts	51.80		
Savings Accounts	528.60		
Cash on hand	0.70		
	581.10		
	581.10		
	1140.00		1140.00

NADAWI UNION OF SAVINGS & CREDIT CO-OPERATIVES

OPERATING STATEMENT FOR 8 MONTHS TO 31ST AUGUST 1988

INCOME	YEAR TO DATE			Variance	LAST YEAR
	AUGUST	ACTUAL	BUDGET		
OPERATIONAL INCOME					
Interest on loans	1685	12349	10960	13%	8859
Interest from bank		12752	20000	-36%	3562
Interest on staff loans	704	4101	4000	3%	
Rent Offices	2700	12185	12000	2%	8200
MUSCCO Dues	1481	14501	8000	81%	5889
Insurance Sales Commission		655	400	64%	814
Seminar fees	180	410	320	28%	370
Audit Fees	100	100	320	-69%	10
Entrance fees	20	60	320	-81%	130
Profit from asset disposal			560		
Profit from Stationary			800		
Miscellaneous income	21	106	200	-47%	781
Sub Total	6891	57219	57880	-1%	28715
READI PROJECT Support	50000	201940	200000	1%	108435
AFRICARE Support	3588	9444	9600	-2%	2189
K. A. F. Support			2426		
Sub Total	53588	211384	212064	0%	110624
TOTAL INCOME	60479	268603	269944	0%	139339
EXPENDITURE					
STAFF COSTS					
Salaries	6133	46991	49600	5%	33590
Housing Allowance	1107	8320	9120	9%	5518
Life Assurance	96	763	800	5%	554
Pension	657	4830	4800	-1%	2782
Workmans Compensation		51	40	-28%	46
Recruitment Expenses	361	1554	1600	3%	379
Leave Grant	40	140	160	13%	100
Relocation Allowance			1520		251
House Rent	1512	11686	12000	3%	8813
Sub Total	9906	74335	79640	7%	52033
STAFF TRAVEL					
Vehicle Operation	4298	41083	40000	-3%	24134
Lodging	796	6752	6400	-6%	3602
Subsistence Allowance	853	8663	8000	-8%	3878
Public Transport	276	1399	1280	-9%	1592
Vehicle Insurance		2574	4000	36%	3510
Travelling - Local		2368	800		714
Travelling - International			1600	-48%	484

Sub Total	6223	62839	62080	-1%	37914
CONFERENCE / MEETINGS					
National Seminar and A.G.M	7828	7828	6400	-22%	6834
Board Expense	1198	5665	5600	-1%	6183
National Seminar	303	4013	4000	0%	
Regional Seminars		4316	6400	33%	6463
Local Seminar	300	80	800	-1%	701
Staff Training	192	424	320	-33%	1579
Sub Total	9821	25053	23520	2%	21760
ADMINISTRATIVE EXPENSES					
Telephone	787	3263	4400	26%	2636
Postage & Telex	96	953	1000	5%	534
Office Stationary	1957	13634	11200	-22%	11319
City Rates		1952	1360	-44%	1880
Water	146	803	800	0%	623
Building - maintenance		5462	3200	-71%	629
Equipment - maintenance	246	5678	4800	-18%	3426
Bank Charges	314	947	960	1%	352
Insurance - Building			800		
Office cleaning, supplies	48	942	1200	22%	193
Interest on deposits	250	250	640		
Rent Offices	850	1450	3040	52%	920
Electricity	63	354	400	12%	146
ACCOSCA Dues - (Provision)			1000		1161
Audit fees - (Provision)			2880		
Tea Break	169	817	3360	76%	804
Night Guarding Service	111	850	880	3%	772
Publicity / Advertising		937	2400	61%	390
Miscellaneous	50	268	240	-12%	499
Agency Commission		1389	1400	1%	
Legal Charges		300	400	25%	
Uniforms		223	400	44%	
WOCCU/ACCOSCA Visitors	352	3914	2400	-63%	
Sub Total	5439	44386	49160	10%	26284
TOTAL EXPENSE	31389	204613	214400	5%	137991
Surplus / (Defecit)	29090	63990	55544		1348
Self sufficiency (oper)	24%	28%	27%		21%

28th September 1988

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APPENDIX F
MUSCCO SOCIETIES AND STATISTICS

APPENDIX F: MUSCCO Societies and Statistics

SOUTH REGION STATISTICS AS OF 30 JUNE, 1988

NAME OF SOCIETY IN CHAPTER 1	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DEL IN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
Bvumbwe	14,300	14,209	181	170.24	84	0	1	48
Chimweti	8,217	15,075	1,207	60.42	136	7.79%	1	25
Chinzema	3,964	6,030	151	43.56	91	24.31%	1	34
Makungwa	5,254	13,818	-	54.73	96	15.15%	1	52
Molere	1,795	594	-	51.29	35	-	1	22
Mphala	3,143	1,553	-	39.78	79	68.47%	-	-
Thekerani	11,416	14,482	151	60.40	189	89.37%	1	26
TOTAL	48,089	65,761	1,690	67.73	710		6	207

NAME OF SOCIETY IN CHAPTER 2	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DEL IN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
Chigwirizano	10,605	11,159	-	124.76	85	-	-	-
Chitandizo	11,723	12,569	783	325.64	36	10%	-	-
Kasinthula	629	140	18	19.06	33	-	1	30
Malawi Railways	91,187	60,914	-	197.37	462	3.36%	-	-
Nchalo	2,560	2,970	-	98.46	26	-	-	-
Oilcomp Empls	17,372	28,278	-	160.85	108	-	-	-
S/Day Adventist	6,927	3,716	-	130.70	53	-	-	-
Umodzi	21,003	27,886	7,280	567.81	37	-	-	-
U.T.M. Employee	179,126	145,902	12,120	210.00	853	-	-	-
TOTAL	341,140	293,536	20,201	201.50	1,633		1	30

NAME OF SOCIETY IN CHAPTER 3	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DEL IN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
Balaka	7,852	9,882	19	73.38	107	6.73%	0	-
Chinseu	836	897	-	20.90	40	-	0	-
Chipini	1,246	1,287	15	46.15	27	-	1	18
Kambenje	2,964	2,914	-	44.24	67	-	1	40
Liwonde	1,324	631	9	24.07	55	-	0	-
Makoka	3,863	2,969	125	52.47	74	17.76%	0	-
Migovi	16,371	16,206	67	101.68	161	1.22%	0	-
Mulenje Teacher	15,250	19,383	615	129.24	118	-	0	-
Nalipili	30,763	34,617	1,748	209.27	147	4.5%	0	-
TOTAL	80,469	89,592	2,599	101.12	796	0	2	58

SOUTHERN REGION TOTALS	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DEL IN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
SUB TOTAL	48,089	65,761	1,690	67.73	710	0	6	207
SUB TOTAL	341,140	293,536	20,201	201.50	1,633	0	1	30
SUB TOTAL	80,469	89,592	2,599	101.12	796	0	2	58
TOTAL	469,719	448,889	24,490	146.93	3,139	5.91%	9	295

CENTRAL REGION STATISTICS AS OF 30 JUNE 1988								
NAME OF SOCIETY IN CHAPTER 4	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
Chipiri	2,214	2,205	11	44.28	50	80%	0	-
Chiputu	2,009	1,896	0	37.20	54	100%	0	-
Lobi	5,085	4,621	-	82.02	62	87%	1	30
Malingunde	1,396	1,209	-	20.53	68	100%	0	-
Miseza	2,021	1,814	-	65.19	31	100%	0	-
Mlale	5,539	4,662	124	41.65	133	-	0	-
Mponda	583	308	-	30.68	19	100%	0	-
Nathenje	591	534	-	24.63	24	-	0	-
TOTAL	19,438	17,249	135	44.08	441		1	30

NAME OF SOCIETY IN CHAPTER 5	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
Bangwe	1,600	1,269	-	59.26	27	-	1	34
Kampini	2,215	2,270	20	41.02	54	12.0%	-	-
Kasungu	4,726	5,531	-	62.18	76	71.0%	-	-
Linga	1,269	330	-	55.17	23	-	1	35
Medisi	64,082	70,247	-	61.74	1,038	91.01%	1	78
Mkaika	1,158	977	-	44.54	26	-	-	-
Mpheza	1,678	1,313	-	46.61	36	48.0%	-	-
Mponela	1,000	589	-	52.63	19	-	1	26
Msanama	1,401	972	-	51.83	27	-	-	-
Nambale	523	200	-	19.37	27	-	-	-
Nkhamenya	16,049	28,888	2,667	27.43	585	100%	-	-
TOTAL	95,701	112,592	2,667	49.38	1,938	0	4	173

NAME OF SOCIETY IN CHAPTER 6	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
Chetsela	214	-	-	11.26	19	-	-	-
Chitedze	38,173	33,509	785	229.96	166	2.0%	1	46
Chitukuko	7,743	10,149	103	209.27	37	-	-	-
Kechawa	37,211	32,034	184	581.42	64	-	-	-
Kadziyo	7,529	5,463	35	117.64	64	-	1	30
Lilongwe A.D.D.	5,347	4,180	-	213.68	25	18.0%	-	-
Likuni	5,176	5,110	108	37.78	137	-	-	-
Mbabzi								
Phanumic	5,737	9,825	409	159.36	36	-	-	-
Tiguirizane	533	-	-	23.17	23	-	-	-
TOTAL	107,663	100,270	1,625	186.55	571		2	76

CENTRAL REGION TOTALS	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
SUB TOTAL	19,438	17,249	135	44.08	441	0	1	30
SUB TOTAL	95,701	112,592	2,667	49.38	1,938	0	4	173
SUB TOTAL	107,663	100,270	1,625	186.55	571	0	2	76
TOTAL	222,802	230,111	4,447	75.53	2,950	27.44%	7	279

NORTH REGION STATISTICS AS OF 30 JUNE, 1988

NAME OF SOCIETY IN CHAPTER 7	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
Chikengawe	807	133	-	47.47	17	-	-	-
Chikwina	125	0	0	7.35	17	-	-	-
Chintheche	4,757	515	19	113.26	42	71%	-	-
Ekuvenderi	23,415	28,202	226	81.87	286	72%	1	46
Kafukule	22,000	8,207	104	115.79	190	98%	1	44
Karing'ina	112,112	125,786	2,207	115.82	968	28%	-	-
Liaphasa	7,127	8,439	98	64.79	110	67%	1	38
Uaisya	661	503	-	12.02	55	66%	-	-
TOTAL	171,004	171,791	2,654	101.49	1,685	0	3	128

NAME OF SOCIETY IN CHAPTER 8	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
Champhira	69,574	87,697	4,080	143.75	484	64%	0	-
Embangweni	1,050	0	0	28.38	37	-	0	-
Eavezini	796	0	0	24.88	32	0	1	32
Euthini	114,613	140,261	10,570	79.43	1,443	30.36%	1	160
Mbelechanda	1,510	0	0	11.35	133	0	0	-
Mjinge	64,373	74,342	2,410	115.76	556	72%	0	-
Munjili	145,959	159,171	6,048	102.79	1,420	23%	0	-
TOTAL	397,875	461,471	23,108	96.92	4,105		2	192

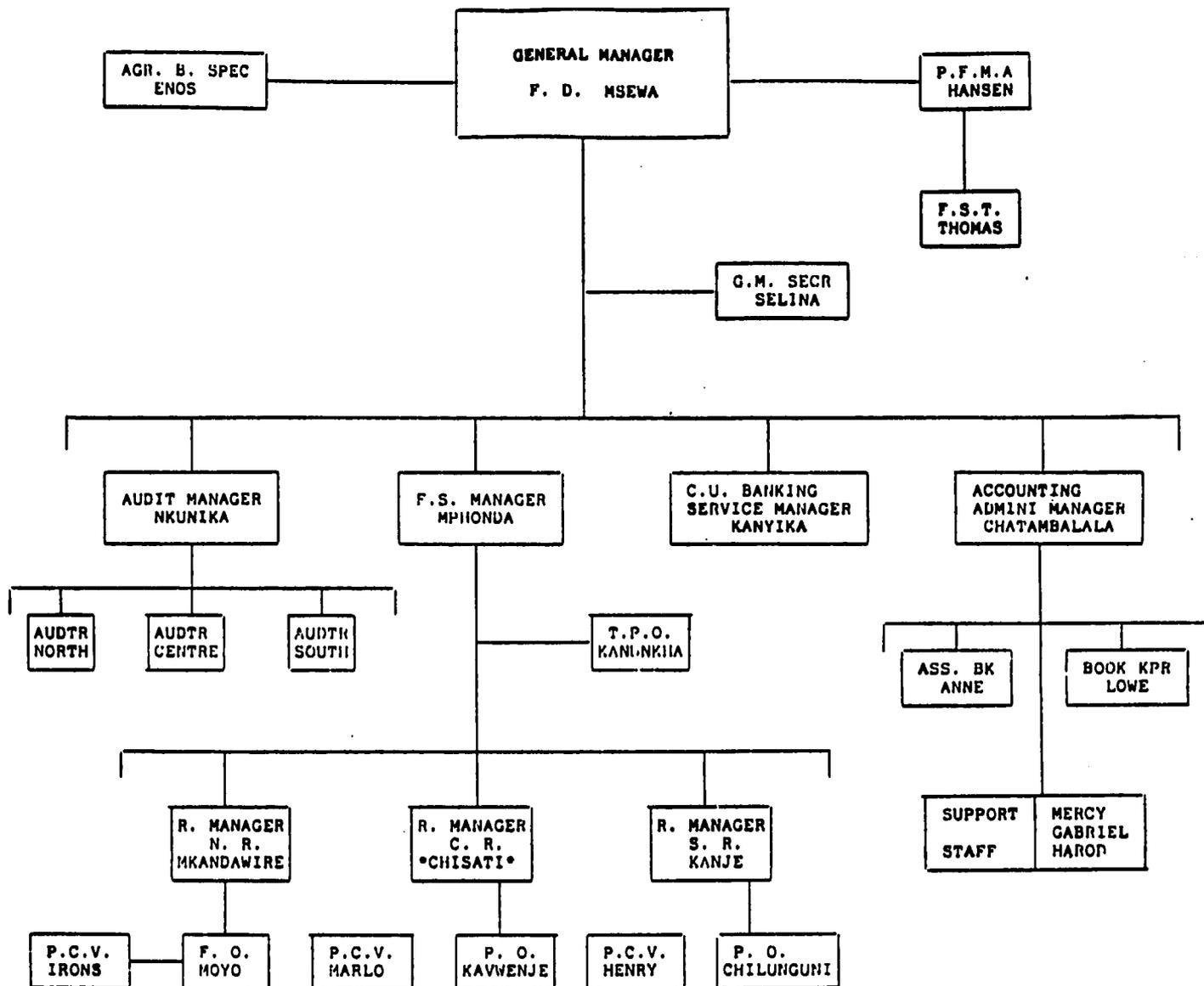
NAME OF SOCIETY IN CHAPTER 9	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
Chilumba	12,073	16,453	345	70.19	172	93%	1	52
Enukweni	5,684	6,411	189	38.15	149	46%	0	-
Kakombwe	2,831	1,392	58	88.47	32	0%	0	-
Lunyina	50,439	59,110	2,572	68.72	734	26%	0	-
Mahale	1,663	458	-	48.03	35	0%	0	-
North Lukuru	11,313	23,668	101	36.57	323	48%	0	-
Rumph/Phoka	363	-	-	15.13	24	-	0	-
Yeaba	13,902	12,607	276	72.79	191	37%	0	-
TOTAL	96,768	120,639	3,541	59.51	1,660	0	1	52

NORTHERN REGION TOTALS	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
SUB TOTAL	171,004	171,791	2,654	101.49	1,685	0	3	128
SUB TOTAL	397,875	461,471	23,108	96.92	4,105	0	2	192
SUB TOTAL	96,768	120,639	3,541	59.51	1,660	0	1	52

SOUTHERN REGION TOTALS	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
-								
SUB TOTAL	48,089	65,761	1,690	67.73	710	0	6	207
SUB TOTAL	341,140	293,536	20,201	201.50	1,693	0	1	30
SUB TOTAL	80,489	89,592	2,599	101.12	796	0	2	58
TOTAL	469,718	448,889	24,490	146.83	3,199	7.3%	9	295
CENTRAL REGION TOTALS	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
-								
SUB TOTAL	19,438	17,249	135	44.08	441	0	1	30
SUB TOTAL	95,701	112,592	2,687	49.38	1,938	0	4	173
SUB TOTAL	107,663	100,270	1,625	166.55	571	0	2	76
TOTAL	222,802	230,111	4,447	75.53	2,950	27.44%	7	279
NORTHERN REGION TOTALS	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
-								
SUB TOTAL	171,004	171,791	2,654	101.49	1,685	0	3	128
SUB TOTAL	397,875	461,471	23,108	96.92	4,105	0	2	192
SUB TOTAL	98,788	120,699	3,541	59.51	1,660	0	1	52
TOTAL	667,667	753,961	29,303	89.62	7,450	27.2%	6	372
NATIONAL MUSCCO TOTALS	SHARES	LOANS	RE- SERVES	AVERAGE SAVINGS /MEMBER	MEMBERS	DELIN- QUENCY PERCENT	LOCAL SEM- INARS	PART- ICI- PANTS
-								
SUB TOTAL	469,718	448,889	24,490	146.83	3,199	7.3%	9	295
SUB TOTAL	222,802	230,111	4,447	75.53	2,950	27.44%	7	279
SUB TOTAL	667,667	753,961	29,303	89.62	7,450	27.2%	6	372
TOTAL	1,360,187	1,432,961	56,240	100.02	13,599	-	22	946

APPENDIX G
MUSCCO ORGANIZATIONAL CHART AND SOCIETY SITES

APPENDIX G: MUSCCO ORGANIZATIONAL CHART AND SOCIETY SITES

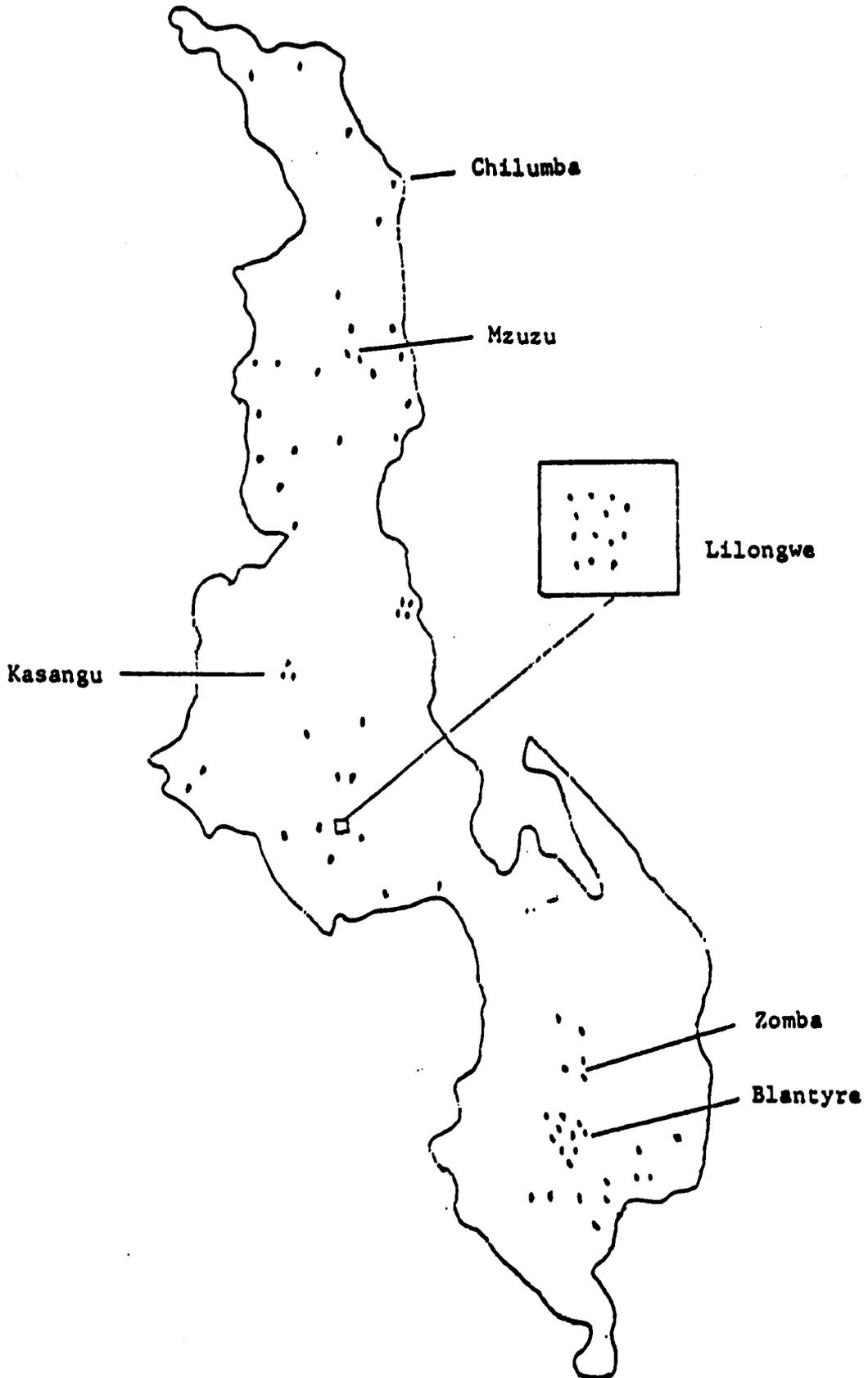


No Assistant General Manager position in the new arrangement. The function will be delegated on a need basis to anyone of the department Managers.

Acting Regional Manager

Effective date :- 1st October, 1988

MUBCCO Society Sites as of October 1, 1988



APPENDIX H
KEY PROJECT OBJECTIVES (FROM PROJECT PAPER)

APPENDIX H

KEY PROJECT OBJECTIVES (FROM PROJECT PAPER)

The project's objectives, as stated in the Project Paper are:

1. MUSCCO Development

By end of project, MUSCCO will be capable of performing routine internal management functions and providing essential financial and technical support services to member societies.

2. Society Development

By end of project, operational capabilities of member societies will be significantly improved, resulting in substantial increases in the system's total membership, savings, and loans.

3. Financial Self-Sufficiency

By end of project, an institutional base will be established enabling MUSCCO to expand its development finance operations in order to generate revenues required to reach financial self-sufficiency within a reasonable period of time.

Strategy

The strategy for achievement of each of the project objectives is discussed below.

MUSCCO Development

The project strategy related to this objective involves: (1) provision of the resources required to employ and retain sufficient MUSCCO staff to strengthen an expanding credit union movement; and (2) application of those technical resources necessary to define essential MUSCCO functions and procedures as well as to ensure national association staff capability to perform them adequately. Using an institutional analysis approach developed by WOCCU/CUNA Global Projects, the Resident Technician will assist MUSCCO to (1) determine its institutional goals; (2) specify the operational objectives necessary to fulfill these goals; (3) define the organizational functions related to each output objective; (4) design appropriate operating systems for each function, including minimum performance standards; (5) design and implement systematic training activities; (6) prepare step-by-step

descriptions of each required process or procedure for inclusion in a MUSCCO operations reference manual.

By the end of the Project (1985), it is expected that the MUSCCO system will be essentially self-sufficient in terms of its basic technical needs. Nevertheless, additional technical assistance will probably be required to address the more sophisticated issues and problems which the development process itself will generate. The ACOSCA Southern Regional Office will be capable of meeting the major portion of those needs by end of project.

Key intermediate development objectives to be achieved in the course of implementing the MUSCCO development strategy are summarized as follows:

1. Organization

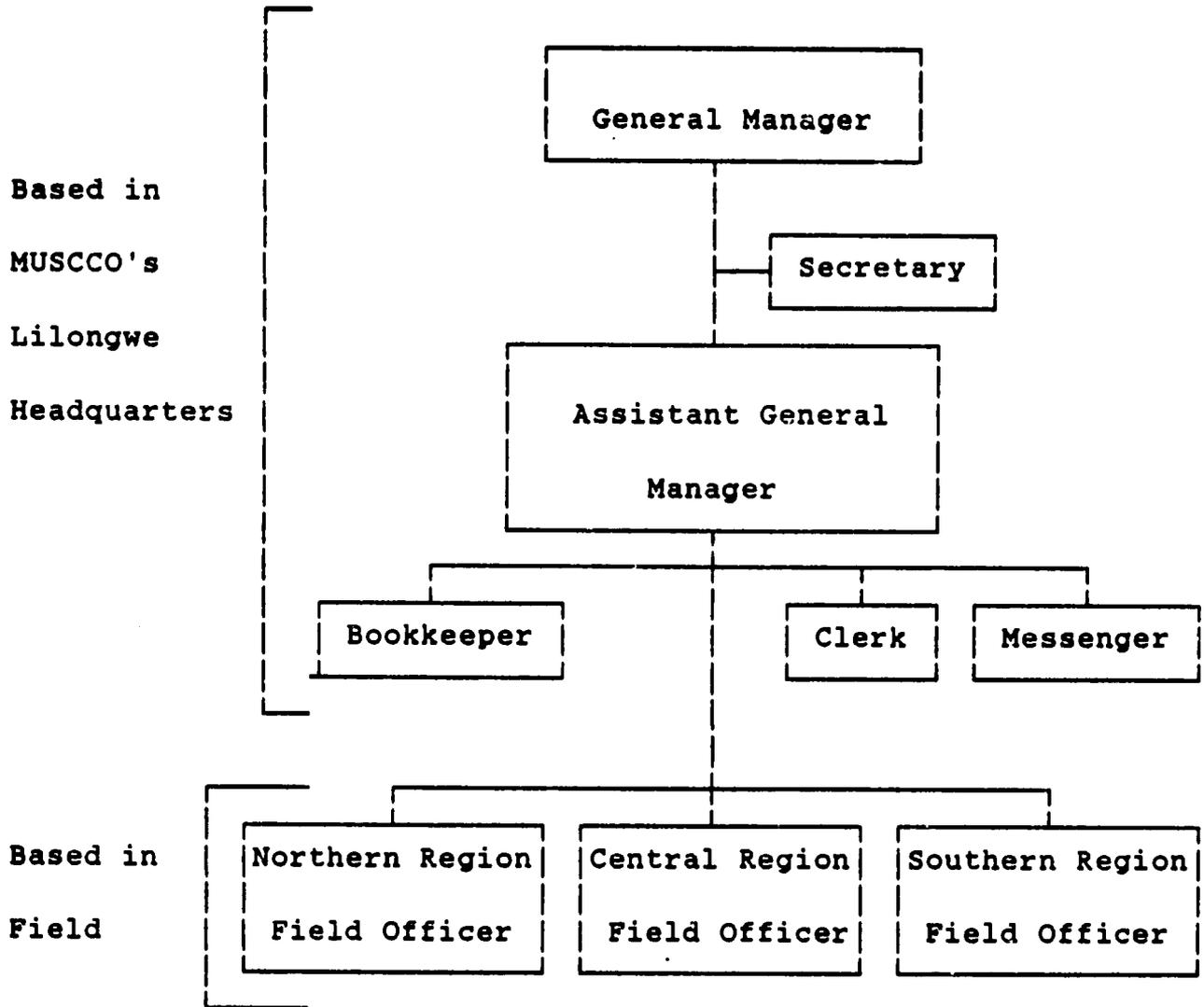
- Registration of MUSCCO as a second-degree, national cooperative society.
- Implementation of the following PEAC-approved initial organizational structure shown in Figure 1.
 - Services management, including central finance operation, will be responsibility of the Assistant General Manager.
 - Should movement growth require it and funds be available, Assistant Field Officers will be appointed. Initially, it is expected that Peace Corps Volunteers will act in this capacity.
 - Minimum qualifications for Field Officer posts will include:
 - Appropriate experience in cooperative savings and credit society operations and management.
 - Demonstrated skill in society accounting, budgeting, and auditing.
 - Experience in conducting formal and on-the-job training activities.
 - Excellent motivational, human relations, and communications skills.

2. Management

- Institutional analysis of MUSCCO system development needs completed, five-year development plan prepared and initiated.
- Basic system designed, completed, and staff trained in their operation; initial systems to include:

FIGURE 1

MUSCCO ORGANIZATIONAL STRUCTURE



- An organizational planning system identifying goals, required policies, implementation strategies, measurable objectives (output targets) and evaluation methods.
- Financial management systems for budgeting and funds appropriation; cash flow analysis and control; accounting, reporting and auditing procedures; billing, collection and funds transfer; capitalization and central fund management; costing and pricing of services.
- Operations management systems for planning, implementation, evaluation, and information management in each MUSCCO program or service area.
- Personnel system, including basic policy and procedures for development of task-based job descriptions; objective performance appraisal standards, position grading, and incentive system.
- Office administration systems, including filing; petty cash receipts and disbursements; job and report scheduling; inventory control.
- Training system, including: needs identification; program design, implementation and evaluation; materials preparation.

3. Capitalization and Central Finance

- Capitalization system approved by general meeting of MUSCCO's member societies and implemented on an equitable basis.
- MUSCCO credit policy and lending system designed, approved by board of directors, and implemented.

4. Society Support Services

- Field services (education, training, and supervision) systems and procedures designed and implemented.
- Risk management: fidelity bonding program implemented, if feasible and possible.
- Standard society stationery (accounting forms) designed, produced, and made available for sale to all societies.
- National advertising and promotion program established on a shared-cost basis with societies.
- Feasibility of establishing other services (including loan collection assistance for member societies) determined.

Society Development

The strategy for achieving this project objective involves building a national system of creditworthy primary societies, capable of mobilizing increased amounts of savings and administering both internal and external loan funds. Key components of this strategy will include: improved technical assistance by MUSCCO to its member societies; granting of institutional development loans to eligible societies; intensive promotion of membership and savings growth in existing societies and organization of new ones; development of new financial services at both the MUSCCO and society levels.

TECHNICAL ASSISTANCE TO SOCIETIES

The frequency and quality of technical assistance to member societies will be improved by: 1) increasing the number of Field Officers from 2 to 3, while reducing their administrative duties through creation of a MUSCCO managerial and support staff; 2) providing motorcycles for Field Officers and a four-wheel drive vehicle for office staff to decrease transport delays; and 3) adapting the previously mentioned WOCCU/CUNA Global Projects institutional analysis techniques to develop and document improved society management systems to be implemented by MUSCCO Field Officers.

The field staff will be trained to employ a systematic society inspection/examination procedure to identify all major financial and management problems related to society operations and to implement appropriate solutions. Their training will include: society bookkeeping and accounting; financial break-even analysis, forecasting and budgeting; membership and savings promotion; standard society inspection and audit procedures; risk management program operations; credit administration and delinquency control.

The operational strategy for transferring these improved management techniques to societies will include:

- National, regional and local seminars for society committee members;
- Intensive society manager/treasurer training programs; and
- On-the-job training and supervisory visits to societies by MUSCCO Field Officers.

These training and on-the-spot technical assistance activities will be objectives-based. That is, they will be designed to achieve specific institutional development objectives identified during needs assessments and examinations performed at the society level by MUSCCO Field Officers. Successful implementation of these technical assistance activities will be measured in part by the number of societies meeting the following basic management standards.

- 1) **Record-keeping:** fully implemented filing system based on MUSCCO guidelines; appropriate storage facilities; members register up-to-date.
- 2) **Reporting:** monthly financial statements and risk management coverage reports submitted to MUSCCO by the close of the following month; delinquency reports prepared at least quarterly; names of directors submitted to MUSCCO annually; annual loans granted report submitted to MUSCCO; committee minute books up-to-date.
- 3) **General management:** written policies approved and implemented (including personnel, administration, services, membership); annual work plan implemented; regular committee and general membership meetings.
- 4) **Financial management:** annual budget prepared and reconciled with actual performance quarterly; books of account up-to-date; bank reconcilements up-to-date; bad debt reserve established; delinquency 10 percent or less of total portfolio.
- 5) **Internal control:** cash count performed monthly, subsidiary ledgers reconciled quarterly; passbooks reconciled biannually; society inspected annually and audited biannually.
- 6) **Credit administration:** written loan policy approved and implemented; MUSCCO approved, detailed credit committee minutes format employed; delinquency control and loan collection systems implemented; loan write-off policies and procedures implemented.
- 7) **External obligations:** MUSCCO dues, capitalization, loan repayments and service fees fully paid ACOSCA dues fully paid.

INSTITUTIONAL DEVELOPMENT LOANS

Institutional development loans from the MUSCCO central finance facility will enable eligible societies to meet the costs of buying essential office equipment (adding machines, calculators and safes), paying manager salaries, and building appropriate office facilities or making improvements to existing ones. While relatively small (an estimated upper limit of probably MK 1,800 to MK 2,000 each), these loans would provide an important stimulus to the MUSCCO system's growth and development. Credit union experience in other developing nations suggests that the major benefit of such a program is growth at the society level and increased and improved services to members and their communities. Employment of a full- or part-time manager and the opening of an office typically increase society growth rates by: facilitating savings deposits and loan repayments by members; creating opportunities for new members to join; improving public confidence in the society and the security of members' funds; providing a convenient meeting place for membership promotion, training, and educational activities.

Additional benefits of the institutional development loan program include: 1) incentives for member societies to meet their capitalization and dues obligations to the national association; 2) motivating societies to improve their operating performance in order to meet the national association's creditworthiness criteria (such as the basic management standards listed previously); 3) providing experience in external credit administration involving relatively low-risk loans; 4) generating increased earned income for the national association; 5) stimulating the national association to improve its society management training and support activities in order to assure recovery of its loans.

Specific design considerations of the institutional development loan program are discussed in Appendix A.

SOCIETY PROMOTION

Promotion activities included in the MUSCCO growth strategy involve:

- Training society leaders and managers in the design and implementation of local savings and membership growth campaigns.
- Development of a national advertising program to be funded by societies and MUSCCO on a shared-costs basis.
- Joint MUSCCO-government public education programs with the Ministries of Trade, Industry and Tourism, and Community Development.
- Seminars and meetings with employee organizations, government and business leaders.
- Continued coordination with traditional movement support organizations, including the rural missions.

Intermediate, end-of-project, and potential post-project growth projections based on the project objective of increasing annual growth rates by thirty percent are shown in Table 1. The project's predicted impact on movement growth, as compared to current growth trends, is presented in Table 2. A graphic representation of the project impact on total movement savings is shown in Figure 2. These projections are purposefully conservative. Intensified rural promotion combined with successful organization of key employee groups in the public and private sectors could result in substantial increases over and above the current projections. While this would put an additional burden on MUSCCO Field Officers, it would also generate revenues for the national association which could be used to increase its field staff.

TABLE I
MUSCCO PROJECT GROWTH OBJECTIVES¹

INDICATORS²	1979	1980	1981	1982	1983	1984	1985	1989
Society members	6,552	7,742	9,436	11,130	12,824	14,519	16,213	22,989
Family beneficiaries ³	32,760	38,710	47,180	55,650	64,120	72,595	81,065	14,945
Number of societies	18	24	27	30	33	36	39	51
Total savings (MK)	281.5	363.0	478.7	604.6	740.8	887.3	1,044.1	1,774.0
Loans outstanding ⁴ (MK)	293.5	326.7	430.8	544.1	66.7	798.6	939.7	1,596.6

Notes: ¹Data are estimated at year-end. 1985 is considered end-of-project; 1980 start-of-project. 1989 figures are shown to indicate potential impact after a decade of development.

²Financial data are thousands of Malawi kwacha.

³Family beneficiaries represent total family members benefited by each individual membership; it is estimated at five times society members.

⁴Estimated at 90 percent of total savings (the current Loan/Savings ratio is 1.043).

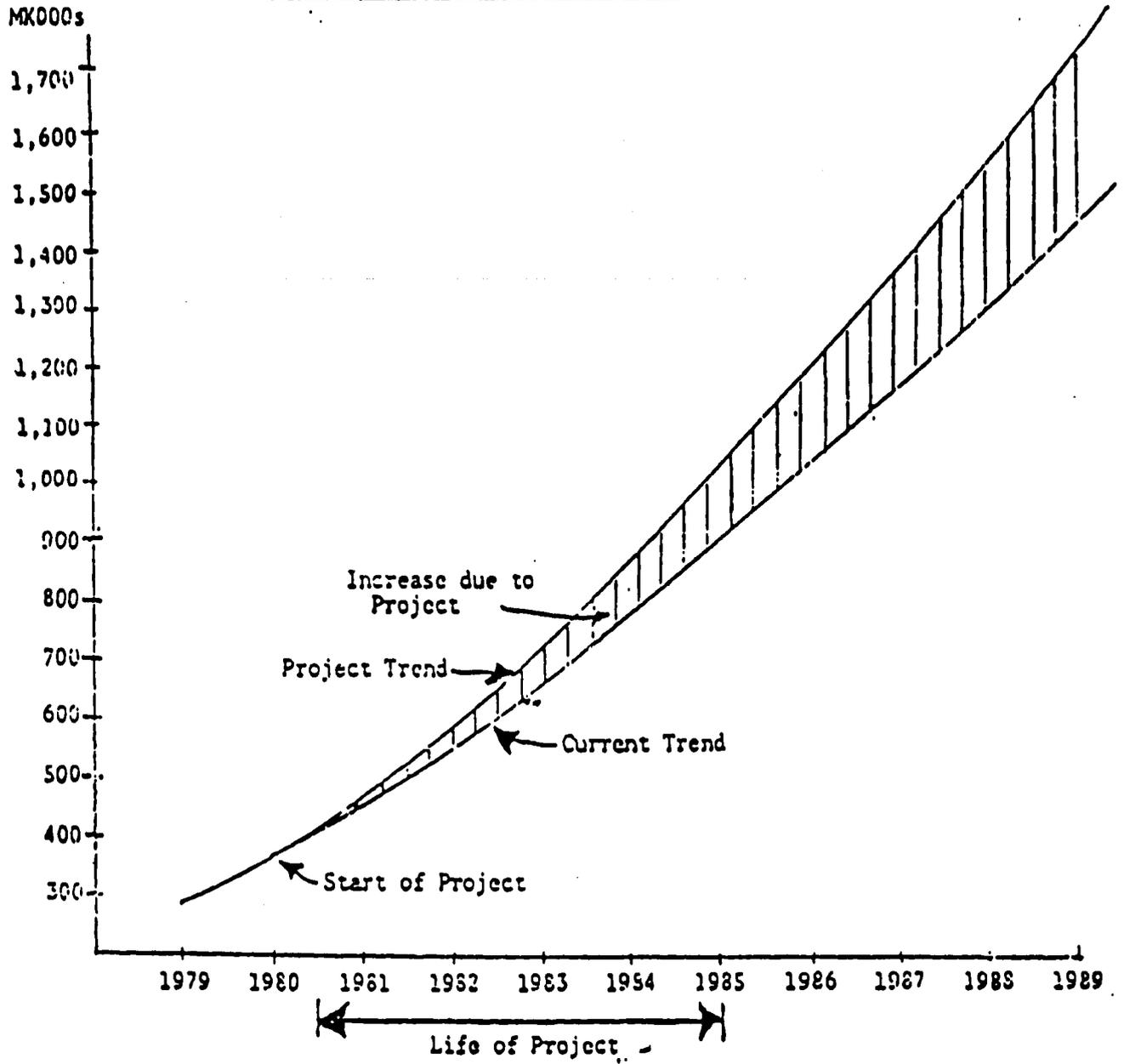
TABLE 2

**PROJECT GROWTH IMPACT: COMPARISON OF CURRENT TREND DATA
WITH PROJECT-INDUCED GROWTH TREND AT EOP, 1985
(Financial data are MK000s)**

Membership	14,258	16,213	1,955	13.7%
Total Savings	886.9	1,044.1	157.2	17.7%
Loans Outstanding	798.2	939.7	141.5	17.7%

FIGURE 2

PROJECT IMPACT ON TOTAL MOVEMENT SAVINGS



NEW SERVICES

Improved management and growth at the society level will create demands for and the capability to provide additional financial and other member services. As part of its society development strategy, the project activities will include determining the feasibility of introducing such additional services as:

- 1) New types of savings accounts (time and savings deposits).
- 2) Non-share secured loans (character lending, pledged personal assets, etc.).
- 3) Distribution of agricultural inputs.
- 4) Specialized loan programs, including small farmer production credit and small business development lending.

Financial Self-Sufficiency

The project strategy related to this objective involves strengthening the institutional capabilities and economic base of the Malawi credit union system. This will permit MUSCCO to institute, operate and, by end-of-project, begin major expansion of its central finance operations. This expansion will probably include the acquisition and relending of external capital to member societies. The net interest-revenues (marginal) generated by these operations should ultimately become MUSCCO's principal revenue source.

The project's development strategy does not envision MUSCCO reaching financial self-sufficiency by the end of the initial five-year assistance period. Current projections indicate that MUSCCO's revenues will cover about 38 percent of its operating costs by 1985 (see subsection D.2.5). Achievement of this limited objective represents the first stage in the long term development of a viable, national credit union financial system in Malawi. As in other emerging nations, the credit union development process in Malawi will probably involve some variation of these basic stages:

- Stage 1: Broad project-oriented technical assistance and grant funding for capital and budget items.
- Stage 2: Limited focus technical assistance and concessional lending.
- Stage 3: Paid consultancies and commercial lending.

For example, several national movements in the COLAC system of Latin American credit unions are currently evolving from stage two operations into the commercial market environment of stage three.

The initial, five-year component of MUSCCO's financial self-sufficiency strategy involves application of the financial plan included in section E. This plan, while permitting periodic adjustments, will guide initial MUSCCO operations until future alternative financial strategies can be designed, evaluated and applied.

Preparation of the initial plan (and future ones) includes definition and estimation of all cost and revenue items of the national association. Cost items include staff, office and other necessary expenses at a level of operations consistent with achievement of institutional development objectives and society service requirements. Revenue items include dues, service fees, and net interest margin on central finance operations. The resultant financial self-sufficiency strategy specifies in quantified, economic terms the level of investment in manpower, training, travel, etc., required to produce movement growth which, in turn, will generate increased income streams adequate to support the national association.

Principal components of the initial strategy are briefly discussed below. The various rates involved should be considered flexible; they reflect initial decisions of PEAC but are naturally subject to change in response to movement needs and financial market conditions.

CAPITALIZATION

Society share investments will be the major source of equity capital for MUSCCO. In addition to voluntary shares, societies will be expected to maintain minimum MUSCCO share balances composed of:

- 1) Liquidity Provision: 5 percent of each society's total savings.
- 2) Loan Capitalization: 5 percent of each central finance loan granted to a member society.
- 3) Reserve Requirement: Purchase of MUSCCO shares in the amount of each society's statutory reserve.

Capital funds not on loan to societies would be invested in approved financial institutions.

CENTRAL FINANCE

Initially, operations would probably be limited to institutional development loans and well-secured liquidity support advances to member societies. As experience is gained, pilot agricultural production and small business development credit programs (if determined feasible) would be initiated and, if successful, expanded to other eligible societies.

REVENUES

Principal revenue items for MUSCCO will include:

- 1) Central finance margins produced by the interest rate spread between earnings on loans and deposits, and the capital cost of dividends paid on society shares. Initial financial plan estimates are based on a 9 percent interest rate charged on loans and 5 percent paid on shares.
- 2) Annual MUSCCO dues rate charged to societies of 1 percent of their previous year-end member savings balance. This charge would be discounted for the first two years at rates of 50 percent in the first and 25 percent in the second.
- 3) ACOSCA dues would continue to be billed directly to societies and passed through to the continental confederation (the current rate is 0.08 percent of total savings).
- 4) Stationery, office equipment and other supplies sold to societies would have a 20 percent mark-up.
- 5) Minimum seminar tuition fees would be charged on a per participant basis and billed to societies.
- 6) Risk management commissions will be earned by MUSCCO at a rate of 6 percent of premiums paid to MUSCCO for its term life coverage on society shares and loans.
- 7) Fees for other services, probably including audits and specialized technical assistance, will be determined on a cost-recovery basis, after allowing for subsidy requirements during their early, start-up years.

Society Auditing

A critical component of the project strategy related to achievement of both the MUSCCO and society development objectives is improved and more frequent society audits. This is necessary to assure sound financial management practices and the security of members' savings deposits, and to improve the public image of cooperative societies. Accordingly, project funds have been budgeted to include the costs of audit training for both MUSCCO Field Officers and Cooperative Auditors of the Ministry of Trade, Industry and Tourism.

Training for auditors will be objectives-based and designed in accordance with needs assessments conducted for MUSCCO and ministry staff. A by-product of their training process will be the preparation of an auditor's manual detailing the procedures, tests and required reports for a standard society audit.

APPENDIX I
INDIVIDUALS AND INSTITUTIONS CONTACTED

APPENDIX I

INDIVIDUALS AND INSTITUTIONS CONTACTED

Filbert D. Msewa	General Manager, MUSCCO
Chris Hansen	Financial Management and Planning Advisor, WOCCU
Joseph Thomas	Field Services Technician, WOCCU
Joe Enos	Agri-Business Specialist, Africare
Adam N. S. Mphonda	Field Services Manager, MUSCCO
V. K. Nkunika	Audit Manager, MUSCCO
N. S. Kanyika	Banking Service Manager, MUSCCO
Denley S. Mkandawire	Northern Regional Manager, MUSCCO
C. R. Chisati	Acting Central Region Manager, MUSCCO
Marlow Sariato	Peace Corps Volunteer
L. J. Kanje	Southern Regional Manager
Don Henry	READI Project Manager
Henry Panlibuton	Peace Corps Volunteer
B. B. Mwambakula	Deputy Principal Secretary, Ministry of Trade, Industry, and Tourism
Muzi Jore	Economist, Ministry of Trade, Industry, and Tourism
Felix N. D. Kaluma	Deputy Secretary, Ministry of Finance
Stephen T. Norton	USAID
Dick Day	USAID
Arnold Redi	USAID
Steve Shumba	USAID
John Chaika	USAID
Franklin Y. Sambo	Agricultural Credit and Marketing Officer, ADD, Mzuzu
Michelle Smith	Technical Business Advisor, DEMATT
Gill Ngosi	Northern Regional Manager, DEMATT
ADMARK Officer	Mzuzu
Joy De Beyer	The World Bank

MUSCCO Credit Societies

Lunyina
 Ekwendeni
 Enukwani
 Kaning'ina
 Champira
 Yamba
 UTM Employee
 Chimwabvi
 Nalipili
 Mulanje Teacher
 Liwonde
 Balaka
 Lobi
 Kachawa

MUSCCO Study Groups

Nyerere

APPENDIX J
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APPENDIX J
BIBLIOGRAPHY

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