

**Consultancy Report**  
***Development of Policy and Procedures Manuals for Malawi Rural Finance***  
***Company***

***Malawi: Rural Financial Services Program***  
**OTR-0192-A-00-9052**

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**Consultancy Report on the  
Development of Policy and Procedures Manuals  
for the  
Malawi Rural Finance Company (MRFC)**

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## **I INTRODUCTION AND BACKGROUND**

In 1988, the IDA/IFAD Smallholder Agricultural Credit Project initiated the Smallholder Agricultural Credit Administration (SACA) in Malawi as a department under the Ministry of Agriculture (MOA). Through the establishment of SACA, all individual donor-supported credit services were consolidated and managed more efficiently within a single department. Although SACA has achieved notable success, it may not be sustainable since its activities are restricted to only the agricultural sector and are still heavily subsidized by the Government of Malawi. Therefore, the conversion of SACA into a private, limited liability finance company was proposed with the intent of increasing the coverage and scope of Malawi's rural credit services (beyond agriculture) and improving the policy and institutional framework of the entire financial sector. The Malawi Rural Finance Company (MRFC) was thus established under the IDA Malawi Rural Financial Services Project.

Under the Rural Financial Services Project, there is a requirement for the MRFC to adopt a manual of policies and operating systems. The creation of those manuals and operating systems, with the input of SACA staff, was the specific purpose for this consultancy carried out by Agricultural Cooperative Development International (ACDI). The outcome expected was a set of operating procedures and policies that will provide assistance to the management of the MRFC and satisfy the World Bank requirement.

## **II SCOPE OF WORK**

The first week, August 14-21, was spent orienting the team, meeting with key personnel in the Ministry of Agriculture, Ministry of Finance, World Bank, USAID, and SACA to ensure the team understood the scope of their separate tasks.

Most of Week 2 was spent in intensive discussions with SACA staff and relevant outside credit and finance staff, i.e. MUSCCO and DEMATT. In addition, the consultants spent many hours creating, reviewing and editing policy and procedure documents. The purpose of the discussions with staff and amongst the team was to determine the operational aspects of SACA that might remain unchanged and those needing revisions or further development. At the end of Week 2, the team produced the first draft of four MRFC Policy and Procedures Manuals and continued to develop the details (See Section III below).

The final week was spent discussing and revising the final draft copies of policies and procedures necessary for beginning operations of the Malawi Rural Finance Company. The team worked very closely with the SACA staff and is indebted to them for their cooperation and support.

### **III SYSTEM OF MANUALS DEVELOPED**

The team developed a system of manuals for the specific MRFC policies and procedures. Based on SACA's existing procedural systems, four (4) manuals were produced — General Policies; Credit Policies and Procedures; Finance and Accounting Policies and Procedures; and Personnel Policies and Procedures. Each volume addresses specific areas of MRFC operations as detailed below:

▶ **Volume I - General Policies.** This volume contains the general policies of the MRFC. These policies are designed to provide the general guidelines for credit delivery and management; accounting and financial systems; human resources; and management information systems. Further details of MRFC policies and procedures on these topics can be found in their respective manuals (Volumes II - IV).

▶ **Volume II - Credit Policies and Procedures Manual.** This volume contains specific guidance on MRFC lending policy, credit administration, recovery guidelines, credit supervision and follow-up.

▶ **Volume III - Finance and Accounting Policies and Procedures Manual.** This volume contains details of the MRFC financial and accounting systems, including guidelines for general and loan accounting as well as internal audit procedures.

▶ **Volume IV - Personnel Policies and Procedures.** This volume contains specific policies, procedures, rules and regulations concerning personnel administration and human resource development.

The team included a section in the General Policies for a Management Information System (MIS) Manual. While the development of the MIS Manual was outside the scope of this assignment, it is nevertheless vitally important. The team was unanimous in their belief that MRFC must act early and aggressively to design and implement an effective and efficient MIS. They cannot afford the cost (financial and risk) of not developing computerized systems for the critical management information and accounting activities of a financial institution. This issue is addressed further in Section IV.

### **IV OBSERVATIONS AND RECOMMENDATIONS**

During the development of the various manuals for MRFC, and in meetings with various rural development agencies, the team made certain observations regarding the future operations of the Malawi Rural Finance Company. We determined that the findings and recommendations below are not appropriate for inclusion in the specific policy manuals. Hence, they are reported here.

There are significant shortcomings in several areas that could have a serious impact on the MRFC and therefore deserve close monitoring by GOM leadership as well as the World Bank team and USAID.

Most importantly - the infrastructure for a rural finance company is NOT in place. There are now policies and procedures but they need to be refined further and made very relevant to the actual situations. There is a will in the leadership team to carry out these policies and procedures, but they need coaching and counselling (as opposed to education or training per se).

SACA does not have offices, furniture, equipment, supplies, vehicles, etc. to operate as a rural finance company. The administrative systems or the skills to build those systems is lacking in the current staff of SACA. It must be pointed out they have been operating a government department — not a company. A detailed Action Plan for the next six months: to take SACA from October 1, 1993 through the first quarter of 1994 should be considered a priority and developed as soon as possible.

Some of the other issues discussed below will need immediate attention and monitoring by the management of MRFC, and the Government of Malawi. Additionally, the support of the donor community, who have taken an active interest in the success of rural credit operations, should not wane. In order to specifically address some of these areas, additional short-term technical assistance will be needed. ACDI stands ready to assist in the design and delivery of appropriate support activities for the Malawi Rural Finance Company (MRFC), especially in operational planning, development of in-house credit training capacity, loan accounting, credit management, and development of credit and financial information systems.

## **1. Credit Issues**

1.1 The proposed organization for MRFC shows an Assistant Manager, Lending for seasonal credit and an Assistant Manager, Lending for other loans including working capital (seasonal/production) for small estates and individuals. Splitting the credit responsibility to an applicant can cause confusion (ie: the applicant is approved for a term loan, but rejected for a seasonal/working capital loan) and violates the principle of credit risk management. The credit officer cannot be held accountable for the risk level with an individual borrower when there is a split line of responsibility. Decision(s) for credit to an applicant may also be delegated upward.

**Recommendation:** Consider a geographic organization in the future at the Headquarters and Branch Office credit functions, rather than by loan type or purpose (i.e, both Asst Mgrs.- Lending responsible for four (4) Branches each). In this way, total overall operations (seasonal and medium term) can be supervised and a consistent approach with applicants will be established providing accountability for credit decisions. In addition, credit authority can be delegated to the level commensurate with ability.

1.2 It has been suggested that credit decisions occur at the Branch and Agency level. This is appropriate for the larger than average and complex credit requests. SACA currently has a Loan Committee at each RDP and EPA that includes representatives of borrowers that act on most of the credit request.

**Recommendation:** Lending authority should continue to be delegated to an Agency level Lending Committee. In addition, authority to approve repeat seasonal loans must be delegated to the Loan Officer and not retained at the Branch Office. The Loan Officer should have the authority to approve a seasonal loan to a club or individual borrower if repayment is made in full before maturity and the new request for total required inputs does not exceed 10 percent of the previous request.

1.3 The current credit delivery system involves too much "paper work" and may not be the most efficient. SACA management has identified the need to enhance the credit delivery system with revised forms and to provide the credit staff more time for credit supervision and less time for filling out forms and reports.

**Recommendation:** Simplify and coordinate the loan forms. Loan forms need to be printed as they are legal documents and not photocopied. Identified forms (for example: application for the seasonal loans) should be printed on both sides of the form. Carbonated paper could be used when multiple copies of forms are necessary. This will reduce costs and improve efficiency.

1.4 Technical training for credit staff is essential. While the current ACMO's have attended technical credit training, staff at lower levels, including loan officers, will continue to need on-going technical training.

**Recommendation:** Loan Officers, Senior Loan Officers and above, should attend a comprehensive in-house credit training program. Topics could include: (1) balance Sheet preparation and analysis; (2) income statement preparation and analysis; (3) methods of preparing a cash flow statement by month and its relationship to the credit request; (4) procedures for completing a farm, livestock and small business annual operating budget and its relationship to the credit request; and (5) procedures of identifying risk in specific credit requests. In addition, the credit staff needs training in classifying and reporting credit risk.

1.5 As the MRFC expands its lending operations beyond agriculture, into small estates and small/medium scale enterprises (SME), credit management training for Branch and Agency Managers and other credit supervisors will be necessary.

**Recommendation:** Agency Managers and Branch Managers should receive comprehensive training that includes: (1) methods for identifying risk in specific loans in the SME and small estate sector, as well as the current smallholder portfolio; (2) management systems to monitor the credit administration of subordinates; (3) information necessary to monitor loan performance; (4) identification of minimum standards for each of the five credit factors and how to express this to Loan Officers and other credit staff; (5) identification of what credit risk is an acceptable level for MRFC; and (6) loan classification and reporting system (credit audits).

**Recommendation:** While it is envisioned, under the World Bank Project, that DEMATT play a role in providing this training — serious consideration should be given to keeping this training "in-house". In order to build MRFC staff capability and expertise in credit analysis and management, this training should be developed by, for, and with the full participation of MRFC management and staff. An ongoing "Loan Officer's Training Program" could be initiated and maintained by the Assistant Manager, Training that will specifically address the issues that MRFC deems necessary, rather than have "outside" trainers come in on short-term consultancies.

1.6 SACA currently adds 12 months interest to the seasonal loan principal balance and all term loans. While this rate structure is consistent between the borrowers and provides a known level of revenue, there is no incentive for a borrower to repay before maturity.

**Recommendation:** Interest for seasonal and term loans should be calculated monthly at the central office. Therefore, the new MRFC MIS must include this feature. In addition, borrowers should only be charged interest on the unpaid loan balance and have an incentive to pay before maturity. This practice facilitates cash turnover for MRFC.

**Recommendation:** The BDU of the MRFC should develop and program financial incentives to encourage clubs to become self-managing, in turn this will attract high quality individual borrowing that will off-set the existing risk in loan assets.

1.7 Currently, the staff calculates the unpaid principal balances manually. While there is a check and balance system, it is slow and labor intensive.

**Recommendation:** Again, the Loan Accounting System of the MIS needs to be centralized at the headquarters for accuracy and consistency. Branch and Agency offices with electricity must be able to access loan ledgers with the current balance. This information must be available to Loan Officers and borrowers. Timely and accurate reports should flow down to the loan officer.

1.8 MRFC needs to improve the loan collection process, cash handling system and repayment reporting procedures. SACA has developed adequate internal controls with its reporting system, but there are alternatives that could be developed that would streamline this function. This area needs further study to completely understand the transportation and remote banking issues that will impact MRFC.

Recommendation: MRFC must develop an improved cash management system that maintains internal controls while improving the reporting and cash transfer efficiency.

1.9 MRFC will not have the "social responsibilities" of SACA. It is to operate on a commercially sustainable basis, increasing loanable funds with earnings to meet the demand for credit in the rural sector. High risk credits will not be desirable, as loan losses will deplete capital. However, MRFC is envisioned to be the credit delivery system in rural areas for all levels of borrowers. It is anticipated that specific "windows" of finance will be made available.

Recommendation: Consider channelling funds for high risk clients through "back room" operations of MRFC. The incorporation of servicing these higher risk clients needs to be developed thoroughly and without negative impact on the capital of MRFC or adding a cost to the reliable and high quality borrowers. This could be through a loan guarantee program or by purchasing stock in MRFC. MRFC could also provide financial services for a fee. The goal must be to "work up" this class of borrower and improve their financial well-being. Interest rates, terms and other features could be identical so borrowers would not be able to distinguish between themselves.

1.10 The loan portfolio has significant risk exposure from natural disasters such as flood, drought and disease. Diversification away from agricultural/rural business is not an option to eliminate this risk.

Recommendation: As MRFC operations expand and become more commercially viable, expansion into risk management activities could be considered. MRFC could establish a subsidiary company to provide Collateral and Credit Life insurance. Collateral insurance would cover crops, livestock, equipment and other assets that might be destroyed by a natural disaster or disease. This will reduce the risk within the loan portfolio and could be a significant source of revenue for MRFC.

1.11 Controlling and identifying the credit risk in the loan portfolio must be a primary goal of MRFC. Along with SACA management, we have identified the requirement for a loan classification and management system.

Recommendation: Develop and document a loan classification scheme. The scheme should include procedures for classifying individual loans, rescheduling collectable bad

debts and identifying write-off accounts. The goal of the scheme should be to increase the effectiveness of the portfolio management system.

**Recommendation:** MRFC should consider developing a club classification system. This system can act as a method of providing incentives for clubs to be Class AAA clubs and receive the benefits of such a category (lower requirement of Capital Reserve amount, decreased interest rates, etc.,)

## **2. Finance and Operational Issues**

2.1 The privatization of SACA into the MRFC is based on the principle of separating the credit and extensions activities. A complete delinking of credit will be beneficial but may be a slow and painful process that will take time and adjustment.

**Recommendation:** The MRFC must design a system so it doesn't move too far from the extension systems in place. Significant difficulties in other countries have resulted from the financial organization moving too far away from the basics of extension too quickly. Change of this magnitude requires adjustment. Both the farmers and the new financial organization needs time.

2.2 As the MRFC begins to develop its own finance and accounting divisions, the headquarters office must take on more of the supervision and oversight of these functions.

**Recommendation:** As an operating principle, MRFC should maintain the centralization of the finance and accounting activities. Accounting should be controlled at HQ while credit should be delegated to Branch/Agency level. Supervision of credit should also be centralized.

2.3 The Credit Reserve requirement of 10% is viewed as a possible hinderance for MRFC clients to fulfill.

**Recommendation:** The Credit Reserve Fund should be explained to borrowers and used as a positive tool in managing the MRFC portfolio. Possible uses of the fund can include it being a credit administration tool and a source of capitalization. In that the funds collected belong to the club, the assessment of the reserve requirement is a club requirement and should be revolved back to the club member over some period of years.

2.4 Moving from a Government organization to a private company, presents several legal questions. As a private lender, what legal lending documents and notification to the court are necessary for a financial institution? In addition, SACA uses many Government forms to

purchase inputs for borrowers, disburse loan proceeds and conduct daily business. Similar forms will need to be developed within the Malawian legal context.

**Recommendation:** Hire or retain an attorney experienced in Malawi banking and contract law for the headquarters staff. An attorney on staff, or on-call would facilitate some of the legal issues of SACA's transition to a private company.

### **3. Personnel/Human Resource Issues**

3.1 The credit staff of SACA is an outstanding group of intelligent and dedicated individuals. But, they are very concerned right now with all the changes that they perceive will affect them in the next several months. There is a great deal of uncertainty about all aspects of the MRFC, not limited to but especially related to staffing.

**Recommendation:** SACA management should spend an inordinate amount of time with the SACA staff in the next few months to communicate actions and decisions. It is important to be open and straightforward, even if there is no news or bad news.

There is a danger that their concerns about the future of SACA will take their attention and energy away from loan recoveries...a process already damaged by the political climate.

3.2 The proposed organization chart for MRFC shows the Chief Internal Auditor reporting to the General Manager and that is appropriate. The original chart of the Branch organization showed the Internal Auditor reporting to the Branch Manager.

**Recommendation:** The internal audit function must be independent from line managers to the maximum extent possible. It is recommended that the Senior Internal Auditor report to the General Manager for administrative purposes but that he or she be required to make a monthly report to an Audit Committee of the Board of Directors. Additionally, the Internal Audit staff in the Branches should not report to the Branch Manager. They should report directly to the Senior Internal Auditor. They should be housed in the same location as the Branch office purely for efficiency and convenience reasons.

3.3 One of the first tasks facing the new management team of MRFC is the assessment of the current SACA staff.

**Recommendation:** This process should be done as soon as possible and communicated to the respective individuals. A detailed process for carrying out this assessment is attached (See Annex 3) and is highly recommended. The basis of the proposed process is a proven system developed from behavioral research on loan officers in the United States. It has been modified to fit the situation in Malawi. That does not mean the

process must be used as it is recommended but changes in the factors assessed should be made with careful thought.

3.4 Obviously, there is a significant amount of staff training that must be completed in the next 12-24 months. There is a training officer on the organization chart of MRFC.

**Recommendation:** The proper and effective training of the MRFC staff is an investment that will pay handsome dividends! Management should fill the position of Training Officer as soon as possible, perhaps from the existing staff of ACDI's, and plan the training program carefully and select the participants wisely before starting the training process. ACDI is ready to assist in the design and delivery of rural finance training and development programs. (See the discussion in the Credit Issues section.)

3.5 Job descriptions and a salary schedule needs to be developed for the new company.

**Recommendation:** The existing job descriptions for positions in SACA are not completely useless. With some modifications, most of the positions in the new company will be covered by modifying the current job descriptions.

The salary schedule is another matter. MRFC cannot use the salary schedule of the Government. A series of three schedules are attached for consideration (see Annex 4). These new schedules use the current GOM salary schedule as the base. It has been assumed that the new company would pay more than the Government.

**Recommended:** A careful analysis of the staffing pattern and a comprehensive organization chart, including names of potential incumbents, should be completed. Then senior management would be prepared to develop several scenarios of salary cost structures.

The final salary structure will be the result of compromising between what management and the Board would like to pay; what they have to pay (to be competitive and get people to accept the job) and what they can afford to pay.

3.6 There is a reference in the Personnel Manual to several "plans" that do not presently exist. Management of MRFC must, in the early days of operating the Company, obtain a Fidelity Bond or appropriate insurance to compensate the company for losses caused by fraud, embezzlement, theft, etc. by the employees. In addition, a Medical Insurance Plan must be negotiated and purchased on behalf of employees as well as a Pension Plan.

**Recommendation:** It is recommended that MRFC employ a local consultant well versed in these kinds of bonding and insurance programs to develop specific proposals for Company management to consider.

3.7 The Personnel Manual does not address the issues of MRFC staff loans and advances. SACA currently has a policy that employees cannot be borrowers.

**Recommendation:** Specific policies regarding MRFC staff loans should be very carefully drafted to avoid any conflict of interest or other action that might jeopardize the integrity of the company. Given this concern, the team does not endorse a policy to issue MRFC staff loans at this time and recommends a continuation of the current SACA procedure.

**Recommendation:** The Management of MRFC should consider the formation of a Savings and Credit Cooperative (SACCO) of the staff members. This facility could take over the necessity for staff advances as well as loan making. Initial capital for this SACCO could be financed from an "Employee Savings Plan". MRFC would contribute MK5 for every MK1 saved by the participating employees. Employees would be fully vested in the plan after a set period of years.

#### **4. General Findings**

4.1 Since they are a government department, SACA is virtually without physical resources. The staff knows the fundamentals of agricultural credit and are ready to operate independently of political influence. They are ready for the transformation to commence!

**Recommendation:** As many of the decisions as possible that are made in the next 12 months must not be irrevocable. Many starts and stops are going to have to be made in many areas of operations. New authorities must be delegated slowly and with deliberation, especially where loan funds are at stake.

4.2 The MRFC will interface and, in fact, rely on several organizations and institutions to ensure access to financial services for citizens in rural areas. The Ministry of Agriculture, with its extensive network of development projects at all levels, will continue to play a vital role in supporting MRFC beneficiaries with extension services and farmer club formation and training.

**Recommendation:** The specific role of the Ministry of Agriculture, especially as it relates to club training and follow-up, will be developed by the MRFC Management Committee and approved by the Board of Directors. Although credit will be separated from extension the two areas will be co-dependent and interrelated.

In addition to the MOA, the relationship between MRFC and other financial agencies, organizations and parastatals including but not limited to Reserve Bank of Malawi; National Bank of Malawi; Commercial Bank of Malawi; ADMARC; MUSCCO; Malawi Mudzi Fund; SEDOM; etc. will also need to be determined, documented and communicated to everyone involved.

DEMATT will be responsible for the business advisory training of MRFC clients who are in need of basic bookkeeping and business management instruction. A clear policy on the exact extent and basis on which DEMATT services will be used by the MRFC must be developed and approved by the Board of Directors of MRFC.

**Annex 1:  
SCHEDULE FOR ACIDI CONSULTANCY**

**Malawi Rural Financial Services Project**

- August 14: Team arrived in Lilongwe
- August 15: Day of R&R.
- August 16: Met at SACA Headquarters. Introduced staff and viewed facilities. Discussed TOR and started work on specific program.
- August 17: Field visit to ADD, RDP and EPA.
- August 18: Brainstorming session to determine approach and strategy to accomplish TOR. First draft of approach was completed.
- August 19: Reviewed approach with SACA Administrator and USAID. Visited MUSCCO. Continued work on approach.
- August 20: Continued work on various policy statements. Travel to Mangochi.
- August 21: Worked on policies at Mangochi.
- August 22: Day of R&R.
- August 23: Went to Blantyre. Met with staff at DEMATT regarding training of farmer clubs. Visited Blantyre ADD credit staff. Returned to Lilongwe.
- August 24: Met with ACMO's from several ADD's in Lilongwe.
- August 25: At the end of the day...first draft of POLICY MANUAL due to team leader.
- August 26: Reviewed work as a group. Made revisions. Copy to SACA Administrator for review and comment.
- August 27: Met with SACA Administrator and Deputy to work on first draft of MRFC Policy Manual.
- August 28: Continued discussion and review of the manual. Schultz and Monaco to depart on BA flight in PM.
- August 29: Day of R&R.

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**August 30:** Gold and Panlibuton continued refining and detailing policies.

**August 31:** same

**September 1:** same

**September 2:** Met with SACA HQ Staff to get input into first draft of Policy Manual.

**September 3:** Close-out meeting with SACA Administrator and USAID.

**Annex 2:  
MEETING WITH THE AGRICULTURAL CREDIT MARKETING OFFICERS**

**Held on August 24, 1993 at Lilongwe ADD**

**Present:**

Mr. S. Murotho - Administrator  
Mr. F.W. Kalimila - Deputy Administrator  
Mr. Malongo - Senior Credit Officer  
Mr. P. Newa - Blantyre ADD  
Mr. O. Jevu - Mzuzu ADD  
Mr. A. Nagwari - Ngabu ADD  
Mr. V. Kishombe - Liwonde ADD  
Mr. F. Sambo - Kasungu ADD  
Mrs. D. Banda - Financial Controller  
Mr. S. Chimange - Karonga ADD  
Mr. S. Nyasulu - Salima ADD  
Mr. S. Mahango - Lilongwe ADD  
ACDI Consultant Team

The Deputy Administrator opened the meeting and introduced the ACIDI Consultant Team. After explaining the purpose of the meeting, the Deputy Administrator handed the meeting over to the team leader, Mr. Rex Schultz.

Mr. Schultz expressed his appreciation for another opportunity to meet with the SACA credit staff leaders and assured the group that their input would be valuable to the policy and procedure documentation process presently underway by the ACIDI team.

In response to his inquiry, the SACA staff concluded that the following constitutes the major challenges facing them in the transforming of SACA into the Malawi Rural Finance Company.

**I. MAJOR CHALLENGES OF THE TRANSFORMATION PROCESS**

**1. Profitability of the agriculture sector:**

Farmers rely on sales of their surplus produce to make loan payments. They will not sell the food to feed their families. If the farm gate prices are so low that they cannot generate the income from their surplus crop, they will default on their loans. Therefore, the viability of production agriculture is depending on having sufficient commodity prices.

**2. Marketing Structure:**

Even though marketing has been liberalized, ADMARC is still the major buyer in the rural areas, and the MRFC must depend on ADMARC to determine the most "profitable" agricultural enterprises.

Private traders are still too small to compete with ADMARC.

**3. Viability of the MRFC:**

Interest must be charged at market rates in the rural areas which may be a problem for smallholders to meet.

Without Government assistance, SACA would have collapsed during the time of the drought. What will happen next time?

Farmers have very little liquid assets and will be challenged to come up with the 10% "Credit Reserve Fund" collateral; they have "mixed feelings about this aspect."

**4. De-linking with extension will increase staff responsibility:**

More transport requirements; "transport must be looked at seriously"; security or risk of being robbed must be addressed.

There may have to be an increase in the number of staff, but to pay for this increase the interest rate must increase, which will be difficult for clients to pay. It may not be possible for MRFC to sustain current SACA staff levels.

**5. Farmers' attitudes to MRFC:**

Farmers are used to receiving grants from the Government and they must now be able to "walk somewhere to ask for financial services" rather than have MRFC come to them.

Farmers will need intensive and practical training during this process of de-linking credit and extension.

**6. Lending Policies:**

A study should be done on "how much we are saving using club lending, and how much we are wasting using individuals."

**7. Role of Outside Influence:**

MRFC Board of Directors must be free of outside political influence and make independent policy decisions. In addition, they must "protect" credit officers from the influence of politicians.

**8. Conflicting Programs:**

There are some programs that are not commercially viable, but socially and/or politically mandated for MRFC to undertake. For instance, there is a new UNDP program doing the same thing as MRFC but will not charge interest and go through the Malawi National Bank. Also, Malawi Mudzi Fund is a grant program, "it does not need credit".

In an attempt to determine important activities, the question was asked later in the day how these Agricultural Credit and Marketing Officers (ACMO's) spent most of their time.

## II MOST TIME CONSUMING JOB OF ACMOs

### 1. Data compilation and report generation

In the current SACA system, a number of forms and reports are required at all levels: EPA, RDP, and ADD. In addition, the CAs are required to make an appropriate number of field visits to the clubs.

### 2. Monitoring of credit recoveries and disbursements

Since the emphasis on credit recoveries is now the responsibility of the SACA staff, who must follow-up credit recovery visits with telephone calls or letters.

### 3. Attending meetings at ADDs, ADMARC, etc.

As the Senior Credit Officers in the ADDs, the ACMOs are often required to attend numerous meetings (some relevant, most not).

### 4. Planning

There is a significant amount of time in planning strategies for credit recoveries, especially at this time of the year.

## III LOAN ACCOUNTING AND PORTFOLIO MANAGEMENT

The consultant team asked how the current centralized loan accounting system worked and what loan portfolio management techniques could be improved. There was general agreement that a centralized loan accounting system is crucial but must be developed very carefully and in close coordination with the credit staff. Some of the general comments about the loan accounting system follow:

### 1. Further loans to clubs who have defaulted must be stopped;

Due to a lack of consequence, there is currently no incentive to be a "good" club vs. a delinquent one.

### 2. The responsibility on loan recovery of seasonal loans must fall on the club officers as the Club will be the borrower from MRFC.

The club constitution will give clubs the authority to recover credit from members, but there are still discussions underway with the Ministry of Justice regarding the legal status of clubs. Once registered as legal entities, MRFC can then have legal recourse.

3. CMAs at the EPA level are the ones who do "all the dirty work"  
These are the people at the local level who must do all collections, receipts, and compile reports, bank collections, keep track of different funding sources. Their
4. Loan committee must be at the Branch Level of MRFC. When asked, the group felt that a "checklist" of loan appraisal criteria is needed.
5. The role of training will be vital in all aspects of operations.  
MRFC clients should have a clear idea of what type of training they can receive (whether from MOA Extension staff, MRFC staff, or others). It is felt that club members should FIRST consult Extension staff for training, then come to MRFC for specific credit related topics.  
  
Training of borrowers is especially critical as MRFC extends more small and micro-enterprise loans, as well as smallholder estate lending.
6. A system of variable interest could be possible, but it must be carefully explained to farmers so they understand the BENEFITS of such interest.
7. Verification of collateral is often required in Medium Term loans, to confirm that applicants have the adequate assets and training for the loan.

#### IV CONCLUSION AND FUTURE MRFC

Finally, the Team Leader asked what the ACMOs found the most rewarding of their work with SACA and agricultural credit in general. Some of their responses are summarized below:

1. The increased knowledge they have gained in financial management was identified as a positive outcome of their work with SACA.  
Through their work as Credit Officers, they have been gained considerable expertise in financial assessment and credit management.
2. There has been an increasing amount of responsibility given to the ACMOs.  
Given their increased responsibility, respect for their work and its importance in the entire ADD has also increased. They always have direct and constant contact with the Programme Manager.
3. SACA has had a positive impact on Government policy formation and has exerted quite an amount of influence in this area.

4. Concerning the future of the MRFC, they responded that much will depend on how the new company is perceived in the rural areas.

As long as the clients see the VALUE of MRFC activities and services, it will be successful. They concluded that the MRFC should always strive to make "productive, sound, constructive loans."

**Annex 3:  
STAFF ASSESSMENT**

**Malawi Rural Financial Services Project**

One of the very important activities that will be undertaken during the transformation of SACA to the MRFC is an assessment of current SACA staff and an opportunity for them to decide whether they want to transfer to the Company or stay with Government.

The recommendation for the assessment involves a highly subjective process. It is, in our opinion, not possible to use a scientific or completely objective system of assessment. Judgment must be used and evaluation of staff is a management responsibility.

We recommend that all the credit staff be evaluated on the basis of the following factors:

**1. PAST PERFORMANCE OR HISTORY**

This factor has to do with what is already known about the employee's performance in the past. If he has performed poorly in the past, it is unlikely that the new company policies or operations will have any impact on his performance.

**2. BUSINESS THINKING**

This factor involves the attitude of the credit officer. If he thinks like a businessman, he will be more valuable than one who thinks like a bureaucrat.

**3. PROBLEM SOLVING & JUDGMENT**

This factor has to do with that person's experience in solving problems and using good judgment. In the new company, especially in the early days, people will have to exercise an extra dose of good judgment and act in the best interests of the Company without the benefit of detailed policies and procedures.

**4. FOCUS & COMMITMENT**

How well the individual is focused on the development of agriculture in Malawi and interested in extending sound financial services is very important. His or her commitment to the success of the Company is also very important.

**5. ENERGY & DISCIPLINE**

This factor consists of determining whether or not a person is a "self-starter" or one who needs close supervision to accomplish their task. It is more desirable for the credit officer to be well organized and an effective manager of his/her time.

## **6. FLEXIBILITY**

This factor has to do with how the person reacts to change. There will be many changes in operations and how a person deals with and manages the change process will make a big difference.

## **7. COURAGE & RESPONSIBILITY**

This factor concerns the credit officer's willingness to carry out his or her responsibility with courage and determination without regard to the personal consequences.

It is important to remember that these factors are very subjective and should not be interpreted as a means of determining "good" or "bad" people. The purpose of the described process is give a relative ranking of those best suited to accomplish the mission of MRFC.

## **THE PROCESS OF ASSESSMENT**

The rating process described here is very personal and should be held in private and in the strictest confidence. It is recommended that only people who have a basis for evaluating the SACA staff be involved in this process. That is, a person without in-depth knowledge of the individuals being assessed will not be able to fairly and adequately complete the assessment.

We also recommend that more than one person be involved in conducting the actual assessment. In the case of SACA, it is suggested that the people who are qualified to carry out the assessment are: the Administrator, the Deputy Administrator, and a senior Program Manager who is very familiar with all the SACA staff.

The 2 or 3 individuals should complete their assessment privately and individually first. Then, the team should meet and compare their ratings. They should discuss their ratings so as to justify their assessment. Each individual should be given a chance to change their ratings and a composite developed as the final rating.

The results of the assessment should reveal the strongest candidates, in terms of the items rated, that are presently employed by SACA and those credit officers most likely to be successful with MRFC.

A suggested form for the assessment is attached.



• SALARY SCHEDULE FOR 1993-94 All data in MK per annum.

• The following tables are illustrative of a salary schedule based on the current GOM salary schedule. Each of tables start at an increasingly larger % above the current salary schedule. It is not precise because the number of salary grades proposed exceed the current scheme.

10% increase over current ranges [approximate]

Level	1	2	3	4	5	6	7
1	3,000	3,400	3,800	4,200	4,600	5,000	5,400
2	5,500	5,900	6,300	6,700	7,100	7,500	7,900
3	8,000	8,400	8,800	9,200	9,600	10,000	10,400
4	10,500	10,950	11,400	11,850	12,300	12,750	13,200
5	15,000	15,450	15,900	16,350	16,800	17,250	17,700
6	17,500	17,950	18,400	18,850	19,300	19,750	20,200
7	20,000	20,500	21,000	21,500	22,000	22,500	23,000
8	22,500	23,000	23,500	24,000	24,500	25,000	25,500
9	25,000	25,500	26,000	26,500	27,000	27,500	28,000
10	27,500	28,000	28,500	29,000	29,500	30,000	30,500

15% increase over current ranges [approximate]

Level	1	2	3	4	5	6	7
1	3,200	3,600	4,000	4,400	4,800	5,200	5,600
2	5,000	5,400	5,800	6,200	6,600	7,000	7,400
3	7,000	7,400	7,800	8,200	8,600	9,000	9,400
4	9,000	9,450	9,900	10,350	10,800	11,250	11,700
5	17,000	17,450	17,900	18,350	18,800	19,250	19,700
6	19,550	20,000	20,450	20,900	21,350	21,800	22,250
7	21,500	22,000	22,500	23,000	23,500	24,000	24,500
8	24,000	24,500	25,000	25,500	26,000	26,500	27,000
9	26,500	27,000	27,500	28,000	28,500	29,000	29,500
10	29,000	29,500	30,000	30,500	31,000	31,500	32,000

25% increase over current ranges [approximate]

Level	1	2	3	4	5	6	7
1	3,800	4,200	4,600	5,000	5,400	5,800	6,200
2	5,600	6,000	6,400	6,800	7,200	7,600	8,000
3	7,700	8,100	8,500	8,900	9,300	9,700	10,100
4	11,000	11,450	11,900	12,350	12,800	13,250	13,700
5	16,000	16,450	16,900	17,350	17,800	18,250	18,700
6	20,000	20,450	20,900	21,350	21,800	22,250	22,700
7	23,000	23,500	24,000	24,500	25,000	25,500	26,000
8	25,500	26,000	26,500	27,000	27,500	28,000	28,500
9	28,500	29,000	29,500	30,000	30,500	31,000	31,500
10	31,000	31,500	32,000	32,500	33,000	33,500	34,000