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REPORT
FOR THE
MALAWI UNION
OF
SAVINGS & CREDIT
COOPERATIVES

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I. EXECUTIVE SUMMARY

The board and management of the Malawi Union of Savings and Credit Cooperatives faces a tremendous challenge. On the one hand, there is a great need in Malawi for a financial system that can mobilize savings to meet social and economic development needs, particularly in rural areas. Many people currently do not have adequate financial services available to them. The cooperative financial system is basically a "self help" system and therefore offers an ideal approach to meeting this need.

On the other hand, the cooperative financial system in Malawi got started on the wrong foot. The first savings and credit cooperatives were organized as charitable organizations with the emphasis on obtaining easy credit rather than mobilizing savings. Little attention was paid to building self reliance through an economically viable cooperative financial system that could attract and manage local savings to meet the needs of members.

There are savings being generated in Malawi. Unfortunately, only a very small part of the total savings is currently deposited in the savings and credit cooperative system. Most appears to be deposited in commercial banks, postal savings accounts or with private individuals. The long term success of the savings and credit cooperative system will depend on its ability to attract and mobilize savings to meet the social and economic development needs of members.

The long term loan fund currently available from US AID can help develop self reliance in the system if it is used effectively. Hast in putting these funds out, without proper systems, procedures and controls in place, will only worsen the credit problems that currently exist.

This study was primarily focussed on MUSCCO. It was evident that board and management of MUSCCO have a real desire to build the cooperative financial system in Malawi as a self reliant, economically viable system. To do this means fundamental changes in the way things are done at all levels of the system. Changes in MUSCCO will only be cosmetic surgery unless steps are also taken to build local savings and credit cooperatives that are economically sound. A tree is only as strong as its roots and local societies are the roots of the savings and credit cooperative system. Their ability to manage the kind of financial operation that wins the support and confidence of people needing financial services, for savings or for credit, will determine the future of MUSCCO.

The following are the main observations and recommendations contained in this report.

1. A comprehensive business planning process must be developed for MUSCCO in early 1987 (see section V - recommendation).
2. Major improvements required in financial record systems in MUSCCO. The main recommendations are:

- 1 -

- (a) Regular monthly reconciliation of bank statements on all accounts. (V1-A-1).
 - (b) Consolidate all accounting functions in the accounting department. (V1-A-2).
 - (c) If funds are available, obtain a personal computer system for financial records, reports and word processing. (V1-A-2(b)).
 - (d) Staff travel advances need to be controlled more effectively. (V1-A-5).
 - (e) The sales journal needs to be brought up to date. (V1-A-11).
 - (f) Payroll ledger system needs to be developed. (V1-A-12).
 - (g) Inventory control system needs to be developed when the move to the new building is completed. This pertains to stock of supplies and equipment for resale. (V1-A-13).
 - (h) Proper insurance should be in place on vehicles, building, furniture, equipment, records, etc. as well as liability and fidelity coverage. It is recommended that the accountant be responsible for this function. (V1-A-15).
 - (i) Policies need to be in place to assure that the pension trust account meets all requirements of Malawi law governing tax deductible pension funds. (V1-A-16).
 - (j) Better cash management is required on the ACCOSCA risk management account. (V1-A-17).
 - (k) The accountant will need help to complete reconciliation of bank statements and to select the personal computer system most appropriate to meet MUSCCO's needs. The manager of the READI project has offered assistance which should be requested after the annual general meeting and the move into the new office building have been completed. (V1-A-18).
3. The general manager and board of directors require informative financial reports to direct and control MUSCCO's operations.
- (a) A quarterly comprehensive balance sheet with comparisons to budget and the previous fiscal year. (V1-B-1).
 - (b) A quarterly income and expense statement with comparison to previous year and to budget with written explanations of variances exceeding plus or minus 5 percent of budget. (V1-B-2).
 - (c) Other reports and statements required by board and management. (V1-B-3).

4. There is a need for a clearer definition of responsibilities between board, management and staff at MUSCCO. (V11-A).
5. An operations manual containing the by-laws, policies and procedures must be developed as a guideline for all MUSCCO staff. (V11-C).
6. New policies were drafted for two areas requiring immediate attention. These are a vehicle policy and a travel expense policy. A new expense account form was also drafted to more effectively monitor and control all travel expenses. (X-Appendices 1, 2 & 3).
7. There must be a well defined work plan for addressing local society development problems. Local society audits must be a top priority in the first four months of the year. (V11-D).
8. Performance standards must be set for staff and a regular performance evaluation procedure must be established. (V11-E).
9. MUSCCO should consider a change of auditor for the 1986 fiscal yearend. (V11-F).
10. Training is needed for management and staff on effective time management. Regular weekly management meetings are needed to plan day to day activities. When the financial records are updated and the required financial and statistical reports have been developed, MUSCCO should begin a comprehensive board/management planning procedure. It is suggested that this could start early in 1987. (V111).
11. Member education programs are required in all local societies to be sure that new members understand how a savings and credit cooperative works. (1X-A).
12. There is a need to clearly define roles and responsibilities of board, committees, and people responsible for administration in local societies. (X1-B).
13. There is an urgent need to improve the documentation and processing procedures for loans from local societies to their members and for loans from MUSCCO to its local society members. (1X-D).
14. Delinquency control is the most important issue confronting most local societies. Decisive action is urgently required. New loan policies which include collection policies are needed in local societies. Local leaders need to be trained in techniques for addressing this problem. (IX-E).
15. There is a need to extend the time frame for use of the long term loan fund being made available through USAID. Proper procedures and controls must be in place to assure that productive use is made of this resource to help develop self reliance in the system. (IX-F).
16. There is a need to build trust and confidence in the savings and credit cooperative system in order to attract potential savers as well as borrowers to become active members. (IX-G).

17. There is a need to recognize the minimum levels of economic viability in the organization of new local societies. Any new organizations formed should be started on a sound business basis. (IX-H).
18. There is a need to reconsider the development strategy to place more emphasis on mobilization of savings rather than credit. (IX-I).

II. TERMS OF REFERENCE

The following is the scope of work included in this study.

A. Work Description:

The consultant will review MUSCCO financial management control systems, budgeting, the central finance program, and design and document appropriate systems that can accommodate the expected growth of MUSCCO services.

B. Specific Duties:

The consultant will be responsible for providing services in the following areas:

1. Design financial management control system for MUSCCO.
2. Review MUSCCO budgeting and fund disbursement procedures, and recommend a system that can be acceptable and practical for MUSCCO and donor agencies.
3. Review MUSCCO central finance program and recommend operational procedures for short-term and long-term (agribusiness) loans.
4. Analyze and provide recommendations on:
 - Financial information systems at MUSCCO and credit union levels.
 - Organizational structure of MUSCCO and the flow of responsibilities.
5. Prepare a written report for MUSCCO and WOCCU that includes system designs, key issues, problems and recommendations.
6. Undertake such other activities consistent with achievement of consultancy objectives as requested by WOCCU project manager or his designee.

III. WORK PLAN

1. Pre-Departure

July 16 - 20

- (a) General orientation at WOCCU.
- (b) In transit review of all relevant documentation obtained at WOCCU.
 - Project objectives and design
 - Studies, evaluations, progress reports, etc.
- (c) WOCCU Project Coordinators perception of problems and areas needing attention.

2. Week One

July 21 - 27

- (a) Review documentation not available at WOCCU (Price Waterhouse study, audit reports and management letters).
- (b) Develop understanding of environment (economic, cultural etc.)
- (c) Assess strengths and weaknesses of management personnel and support services available.
- (d) Develop understanding of existing systems for documentation, processing and use of data for Board/Management information and control (budgets, financial reports, control of costs, processing of loans, control of delinquency, etc.)
- (e) Review internal accounting and control procedures.
- (f) Obtain views of Management, Advisors, READI Project Coordinator on main problem areas and action steps (if any) currently underway.
- (g) Review Management work plans for immediate future (institutional growth plan, perception of development priorities, etc.)

3. Week Two

July 28 - August 3

- (a) Analysis of data relevant to assignment.
- (b) Work with management in design of improved management information and control systems relevant to key performance areas of the Credit Union system.

1. Expense controls (budgets, statements, etc. required for management control)
 2. Administration of Central Finance loan fund
 - (i) Processing of loans
 - (ii) Monitoring
 - (iii) Control of delinquency
 3. Control and direction of Field operations
 4. Systems for effective financial planning
- (c) Visit two sample Credit Union's with Long Term Loans
- (d) Meet Registrar and Auditors
- (e) Prepare financial statement to June 30th and budget to year end.
- (f) Preliminary review of findings with Don Henry of READI project.
- (g) Meet Executive and Board to outline general approach and observations to date.

4. Week Three

August 4 - 8

- (a) Address any other concerns arising out of analysis
- (b) Prepare draft of report
- (c) Review relevant areas with each member of management team to discuss implementation procedures, time frames, etc.
- (d) General review with total management team, Don Henry of READI Project and USAID.

September 9, 10 & 11 Review of draft report with WOCCU and General Manager of MUSCCO in Madison Wisconsin.

September 24 - October 3 Preparation of final report.

October 3 Submit final report to WOCCU and MUSCCO.

IV. PROCESS

A. Data Gathering:

1. Review of all project documentation available at WOCCU and MUSCCO offices.
2. Interview with READI Project management, resident project advisors and with each individual member of the management team at MUSCCO.
3. Attendance at staff training seminar, staff meeting, executive meeting and board meeting.
4. Visits to two selected local savings and credit cooperative societies -- one considered class A and the other with operating problems. Both had participated in the long-term loan program. Also visits with individual recipients of business development loans.
5. Review of files, records, reports, plans in each department of MUSCCO and the general manager's office.

B. Analysis:

Used a critical path analysis procedure to identify priorities and group them in categories that could be managed in the available time.

- C. Prepared a report identifying problems in each area and recommendations for change.
- D. Reviewed proposals for change (new directions, policies, procedures, etc.) with the general manager, management in each department and presented a general overview to the executive and board of directors.
- E. Worked with management in designing plans and a time frame for implementation.
- F. Worked with the general manager and president to develop an interim management structure to assure that implementation procedures would be in place during the absence of the general manager for four months training in the United States.
- G. Held a full management team meeting to review and discuss contents of the entire draft report.
- H. Prepared final report for WOCCU, MUSCCO board and management after returning to Canada.

V. GENERAL OVERVIEW

The Malawi Union of Savings and Credit Cooperatives is in the process of transition. The first savings and credit cooperatives in Malawi were developed by church leaders. Somehow the organizers left the impression that these were "poor peoples" organizations -- a place where it would be easy to make a loan and a place that would be informal (folksy) and charitable. Hence, the motivation to join local societies was to be able to borrow money easily when needed. Little or no emphasis was placed on the need to save.

Now the organization has received capitalization for a major long-term loan program for agricultural and rural business development purposes. This is intended to move the organization from the donor supported charity environment toward a self-help, self-reliant cooperative financial system which is a good place to save money; a place that uses member savings wisely in making provident and productive loans to members who need and qualify for them; an organization that builds confidence of "savers" by using a business-like approach to managing their savings. The challenge is to attain that goal without losing the "people first" orientation.

This study has attempted to identify and prioritize the main areas needing attention. The report is written for internal use by management and board rather than being directed toward the interests of funding agencies. The management and board involvement process was designed to develop the knowledge, skills and attitude required to implement needed changes. They will need support in this process and there will be a need for outside resources to assist in follow-up, but hopefully the base has been laid to begin implementing needed changes immediately.

Four areas were identified as requiring action:

1. Financial records and reports
2. Monitoring and control systems
3. Budgeting and planning process
4. Loan processing, documentation, delinquency control, collection procedure and other local society development issues

Recommendations contained under each section were reviewed in detail with management, first in respective responsibility areas, and then in a meeting of the total management team. Since the general manager will be in a training program in the United States for the next four months, steps were also taken to assist him in putting in place the kind of interim management structure that assures no delays in implementation of these changes while he is away.

Recommendations

The board and management do not have a clear vision of what they want MUSCCO to be in the future. A comprehensive business planning process must be introduced and used to develop work plans and programs to meet defined

development goals. This process should commence soon after the general manager returns from his training program in the United States. A two or three day board/management corporate planning workshop in late January, or early February 1987 would seem to be an appropriate place to start. It could be added to the first quarter board meeting when year end results are considered. An outside resource will be needed to handle the planning process for the workshop.

VI. FINANCIAL REPORTS AND RECORDS

A series of interrelated problems were identified in this area:

- a. Board and management have not had complete financial statements for well over a year and statements were not designed to provide the information needed by people responsible for managing a financial organization.
- b. The 1984 and 1985 yearend auditor's reports just arrived in June, 1986. They are also not structured to be useful for those managing a financial organization.
- c. A major fraud involving the previous bookkeeper and a bank employee was discovered in October 1985. While the people responsible were dismissed and MUSCCO has since been reimbursed by the bank for the amount identified by bank inspectors and auditors as being stolen, the bookkeeper position in MUSCCO was not replaced until July 9, 1986. The general ledger had not been updated since 1985 and many other records were incomplete.
- d. There was no evidence of bank reconciliations being done on the MUSCCO's main operating account. Doing this now is complicated by the fraudulent transactions in the bank account and fictitious entries in the books for a period extending from sometime in 1984 until the last fraudulent bank entry in January 1986.
- e. A Peace Corps volunteer, Mike Walker, developed an acceptable accounting policy manual and a synoptic system for recording receipts and disbursements. Unfortunately, he had to leave for home in March 1986 before implementation could take place.

MUSCCO now has a qualified accountant who did more to bring records up-to-date in three weeks than had been done in the past year. Auditors recommendations of the last two years were reviewed and then a plan of action was developed to address priorities and implement needed changes.

The first priority was to create a reasonably accurate income and expense statement for management to present to the board at a meeting held August 1. There will undoubtedly be adjustments required as records are completed. We used this opportunity to introduce a new statement format (see report section) which provides an opportunity to monitor results, to compare to budget and to determine the reasons for variances. The statement was presented to the board and management by the new accountant and was very well received. I also presented a draft of a proposed new balance sheet structure to the board meeting and conducted a training session on understanding a balance sheet (see report section).

The following is a review of work done and recommendations for follow-up action on records and statements:

A. Records

1. Bank Statement Reconciliations

We attempted to do a bank statement reconciliation for the period January 1 to June 30, 1986 using the auditors 1985 yearend audit working papers as a base. This did not work. Because of the problems previously identified, the auditors yearend cash balance figure is somewhat suspect and the nearest we could come was a difference of over K1500 between book and bank balances. We developed complete records of work done to provide an easy audit trail in 1986. However, the absence of previous bank reconciliations made it difficult to determine how far back we would have to go to account for the difference. The problem was complicated by the fraudulent entries in 1984 and 1985. Since time did not permit completing the reconciliation, the steps outlined in the following recommendations were set out to complete the job.

Recommendations

- a. Use the figures the accountant and I came up with as a base for development of the records from July 1, 1986 onward.
- b. Immediately following the move into the new building (expected around August 18 - 20), give top priority to resolving this problem. Don Henry has offered the assistance of a CPA from the READI Project to help do this work. If the difference between book and bank balance can be reduced to a reasonable amount of say K400-500 with further work, I suggest the balance be written off. It could take weeks to try to track down the entire amount, given the state that records were in.
- c. When this is finalized, the general ledger must be brought up-to-date and adjustments will have to be made to provide an accurate record from the beginning of 1986 onward.
- d. Statements along with cleared items for all MUSCCO accounts should be in the accounting department. Bank statements and bank balance must be reconciled monthly on each account. In light of problems experienced in this area, the accountant and the general manager should date and initial the general ledger and bank statements each month when reconciliations have been done. Bank statements with cleared items should then be filed together in the accounting department for each account. This provides an easy audit trail.

2. Consolidate Accounting Functions in Accounting Department

In the process of preparing the June 30 statement and attempting to reconcile the bank statement, it became obvious that there is no system for handling, processing and recording all incoming and outgoing financial transactions in one place. This is due to operating without an accountant for over eight months.

Each department was maintaining separate accounting records for their area of responsibility. Bank statements for various accounts were located in the offices where these funds were managed. Accounts receivable records for membership dues were in one office, risk management insurance in another office, and other accounts receivable in another office. In the absence of a consolidated financial statement for MUSCCO, the central fund management was producing a monthly statement of income and disbursements on the central fund account.

As a result, management of each department was spending considerable time on routine bookkeeping and accounting functions. Each operating department had plans to add a bookkeeper to help do the routine maintenance of accounting records in their department.

Establishment of a proper accounting function in MUSCCO should eliminate the need for department managers to spend their time or to add staff to their departments for accounting functions. Splitting the accounting functions in a small organization like MUSCCO is inefficient and costly. It should be the responsibility of the accounting department to maintain all financial records and produce the kind, quality and frequency of reports required by management of operating departments to manage their functions and for the general manager and board to direct and control the operation.

Recommendations

- a. That all accounting functions be handled in the accounting department including maintenance of all financial records and the preparation of required consolidated and subsidiary financial statements and other reports.

Department managers need to maintain certain records in their offices to manage their respective departments, but should leave accounting functions to the accounting department. Managers should be able to depend on this department to give them the financial information needed to manage their departments.

- b. If funds are available, computerize the financial record system as soon as all records are updated.

There is a need for a personal computer system to improve the quality and timeliness of financial records and reports, word processing, preparation of local society audit reports, improved record filing and retrieval. A number of other management information requirements could also be met through the introduction of compatible computers systems to process these functions. A new generation personal computer system would seem to be the most cost-effective approach to meeting this need. The new accountant is experienced in working with computerized accounting systems and could easily be trained to use a personal computer system.

READI Project office has an IBM PC system and has offered to make available software and support staff training. It is recommended that as soon as the financial records have been updated, an IBM compatible PC be acquired. It does not have to be IBM, but it should be able to use IBM software. One machine with sufficient capacity to handle LOTUS 1, 2, 3, word processing, and other advanced software would be a start, although two units would be preferable. This would provide more opportunity for training support staff on the use of computer systems and application to most accounting and word processing functions in the office. One letter quality printer and one regular printer should meet the needs of MUSCCO's office at this time.

- c. A careful selection process is important to assure that MUSCCO starts with the right computer equipment to meet its present and emerging needs.

Assuming funding can be obtained, the process of purchasing the appropriate equipment is important. The following steps are suggested:

- (i) The READI Project person helping to update records will be able to help define the specific areas for immediate application. Some identified in this study include all accounting subledgers, the general ledger, personnel records, word processing and preparation of various statistical reports needed by management. Later applications would include local society audit reports and delinquency reports.
- (ii) When the needs are defined, invite local suppliers to send a technician (not a salesman) to examine the proposed applications and recommend the systems best suited to meet the need. Last, but not least, obtain a price quote and information on the installation and other services available from their company. Tenders should be obtained from at least three suppliers and should be in writing.
- (iii) Selection criteria would be:
 - capacity to do the immediate job and to be expanded to meet the evolving needs of MUSCCO
 - flexibility
 - ability to handle IBM software
 - price
 - ability to handle fluctuating power supply
 - local servicing capability

3. Purchases and Creditors Ledger

The system for handling incoming cash, purchase authorization and payment appears to be working quite well. The new accountant has implemented any changes recommended previously by auditors.

All invoices are now recorded as received by the secretary and routed to the accounting department. They are recorded in the purchases register and in the appropriate ledgers. A control account registers the number of invoices received. The information is also structured so that it eliminates the need identified by auditors for a separate accounts payable and nominal accounts ledgers.

4. Accounts Receivable

It is recommended that the accounting function for all accounts receivable be handled by the accounting department. It is the responsibility of the accounting department to produce the kind, quality and frequency of reports required by department managers to manage the areas for which they have responsibility.

5. Staff Travel Advances

The present policy is to provide an advance of K200 for each staff member who regularly must travel in the course of his work. When the person begins to run low on funds, he files an expense account. A check is issued to bring the advance back to the K200 level. Special advances are provided to finance functions such as regional seminars and are supposed to be accounted for immediately after bills are paid for the function.

In addition, a staff loans account (called staff advances in the yearend statement) was maintained for small loans to staff. The problem is that neither of these accounts have been effectively monitored or controlled. The amount outstanding in travel advances (travel imprests) has grown from K2622 at 1983 year-end to K6443 at the end of 1985, mainly as a result of advances for special functions not being cleared-up as required in the policy. A new savings and credit cooperative is currently being organized for staff of MUSCCO and a number of related organizations. This will eliminate the need for staff loans.

The following recommendations should be implemented immediately:

- a. Eliminate the staff loans account as soon as the new savings and credit cooperative for staff is operational.
- b. Rigidly enforce the policy to maintain outstanding balances of each staff member within the K200 limit except for special occasion where a short-term special advance might be granted. This should be accounted for as soon as the function is complete.

- c. There are four outstanding balances well in excess of the limit that have been outstanding since prior to yearend 1985. Some payments have been made. Steps should be taken by the general manager to have all advances in excess of policy cleared up before 1986 yearend. An orderly repayment arrangement may be required in some cases that have been allowed to get out of hand. It will mean working out an acceptable arrangement with each person concerned to clear it up by yearend. Balances remaining at yearend 1986 should be set up as a special loan with regular payments deducted directly from salary and interest charged at not less than 18% (comparable to local lending rates).
- d. Auditors should obtain staff signature at yearend to verify outstanding balances.
- e. The proposed new travel expense report form (outlined in the monitoring and control section of this report) and the proposed new policies governing this area, should be implemented as soon as possible.
- f. The accountant should maintain a simple control ledger on this account and report any deviation from policy to the general manager any time there appears to be a problem.

6. Member Dues

All of the accounting for member dues should be done in the accounting department with a proper control ledger. A monthly statement of dues outstanding should be prepared for management. A quarterly aged statement should be prepared listing local societies with dues outstanding for the current year and past years. This will provide management and board with the information required for follow-up action.

7. Member Risk Management Insurance Premiums

The accounting and reporting system for this area should be handled in the same way as proposed for member dues.

8. Member Outstanding Accounts for Purchase of Supplies and Equipment

A control ledger should be maintained in accounting with an aged statement prepared for management quarterly.

9. Other Accounts Receivable

This ledger is for all other miscellaneous accounts and should be managed by accounting.

10. Member Share Account Records

The present policy is to have every member society deposit 5% of their member share balances into shares in MUSCCO central fund. Local societies file monthly financial statements with MUSCCO and central fund management extracts on a quarterly basis the data required to advise local societies of the deposits required to maintain their required share capital in MUSCCO.

A control ledger of this account should be maintained in accounting. Quarterly statements should be prepared for management listing all the local societies by region, their current share capital in MUSCCO and the amount of deficiency or excess. This will give management the information required to follow up as required with local societies.

11. Sales Journal

MUSCCO has an adequate sales journal, but it needs to be brought up-to-date. A quarterly statement should be prepared showing the summary of purchases, sales and changes in inventory for the previous period. This will tell management whether they are making or losing money on sales of supplies and equipment to member societies.

Some supplies are now charged out to field staff for use in local audits and then nominal fees are sometimes charged for the audit, presumably to cover these costs. There does not appear to be a consistent policy on this.

It is recommended that supplies for audit purposes be consistently charged to local societies. The matter of whether or not there should be a fee for audit services is a separate issue.

12. Payroll Ledgers

The accountant has prepared a master sheet with salaries, fringe benefits, deductions, etc. on it. There is a need for historic records for each employee which indicates date of employment, date of last adjustment, current salary, fringe benefits received, deductions made, date for salary and performance review, date of eligibility for fringe benefits, etc.

Recommendations

- a. Develop a ledger card system to record each employee's basic salary, fringe benefits and deduction information for the current fiscal year.
- b. If a personal computer system is introduced, transfer the records to a computer file. There are some excellent software packages available that provide both personnel management and payroll information within the same system.

I can probably obtain a program which can be readily adapted to MUSCCO's needs free-of-charge if requested.

13. Inventory Controls

It was difficult in the old congested office facilities to have an effective system for inventory control. A system for control will be introduced by the accountant when the move is made into the new building. While the stocks of supplies and equipment for resale are not large, they need to be managed to avoid losses on inventory.

14. Breakdown of Receipts for Societies by Purpose

The 1984 and 1985 auditor's report recommended that when receipts are issued for payments received by MUSCCO from local societies, the receipts indicate clearly what the payment was for. If a payment covers more than one item, a breakdown should be provided on the receipt listing the separate items covered.

This recommendation has now been implemented.

15. Insurance

At the time of this study, the only insurance carried by MUSCCO was on vehicles. There was no insurance on office facilities and equipment, no liability and no fidelity insurance. MUSCCO had not taken possession of the new office building (Frontline House) but renovations for occupancy were underway and the effective date for transfer of ownership to MUSCCO was to be January 1, 1986 with adjustments for income and expenses to actual date of possession. In the meantime, the existing insurance coverage on the building had expired on June 1, 1986.

Recommendations

- a. Responsibility for all insurance coverage should be in the accounting department.
- b. Records of renewal dates on vehicles should be maintained in accounting to assure that no policies are allowed to lapse.
- c. A comprehensive policy covering the building, office records, furniture and equipment for fire, theft, vandalism, etc. as well as liability coverage is required immediately and bids should be obtained from potential suppliers to assure the best coverage is obtained at the right price.
- d. There is a need for fidelity insurance covering officers and staff of MUSCCO. This should be discussed with ACOSECCA with a view to obtaining the coverage required through CUNA Mutual and extending the program to local societies in Malawi as well.

16. Pension Trust Account

This is an internally managed account maintained as a pension fund for employees. It is a contributory pension plan with somewhat loosely defined policies.

Recommendation

- a. An investigation should be undertaken to assure that the plan is structured to meet all requirements of Malawi law governing tax deductible pension funds.
- b. Policies need to be reviewed, completed and made available to all participating employees. Policies must address eligibility, contributions, investment management, refunds and/or withdrawals for current or terminating employees and retirement benefits.

17. ACCOSCA Risk Management Accounts

Deposits are made directly to this non interest earning account by local societies for insurance premiums due. Cheques drawn on the account for claims settlement, require the signature of a MUSCCO and an ACCOSCA signing officer. The concern is that there are often large amounts of money (K5000 - 8000) in this account earning no interest.

Recommendation

Improved cash management is needed. Two alternatives should be considered:

- a. All premium payments to be made by societies to MUSCCO and only transferred to the ACCOSCA account to meet payouts as required. If this is feasible, the interest earnings would accrue to MUSCCO.
- b. Deposits directed into an interest bearing account controlled as at present with transfers to the chequing account as required to meet payments. In this case, interest earnings would accrue to the ACCOSCA risk management insurance program.

18. Need for Assistance

Most of the responsibility for follow-up on recommendations in this section rests with the accounting department. The accountant will need assistance in getting the system set up.

Don Henry has offered help from the READI Project for this. This help should be requested after the annual general meeting and the move to the new building have been completed so that there will be a minimum of disruption.

Recommendation

Assistance should be requested in three areas -- bank account reconciliations, the purchase and introduction of personal computer systems and the preparation of the third quarter balance sheet and income and expense statements. This will be the first attempt at producing a balance sheet other than the one produced by auditors at yearend. I feel confident that the new accountant can handle all other recommendation pertaining to financial records and reports.

B. Reports

1. Balance Sheet

The following draft was used for training purposes at the board meeting. The concept and notes were reviewed in detail with the accountant who will be refining the format and using it for the third quarter report.

LIABILITIES

	This Year	Last Year	Budget		This Year	Last Year	Budget
Cash on hand				Outstanding Cheques			
Checking Acct.				Member Deposits			
<u>Investments</u>				- Short-Term (30 days or less)			
- Short-Term				- Long-Term			
- Long-Term				30 day - 1 yr.			
				2 yr.			
				3 yr.			
				5 yr.			
<u>Loans to Members</u>							
- Short-Term (up to year)							
- Long-Term 2 yrs.							
3 yrs.							
4 yrs.							
5 yrs.							
over 5 yrs.							
<u>Accts. Receivable</u>				<u>Accts. Payable</u>			
- Dues							
- Other Member Accts.							
-Staff Advances							
-Other debots							
<u>Stocks</u>				<u>Contributed Capital</u>			
- Stationery &Supplies				- WOCCU			
-Equipment				- USAID			
				- Africare			
				- Konrad Adenaur Foundation			
				- Other			
<u>Fixed Assets</u>							
- Building							
-Vehicles							
- Furniture & Equipment							
Other				<u>Members</u>			
TOTAL				Shares			
				Reserves			
				Undivided Surplus			

Notes on Proposed Balance Sheet Structure

Creating a balance sheet presentation that is easily understood by people who do not have an accounting background is an important step in establishing an effective financial information system for a savings and credit cooperative organization. All of the other financial statements become supporting documents for information contained in the balance sheet.

The draft of a proposed presentation for MUSCCO is designed to achieve the following:

- a. Easy for board and management to understand and to use to monitor progress, establish direction and control.
- b. Provides a tool to use in managing liquidity--it is easy to determine assets that can be readily converted into cash to meet demand (payroll, accounts payable, capital drawdowns by member depositors, etc.).
- c. It provides the basis to begin effectively matching assets and liabilities. This will become increasingly important as MUSCCO's loan portfolio grows.

The following are supporting statements required:

1. Investments -- in order to prepare a meaningful budget, projections are required on expected cash requirements throughout the year - Effective cash management will require a short- and long-term investment strategy that compliments expected loan demand and maximizes interest earnings on cash flow generated from interest and principal payments on loans.
2. Contributed Capital -- MUSCCO has received two types of support from donors - capital grants for the purchase of fixed assets and operational grants to help cover operating expenses. Records must be maintained of amounts received in each category--cumulative, to-date annual, committed, etc.
3. Member Shares -- The policy requires member societies to maintain 5% of their outstanding shares as shares in MUSCCO. A sub ledger is maintained and local societies are advised on a quarterly basis of any increases required. A statement should be available to the board on at least a semi-annual basis so that they can monitor progress or detect any problems in implementing this policy.
4. Income and Expense Statement -- The draft statement is designed to provide the following information:
 - a. The annual budget as the benchmark for assessing results.
 - b. The actual results for the year to date.
 - c. A comparison with the same period in the previous year.
 - d. The actual results for the quarter.
 - e. The budget for the quarter.

- f. The statement is structured to group major areas of income and expenses and provide sub-totals for each. Ledgers should be organized to provide an easy flow of information from records to the statements. Some items should be broken down in support statement. these are listed following the draft statement.
- g. The plan should be to provide the general manager with an income and expense statement monthly and a complete balance sheet along with income and expense and all other listed subsidiary reports quarterly for general manager and board.

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MUSCCO Income and Expense Statement
as of _____ 19__

(Numbered items have explanations attached)

1.

INCOME	19__ Budget	Year-to-date		This Quarter		Variance	
		This Year	Last Year	Actual	Budget	+ better	- worse
Interest earned							
2. -investments						K	%
-member loans							
3. Member dues							
4. Insurance sales							
5. Stock sales							
6. Service Charges							
7. Rent							
8. Other							
TOTAL							
EXPENSES							
9. Payroll							
-salaries							
-fringe benefits							
-relocation							
-allowances							
10. Staff Travel							
-vehicles							
-lodging							
-meals							
-public transport							
Meeting and Conferences							
-annual meeting							
-national seminars							
-regional seminars							

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11.	-international						
	-staff training						
	Building						
12.	-rates (taxes)						
	-utilities						
	-maintenance						
	-insurance						
	-security (?)						
	-Other						

25.

Notes on Draft - MUSCCO Income and Expense Statement

1. Variance - A board policy decision is needed to decide the percentage variance from budget either plus or minus, that should be explained, It is recommended that MUSCCO start with a policy requiring written explanations for amounts more than five percent plus or minus budget. Explanations should be prepared by the manager accountable for the function.
2. Interest Earned - Two support statements are required quarterly by the general manager and board:
 - a. Breakdown of investments and loans to member societies by term e.g. -Investments - daily interest, terms up to one year, etc.
-Loans - up to one year, one to two, two to five, etc.
The actual breakdown required will have to be evolved as investment and lending functions mature.
 - b. Breakdown of delinquency on loans. Aging categories will have to be refined as the process matures.
3. Member Society Dues - a quarterly report should be prepared for the general manager and board on dues outstanding.
4. Insurance Sales - a quarterly report should be prepared for the board and general manager on any local society delinquency in the payment of risk management insurance fees.
5. Stock Sales - Figures reported should be net. A support statement is required showing inventory changes (purchases and sales) and net profit for each period. This is needed to establish policy on gross margins to be charged for providing this service.
6. Service Charges - This includes income from audit fees, seminar fees or other service fees charged by MUSCCO. Only an annual breakdown will be required for budget and planning purposes.
7. Rent - A separate building operations statement should be prepared quarterly showing operating and maintenance costs and rents collected. This will tell the general manager and board what the net occupancy costs are. Operating costs would include rates (taxes), utilities (water, electricity, etc.), repairs and maintenance (general upkeep costs), janitor services (cleaning), security (guards) insurance and any other incidental items. There is no need to include depreciation as this is a fixed cost not requiring an outlay of cash. These items less any rental income will provide net costs of occupancy.
8. Other - This should never be a large item. If any other significant income generating function emerges, it should be listed as a separate item.
9. Payroll - payroll ledgers must be maintained with a separate card for each staff member showing current salary and fringe benefits (housing allowances, insurance, leave grants, pension, etc.) and deductions made for income tax or fringe benefits where the employee pays part of the cost. This should be updated each period. This provides an historic

record during each fiscal year of all costs associated with each person on the payroll and all deductions made.

Control sheets are required on gross salary costs per pay period, pension, insurance, housing allowances, etc.

Any adjustments authorized in salary should be in writing initiated by the general manager with a copy for his personnel file and one to accounting for processing. The date of the last salary adjustment should be recorded on each staff members card so that the information is available for management when salary reviews are required in the personnel policy. (e.g., end of probationary period, etc.) The accountant should advise the general manager of when reviews are required.

The general manager and board will want a statement periodically (suggest semi-annually) providing a breakdown of payroll costs, particularly fringe benefits. Since housing allowances are such a significant item, they may wish to have them reported separately on the income and expense statement.

10. Vehicles - a new expense report form (see monitoring and control section) will breakdown vehicle operating costs ("gas and oil", "repairs and maintenance" and "other" which includes insurance, licenses, etc.) It will also require a record of total and personal kilometers driven per week.

Draft policies have been prepared for board consideration to set limits on use for personal travel and charges to be made for it.

Accounting should maintain records of total kilometers and costs by category for each vehicle. Management checks periodically can verify accuracy of kilometers reported by staff on expense reports. This will provide data on fixed and variable costs of operating each vehicle to calculate costs per kilometer driven and to monitor costs of different drivers, different kinds of vehicles, etc.

The board and general manager should receive a quarterly statement which breaks down vehicle expenses by category for everything other than depreciation.

11. International Meetings and conferences outside of Malawi including costs of attending the ACCOSCA biennial.
12. Building - all operating costs associated with occupying the new building including rates (taxes), utilities (water, electricity, etc.), maintenance (all incidental repairs and maintenance that should not be capitalized, cleaning services, etc.) and other (which can include rents paid this year which will disappear from next year's statement), security and miscellaneous expenses.
13. Board Expenses and ACCOSCA Dues - These items could be shifted over as separate items under "Meetings and Conferences" if you so wish. That is a management decision.

14. Audit Fees - It is recommended that audit fees and any other charges for service from auditors be combined. The board should annually review audit services received, make a decision on the selection of an auditor (present or an alternative) and negotiate an acceptable fee.
15. Interest and Bank Charges - As the organization grows, it should attract more short-term deposits from member societies and it may require a bank line of credit or other outside borrowings. At that time, a separate item should be set up for interest expense. At present, the amount is not significant.
16. Miscellaneous - This item should never be allowed to become too large. A separate item should be set up under the appropriate sub-heading if it becomes significant.
17. Regional Offices - It is important to separately identify any costs associated with maintaining regional offices to monitor costs and to determine whether or not they are really needed for effective field services.
18. Total Expenses Requiring Cash - All the expenses listed above this heading require cash. The most practical headings and sub-headings to be used can be determined through actual use of the statement. Needs will change as the organization grows. The important thing to remember is that the purpose is to provide management and the board with the significant financial information required to direct and control the operation. Needs will change and the financial information system must evolve to meet changing needs.
19. Bad Debt Expense - Management will have to determine from the delinquency report and an examination of accounts receivable what allowance should be made for possible loss. This amount should be set up in the books as a bad debt allowance--broken down as to amount of possible loss expected on each item. If collection is successful, the charge can be reversed. Each yearend the board should decide (upon management recommendation) if some of these items should be written off as uncollectable.

When this is done, adjustments will have to be made to the items affected on the balance sheet (accounts receivable, loans, reserves, etc.) Write-off does not mean efforts to collect cease. It simply makes sure the statements accurately reflect the financial condition of the organization at a specific point in time. If there are subsequent collections on write-offs, reverse entries can be made. An estimate of bad debt expense will have to be made at the beginning of the year for budgeting purposes.
20. Depreciation - The accountant will have to calculate depreciation at the beginning of each year for budeting purposes and plug the amount into each quarterly statement for reporting purposes.
21. Reserves - The policy requires setting aside of certain reserves each year. These must be deducted before determining net surplus/deficit from operations.

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MUSCCO Income and Expense Statement (cont.)

	19__ Budget	Year-to-date This Year	Last Year	This Quarter Actual Budget	Variance + better - worse
INCOME					
<u>Office</u>					
-telephone					
-postage and telex					
-stationary and supplies					
-Other					
<u>General</u>					
<u>Board expenses</u>					
13. <u>ACCOSCA dues</u>					
14. <u>Audit fees</u>					
<u>Legal fees</u>					
15. <u>Interest and bank charges</u>					
<u>Advertising</u>					
16. <u>Regional Offices</u>					
17. <u>Miscellaneous</u>					
18. <u>Total of above expenses</u>					
<u>Non-Cash items</u>					
19. <u>Bad debt allowance</u>					
20. <u>Depreciation</u>					
TOTAL EXPENSES					
Surplus/Deficit					

2/24/68

21. Reserves					
Net surplus/deficit from operations					
Contributed funds					
-KAF					
-USAID					
-AFRICARE					
-OTHER					
NET SURPLUS/DEFICIT					

List of Reports Needed for Effective Management Control

	Frequency	Prepared By	For	Needed	Available Now
1. Understandable balance sheet	quarterly	acct.	G.M. and board	x	
2. Income and expense statement	monthly	acct.	G.M.	x	
3. Income and expense with comparison	quarterly	acct.	G.M. and board	x	
4. Loans to members--growth by term--compared to budget	quarterly	CFO	G.M. and board		x
5. Aged loan delinquency report	quarterly	CFO	G.M. and board		x
8. Aged insurance delinquency report	quarterly	MFS	G.M. and board	x	
9. Dues payment records	quarterly	MFS	G.M. and board		x
10. Building operations	quarterly	acct.	G.M. and board	x	
11. Fixed asset depreciation	annually	acct.	G.M. and board	x	
12. Contributed share capitol	quarterly	CFO	G.M. and board	x	
13. Sales of stock	quarterly	acct.	G.M. and board	x	
14. Staff fringe benefits	semi-annual	acct.	G.M. and board	x	
15. Vehicle operating expenses	semi-annual	acct.	G.M. and board	x	
16. Membership statistics	quarterly	MFS	G.M. and board		x
17. Field service statistics	quartlery	MFS	G.M. and board	x	
-audits					
-seminars					
-study groups, etc.					

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18. Local society statistics	quarterly	MFS	G.M. and board	x
-- A, B, & C				
--membership				
--shares				
--delinquency				
--growth				
--new study groups				
--financial statements				
19. Progress re work plans	quarterly	G.M.	board	x
20. Performance evaluations	annually	G.M.	board	x

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VII. MONITORING AND CONTROLS

MUSCCO started with one asset - people. With external funding, a development strategy was implemented which focussed on promotion, education and growth.

Today MUSCCO has three types of assets to manage -- people, fixed assets (vehicles and building) and money. The organization now requires more formal systems for monitoring and evaluating performance, clearly established standards for performance and more effective control of costs.

With additions in staff, more vehicles have been acquired, increasing the importance of controlling expenses in this area. Now a new fixed asset, the Frontline House, has been added at a cost of around K200,000. Effective administration of fixed assets is becoming increasingly important to the success of the organization.

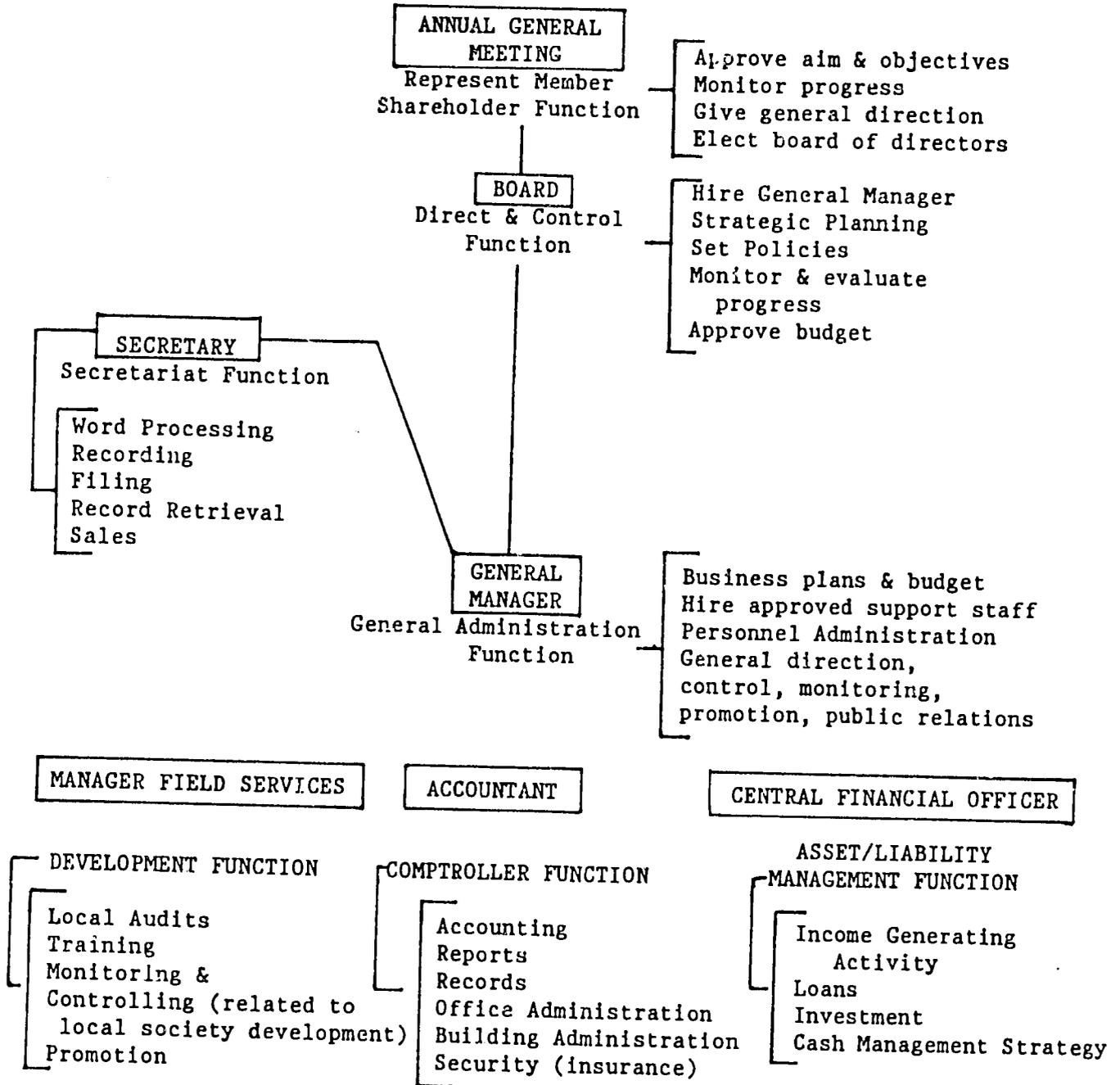
The K500,000 long term loan fund will move MUSCCO out of the loose knit, informal environment of an organization focusing on promotion and development to the more disciplined type of structure required in the management of a financial cooperative system -- a system where effective money management and time management are essential ingredients in being successful.

Recommendation

A. Clearly Defined Responsibilities

One of the problems that became evident in the study was that areas of responsibility have not been clearly defined between board, executive, general manager and department managers, e.g. executive involvement in selection of an assistant fieldman; individual staff salary discussions at board level; only board members as authorized signing officers for checks; and the delegation of responsibility in the current management structure. For the organization to function effectively in its emerging role, there must be more clearly defined areas of responsibility and accountability in the organizational structure. The following is an outline of a distribution of functions that seems appropriate at this time. It can be refined as a board/management business planning system is introduced into the organization.

GENERAL DISTRIBUTION OF FUNCTIONS



The distribution of functions shown in the chart is for general example purposes only. Details of an organization chart with proper delegation of authority and responsibility can be evolved out of the board/management planning process and should also include a clear definition of the role of the chairman of the board, the executive and other board committees.

Within the management structure, the main function was development when MUSCCO was starting. In MUSCCO's emerging role as a financial cooperative central, the comptroller and the asset/liability management functions are equally important to the successful attainment of objectives.

1. Development Function - This is the area where most expense will be incurred. It includes activities related to the development of local societies as the roots for MUSCCO's emergence as a central for a self-reliant cooperative financial system.
2. Comptroller - This is the control area where financial records are maintained and reports are generated for monitoring and controlling income and expenses. Administrative functions for the office, building and security also seem to fit into this area.
3. Asset/Liability Management Functions - This is the income generating area that must manage lending and investment activity as well as the related liabilities (deposit gathering, share capital, etc.) to maximize returns and to meet liquidity requirements.
4. Secretary - This area should have responsibility for all word processing, recording and filing. (Finding things that have been filed is a major problem in the current system.) The inventory control/stock sales function can either be allocated here or in the accounting (comptroller) area.
5. General Manager - This includes the usual functions of a general manager plus the personnel management function as MUSCCO is not large enough to warrant separate staffing for the personnel function.
6. Each department manager should have full responsibility for supervising staff in his/her respective area. Hiring/firing should be done in consultation with the next level above. Other functions of performance evaluation, directing, disciplining, recommending salary adjustments, etc. should be the responsibility of the immediate supervisor.
7. The executive and board should approve the management structure and the positions to be filled at each level. They should also approve the personnel policy and salary ranges for each level in the organization. The placement of staff in their respective ranges should be a management decision within the guidelines provided in the personnel policies and budget approved by the board. The hiring/firing of the key management positions reporting to the General Manager should be done in consultation with the executive. All other positions should be handled as set out in number six.
8. The salary range for positions at each level of the organization should be related to the level of responsibility and accountability of the position. Two main factors apply at MUSCCO - responsibility for managing people and money. Placement of people within their respective salary ranges should be based first and foremost on

Performance. Length of time on the job and other factors should be secondary considerations.

B. Investment Policy

As MUSCCO's loan portfolio grows, the importance of matching assets and liabilities (yield/cost and term) and of maintaining liquidity will become increasingly important. Investments strategies will be required. Lines of credit may be needed to meet short term cash requirements. These are important aspects of asset/liability management. The first step is an investment policy to maximize yield while managing cash to meet demand for short term credit by member associations. The policy will have to be refined as funds being disbursed through the long term loan program begin to revolve in the central fund.

C. Operations Manual

MUSCCO has on file an operations manual, prepared through ACCOSCA, which is not being used. Some staff who should have regular access to it for their work, were unaware of its existence. The document itself is very detailed and needs adaptation to meet the current needs of MUSCCO.

MUSCCO has developed a very good Central Finance Policy and a start has been made on policy development in other areas. What is needed at this time is a well planned approach to preparing an operations manual that contains all policies and procedures pertaining to MUSCCO's operations. The document must be readily accessible to staff involved in the day to day operations and there must be regular training on its content and use, particularly for new staff.

An operations manual must be constantly adapted to the changing needs of an organization. It must be a working document, not something to be completed, filed and forgotten. Therefore, someone must be responsible for updating and maintaining copies used in the operations.

The document prepared through ACCOSCA can be used as a guide and responsibilities for preparation may be shared among staff. However, one person must be responsible for coordinating the preparation.

Recommendations

1. That the general manager, with the support and assistance of the secretary, assume responsibility for coordinating development of an operations manual for MUSCCO.
2. That the management team prepare a prioritized list of areas to be covered in the manual and the general manager assign responsibility for preparation of drafts in each area.
3. That drafts be reviewed and finalized by the management team and then submitted to the board for approval.
4. That an evolutionary approach be used to develop the complete operations manual, starting with the highest priority areas and

gradually building up the complete document to be used for control purposes. A loose leaf binder is the best way of maintaining working copies for management and staff who need access to it. Start with the act, regulations, bylaws, personnel policy, finance policy, etc. As new sections are added or changes are made it is easy to add, delete or substitute pages. When personal computers are introduced, the manual can easily be put on a disc file which will further simplify making changes.

5. Two policies were drafted for immediate consideration -- a vehicle policy and a travel expense policy. It was apparent in this study that these areas needed immediate action. The draft policies should be completed, approved by the board and circulated to all staff for implementation as soon as possible. These were major areas of expense operating without effective controls at present. The new draft travel expense account was designed to facilitate implementation of these policies. (See APPENDIX 1, 2 and 3.)

D. Local Society Performance

A variety of tools are currently used to try to upgrade performance at the local society level.

- a. Local societies are now graded A, B & C based on 16 criteria (see APPENDIX 5 for list). Ability to access services available through MUSCCO (mainly long term loans) is governed by these standards.
- b. Annual audits are performed by field staff with some support from the department of cooperatives staff. These are really "examinations" or "inspections" rather than full scale audits. Nevertheless, they do an adequate job for the current state of local society development.
- c. Reports are filed on field staff visits to societies
- d. Monthly financial statements are filed by local societies with MUSCCO.
- e. MUSCCO maintains local society records of statements filed, dues paid, insurance paid, share subscriptions in MUSCCO, payment for stocks purchased, loan repayments, etc.

The main problem is the lack of a well defined plan for follow up on local development problems. The performance of staff in completing the work in their districts and completing the reports expected by head office varies from extremely poor to very good. There is a need for well defined performance standards for field staff. These are just as important as the performance standards for local societies. A high priority for field staff must be the follow up on problems identified in local society audits.

Recommendations

1. There must be a well defined work plan for field staff that recognizes the importance of timing for country activities and allows budgeting of time accordingly, e.g. Audits should be the priority immediately after year end; collections should be the priority when people have money for annual payments from crops harvested; training and meetings should be scheduled when people have the most free time; etc.

Currently, the monitoring systems are in place to identify problems in local societies. What is needed is a more systematic follow up procedure. A better work planning procedure for field staff will make more effective use of their time (time management) and provide a more effective follow up to local development problems identified in the monitoring systems.

2. The current system of classifying local societies as A, B, C and giving special recognition to those improving their level of performance is a step in the right direction. The standards for achieving an "A" class rating are still quite low for a local financial service organization but it is a good place to start. Standards can be raised as the system develops. There is no point in starting with standards so high that no local societies can meet them. The question is whether to use the "carrot" or the "stick" to encourage higher performance among local societies. MUSCCO is currently using the "carrot" which is probably the most appropriate approach at this time.
3. The annual local audits (examinations) are an extremely important aspect of improving local society performance. Current efforts are being directed at getting a greater commitment of government resources to do this work as it is a time consuming aspect of field staff work and expensive for MUSCCO. Audits represent about 35% of the total field staff cost. To date, MUSCCO has not been successful in obtaining government support for this function.

This activity cannot be ignored or neglected while discussions go on about who is going to take responsibility. The very foundation of the cooperative financial system MUSCCO is trying to build, depends on strong local societies. Field staff must continue to give top priority to timely, high quality audits of local societies. Standards need to be established and all audits should be done within four months of year end. This should be possible if this activity is given top priority in that period of the year. There are only 56 societies and there is a staff of six with management and clerical support in the office to do this job.

4. The cost of an audit is a cost of doing business. Large, profitable local societies should be able to pay the cost of their audits. However, a substantial number of the 56 societies are still quite small and therefore unable to bear the cost of this time.

One suggestion worth considering is for MUSCCO to approach the government for a subsidy to support the cost of audits in small societies rather than ask government to assume responsibility for the function. A policy could be established to support audits on a sliding scale, depending on the size and age of the society. e.g. 100% in the first year of a new society ranging to zero after a society has reached a certain size, attained a certain age or some combination of both.

The advantage of this approach to government is that it is much less costly than staffing to perform the function. The advantage to MUSCCO is that it would be reimbursed for this important service and it sets up the cost of an audit as a normal cost of doing business at the local society level.

This is a commonly used approach in many countries where government is interested in supporting development of cooperatives as self help organizations to promote social and economic development but want to leave the initiative and responsibility for development to the movement itself.

E. Staff Performance Standards and Evaluation

The main expenses of MUSCCO are staff salaries and travel expenses. In order to effectively manage this area, standards must be set, performance must be evaluated and disciplinary action must be taken where required to attain the expected results.

This area has been badly neglected in MUSCCO to date. There are obviously vast differences in the level of performance among field workers, but no action has been taken to address these problems. This issue was raised by the board of directors at the board meeting. Directors want to see standards set and efforts made to achieve them.

Setting standards for jobs like field workers is not easy because so much of the work is intangible. However, there are techniques for doing it. The objective must be to implement an evaluation process that is as objective as possible. Reward high performance and take action on sub-standard performance. Such action may be of three types - further training, discipline and/or dismissal. The latter would only apply if measures to correct problems fail. You cannot afford to have people on the payroll who are not pulling their share of the load. If you do, the high performers will get discouraged.

Recommendations

1. The new expense and planning report (APPENDIX 1) should be implemented immediately. This will provide a more effective system for monitoring expenses in relation to work planned and carried out. The new form should be used by all staff who travel and be enforced with the guidelines outlined in the proposed travel expense and vehicle operation policies.
2. The following are procedures recommended for setting standards for the field staff:

- a. At a staff workshop, identify the knowledge, skills, and attitudes required to do the job. This should be summarized and set up as a "qualifications" or "requirements" section in the job descriptions.
 - b. The next step in the same workshop is to break the job down into its component parts -- local audits, local seminars, study groups, etc.
 - c. Using "audits" as an example, the question that must be addressed is "How long should it take to do the quality of examination required?" Factors such as the size, condition and class of the local society will have a bearing on the amount of time required for an audit. Nevertheless, the group should be able to come up with some reasonable standards for performing audits and each of the other major functions of field staff. When standards are established, there must be an understanding that any significant variances will need explanation.
3. A system for annual staff performance evaluations needs to be put in place as soon as possible. The quality of performance evaluation can be improved as standards are established and an effective business planning process is put into place.

Good employees like to know how well they are doing. Good performance should be recognized and action must be taken when performance is not acceptable. MUSCCO is the kind of organization that needs people who are "self starters" and who are conscious of managing the time on the job to get maximum productivity. A performance evaluation system that recognizes and rewards good performance and takes remedial action on poor performance is the best way of attaining this goal.

F. MUSCCO External Audit

In the course of this study, several concerns arose about the external audit service MUSCCO is currently receiving. The quality and timeliness are not acceptable for a financial organization. It was surprising that the external auditors had not detected the fraud which started sometime in 1984. The 1984 and 1985 year end audit reports were both delivered in June 1986. Other problems relate to the format of the report, the treatment of certain items in the report e.g. Membership fees should be capitalized rather than taken into income in the statements, notes should provide better disclosures of items such as the fraud case; and "other" categories in the statements were far too large and unexplained. The board of directors were also concerned about the costs of the audit and related accounting charges in relation to the quality of service received.

MUSCCO needs an external audit that meets the following requirements:

1. A mid-term audit of internal controls -- some aspects of this should probably be on a surprise basis. This should not be done until

records are updated but should be standard procedure in future. Had this been done in the past, the fraud would have been detected. Auditors should have raised an alarm when bank statement reconciliations were not done.

2. Findings of the mid-term review should be reported to the general manager and the chairman of the board.
3. The year-end audit must be completed and reported to board and management no later than three months after year end.
4. The supervisory committee of the board, along with the general manager and accountant should meet with the auditor when his report is in the "draft" stage to discuss format, notes, etc. to be sure the report meets financial information and disclosure requirements and is not misleading. MUSCCO needs the kind of report that is easily understood by its membership. It should be remembered that the year end report is MUSCCO's report to its member shareholders. The certification belongs to the auditor.

Recommendations

1. That MUSCCO consider a change of auditors for the 1986 fiscal year end.
2. That management meet informally with other potential audit firms to discuss MUSCCO's requirement and invite written proposals along with fees for meeting MUSCCO's needs.
3. Several international auditing firms are represented in Lilongwe. The selection should probably be a United States based international firm with an office in Lilongwe. This should ensure that financial reports meet the needs of both the funding agencies and the membership of MUSCCO.

VIII. PLANNING AND BUDGETING

In carrying out this assignment, the plans, policies, programs, and reports prepared by management as well as auditors, project evaluators, consultants and advisors were reviewed. MUSCCO has no problem that has not been identified on at least one or several occasions. Part of the problem faced by management in planning is "information overload."

Most of the studies and reports were done to meet the needs of a funding agency. Management currently produces a quarterly work plan which is really used more to satisfy the needs of sponsors rather than as a plan of action. What I observed was a "crisis management" style with little evidence of a planned attack on priorities. Just a few examples will illustrate this point:

- arrangements for the executive meeting were finalized moments before the executive members arrived
- the agenda and management report for the board meeting was finalized the day before the meeting
- reports for annual general meeting were feverishly being prepared and printed on Friday for a meeting starting on Monday
- meanwhile the insurance had lapsed on the building, details had to be finalized with contractors doing renovations on the new building, documents for official transfer of title to the building had to be prepared and a host of other "emergencies" kept arising.

If you don't plan ahead, there will be no end to the "emergencies" that will keep arising.

Resident advisors also get trapped in the pressure of "running the shop" in this environment. The office is a busy place but one wanders about the effective use of time in this environment. How do you work your way out of a "crisis management" environment and introduce good time management practices?

MUSCCO is not ready for a comprehensive business planning approach at this time. What is needed is a start on some very basic measures to get better management of time among all members of staff.

Recommendations

1. It must be recognized throughout the organization that time is money. Staff are paid salaries to perform assigned tasks. Introducing performance evaluations will be a major step to improve productivity.
2. "Time wasters" must be recognized and addressed. e.g.
 - dealing with personal or family matters during normal office hours.

- casual visitors who come in to chat or have an extended coffee break.
- extended casual or personal phone calls.
- .. salesmen.

Management must lead by example in addressing these problems. A friendly but business-like atmosphere will deal with the main "time wasters."

3. Conduct training sessions for management and staff on time management.

Each member of the field staff and management team should use a simple time planner and be trained on its use. If you have a time plan, it is much easier to deal with "time wasters" that can erode your productive work time.

4. A practice of regular, uninterrupted, management meetings every Monday morning should be instituted immediately. Each member of the management team should bring his agenda items to the meeting, list them on a flip chart and consider priorities related to planning activities for the week ahead. As this practice begins to work, the forward planning discussion can extend beyond a week but this is a big improvement on the day to day approach now in use. These meetings should not be allowed to drag on. If handled properly, they should not extend beyond a couple hours and may be as short as 15 minutes if agenda items are limited. However, the secret of success is regularity so that all members of the management team can plan accordingly.
5. The quarterly field staff meetings are a step in the right direction. Full attendance should be expected at the meetings and associated training workshops. The only suggestion for improvement, based on observation of the one meeting attended, is that each meeting wind up with a discussion of planning priorities for the next quarter in each region. There may be slight differences in focus but the general corporate priorities should be similar.
6. The process for developing the 1987 budget should get underway in November. The objective should be to have a budget related to work plans for the year for recommendation by management to the board at its first meeting in the new year. At this meeting, the board should also have the year end results available for comparison.
7. Preparation of management reports, financial statements, etc. should be completed so that they can be in each director's hands one week prior to board meetings. That means preparation two weeks in advance.
8. With these steps taken, the way is paved to start a comprehensive business planning system involving board and management early in 1987.

IX. LOAN POLICIES, PROCEDURES AND RELATED SYSTEM DEVELOPMENT ISSUES

The main assets of the system are loans to members. To address problems associated with managing this important asset, we must look at the movement as one system with the delivery of services to members at the local society level and the required support services to do the job available at the central level.

The quality of the lending process including all phases from the time a loan is granted until it is paid off, will in large measure determine the future viability of the whole system. No amount of outside capital injected into the system will help develop self reliance unless the lending process is working effectively. A loan to a member must be a loan in every sense of the word. If it is to be a grant, it should not be dealt with in the lending process.

At present, loan delinquency is out of hand in many local societies and there is little evidence of any improvement. New funds are now available for agricultural and business development loans which are to be managed through the system. This is a much more sophisticated type of lending than currently handled by local societies. The objectives of this loan program can only be achieved with a major overhaul of the whole lending process.

Central (MUSCCO) has made a very impressive improvement in the control of delinquency in its loans to local societies. Steps taken and planned by MUSCCO to manage the Central Fund are right on target. A competent person has now been appointed to manage this function. He understands the challenge of the position and with the supports available from WOCCU and Africare, will provide the management required at this level. However, steps taken at the Central level will be meaningless without similar improvement at the grassroots level. The lending activity of local societies to individual members is where improvements must start.

The key to the problem is to instill the concept of savings at the membership level, that is member savings for future use or to retire debt obligations. It is recognized that the ability of many members to save is limited by low income levels. Yet substantial savings (currently estimated at about K27 million) are being accumulated in postal savings accounts in Malawi. Field officers say that many people have some money either tucked away at home or deposited with trusted village leaders. The ability of the savings and credit cooperative system to fulfill its mission depends upon effectively mobilizing whatever savings are available in each community to meet the social and economic development needs of members.

For most local society members, the only alternative source of credit is from private money lenders at substantially higher interest rates. While their lending procedures may be informal, money lenders have their ways of collecting both interest and principal payments when due. They do not appear to have a delinquency problem. While not implying that local societies use the same methods, they must be just as strict about collections. Local societies must recognize that they are the custodians of other peoples savings as well as their own and they must manage those funds as they would if these were all their own funds. Delinquent loans represent the main potential loss of member savings.

Major problems noted were:

1. Need for understanding by members of how a savings and credit cooperative works. Group study sessions are held to organize a society but few societies provide any training for new members who join later. Most education committees are inactive. The prime motivation for joining appears to be credit rather than savings with little understanding that a loan is a debt obligation that must be paid off.

Recommendation

- a. The Philippine model for orientation of new members to the purpose, procedures and members responsibilities in a savings and credit cooperative was introduced at the July 22 staff meeting and accepted by management. Joe Thomas (Peace Corp Volunteer in the Southern Region) agreed to work on the development of suitable training materials for use by education committees and also a program to train education committees in the use of the material. Materials will be in Chichewa and English. The objective is to get this program underway by the fourth quarter of 1986.
- b. The objective accepted by management is to have each local society adopt a policy that new members must subscribe to the required membership fees and shares and also attend the required orientation sessions before being accepted into membership.
- c. Some successful local societies require a person to be a member for a period of time before being eligible to borrow (periods mentioned ranged from three to six months.) The purpose is to encourage the member to build up savings first. This policy may be usefully applied in other situations but perhaps not universally in the system.
- d. The Co-operative Societies Act, rules, standard bylaws and in most cases, loan application forms and other forms used in relations between the society and its members are now only available in English. In order for members to understand their rights and responsibilities as a member, they must be able to understand any documents available to them. It is even more important that local leaders fully understand their respective roles and responsibilities. A high priority should be placed on providing all documentation used at the local level in two languages, English and Chichewa. A list should be prepared of all documents used at the local society level and prioritized for implementation. Top priority should be on such things as loan application forms, reminder notice, demand notices, passbooks, member information bulletins, and any other documents used in day to day communications with members.
- e. Mass production of either new societies or new membership growth must be avoided at all cost. It is much better to

have one member who understands and accepts the goals of the society than 100 poor ones.

There is currently a lot of pressure to organize new societies. MUSCCO cannot afford any more weak organizations in its system. Management must feel confident that a group has a reasonable chance of success before a new charter is granted.

2. Need of clearly defined roles and responsibilities at the local level. Many local societies are now totally dependent on volunteers to keep books, handle money, make loans, collect loans, file reports, etc. While some training has been provided, there is a major problem of accountability when things go wrong. Who do you hold responsible when a poor job is done on any of these functions?

In many cases, no one person has responsibility for reminder notices and other follow-up on delinquency. While payment is supposed to be applied first to outstanding interest and then to principal, this is not being done in many cases.

The lack of training and incentives to do a good job have resulted in poor documentation, unacceptable credit risks and compounding delinquency problems.

There are exceptions where a group of unpaid volunteers are doing an outstanding job but generally, the best results are obtained where there is an incentive to produce the desired result, an incentive that can be withheld if requested performance standards are not met. As local societies grow, they will employ full-time management and provide office facilities to provide member services. What is needed is a planned evolutionary process of reaching this goal. The place to start, even in small societies, is with a Treasurer who is given the responsibility, training and some compensation for performing the following functions:

- a. Receive payments of members shares and deposits
- b. Receive loan payments (interest and principal)
- c. Maintain financial records
- d. Pay accounts and file required reports (monthly financial statements, insurance, etc.)
- e. Complete members applications for loans so that they can be properly considered by the Credit Committee.
- f. Send reminders notices to members when interest and/or loan principal payments are due.
- g. Follow-up with demand notices when payments not received.

- h. Report to Board of Directors for follow-up if no results obtained.
- i. Process dispersals of funds on loans approved by the credit committee. This includes making sure that all conditions set by the credit committee (security, promissory notes, etc.) are met and that the member clearly understands the terms of repayment before the funds are advanced.

Defining responsibilities for administrative functions makes it possible to target training to help an individual to do his/her job effectively. If some compensation is provided, the person can also be held accountable for achieving the standards set for administration of the society's business.

Similarly, the credit committee can then be trained specifically for their task of assessing credit risks and following up on loan delinquency if administrative follow up has not produced results. (If the committee has the power to make loans, they have a related responsibility to help follow-up on credit problems when members don't pay.)

The supervisory committee can be trained to perform an internal audit function to make sure the person responsible for administration is handling affairs in accordance with Board policies, procedures and established performance standards.

This proposal arises out of a random review of local society files at MUSCCO office. A review of audit reports, financial statements, etc., clearly indicates that the administration of local societies must be upgraded.

e.g., In one society with only K5,000.00 in assets the 1985 audit revealed a loss of nearly K150 due to miscalculation of interest and failure to collect interest payments due prior to application of payments to loan principal. In addition this society had a growing delinquency problem. It was felt that this society was too small to be able to pay anything for administrative services. The fact is that they can't afford not to have good administration. An incentive of even K10.00 per month to a properly trained person may have saved the society money and helped prevent the delinquency problems.

Recommendations

- a. From a cost/benefit stand point, there must be clearly defined roles and responsibilities in local societies so that people can be held accountable for results. Where everyone is responsible, it is too easy to pass the buck. The board has overall responsibility for policy, planning and general direction. Board committees must have clearly defined roles.

There must be a person responsible for day to day administration in accordance with policy, and there should be some incentive for doing this job properly. As the society grows to the point where it can afford full-time management, the base has been laid for defining roles and responsibilities of the Board and the person responsible for day to day administration.

- b. More effort must be made to target training programs specifically to the role the person plays at the local society level.

Proper records should be maintained of attendance at training sessions. Then a progressive training program can be developed to improve each individuals skills in handling his/her specific duty in the local society e.g. board member, supervisory committee member, credit committee member, manager, etc.

3. Need Improved Loan Documentation and Processing

A review of this area indicated that the present documentation, forms and processing procedures in many local societies is inadequate.

One of the fundamental principles of delinquency control is that making a loan properly is the best assurance you can have that it will be repaid. There is always an element of risk in lending. The best way to minimize that risk is to make sure the lending process is well done. Poor lending practices benefit neither the borrower nor the lender. The following example extracted from MUSCCO's local society records illustrates the point:

In one society a member borrowed K20.00 in 1982 on a one year term. In 1983, K3.12 was paid. Since that time two other small payments were made but part of the loan is still outstanding. In the meantime, the local society has granted the member three other loans of over K200.00 each and they are currently all delinquent. The same member has since applied for a long-term loan of several thousand Kwacha which was approved by the local society credit committee and board and submitted to the Central for consideration. To make matters worse, this person was an officer of the local society. Needless to say, Central did not approve the application for the long term loan. However, the example which is not an extreme case, illustrates the level of lending capability available in many societies.

The result of the practice illustrated in this example is that rather than the local society helping the member to improve his lot, it has encouraged him to live beyond his means. He now has a debt that he may never be able to pay off; he has a credit record that will haunt him in the future if he approaches a prudent lender for loans; and the local society is obviously facing a major loss.

The lending process is not all that complicated if people doing the job understand and observe some of the basic principles. Private lenders in Malawi appear to be doing quite well at it. They know that it is their own money that is at risk and they will not make a loan if they do not think the borrower has a reasonable chance of repaying it.

There are really two basic questions that must be answered before a loan is made -- is the member willing and is he able to repay the loan on the terms set out in the application form? Is he willing and able to meet the interest and principal payments when due? The security taken at the time the loan is made (promissory note, shares, co-signer or other collateral) is only to provide a recourse if the repayment plan fails.

A loan should not be made if, in the best judgement of the lender at the time the application is being considered, it is felt that the lender will have to rely on security for repayment. A prudent lender must feel there is a better than average chance of the loan being paid in accordance with the terms and conditions approved in the application form. This point cannot be overstressed with local savings and credit cooperative leaders and managers.

The whole lending process was reviewed in association with the Central Fund Manager and the Africare Advisor. While the major focus was on the controls required for the K500,000.00 to be dispersed through Central for long-term loans, it was recognized that the basic problems associated with current short term loans had to be addressed as part of the strategy. Therefore, the analysis included the following:

- Information required from the individual member when a loan application (short or long term) is received.
- Responsibilities and training requirements of the person responsible for taking loan applications from members - to make sure information required from both the member and local society records is properly completed on the application form for credit committee consideration.
- Function of the local credit committee.
- Information requirements at Central if it is a long term loan.
- Monitoring and assessment requirements.
- Process for dispersal of funds when the loan is approved.

The following steps were taken:

- a. Drafted a new member loan application form that assures information to make a prudent credit judgement is available. (See APPENDIX 5) This will be refined, printed in English and Chichewa, and made available for use as soon as possible. High priority will be given to training local

society people responsible for receiving loan applications on the use of this form as soon as it is available.

- b. Drafted a new form for the local society to complete and submit to Central, along with a copy of the member's application, when funding for a long term loan is being requested. (See APPENDIX 6.) It will be processed as in (a).
- c. A control sheet on loan applications received was prepared to check off the process as completed. (See APPENDIX 7.)
- d. Management, in association with resident advisors, has developed two documents regulating long term loans -- criteria for long-term loans and procedures for obtaining long-term central finance loans. (See APPENDIX 8 and 9.) It has been determined that local societies meeting the following criteria will be allowed to participate:
 - Pay dues to MUSCCO on time and in full.
 - Maintain 5% share capital in central
 - Pay insurance premiums on time
 - Current on central loan principal and interest
 - Provide monthly financial statements to MUSCCO.
 - Maintain overall credit worthiness.
- e. An excellent Central Finance Policy has been developed and approved by the Board of Directors of MUSCCO.
- f. The Africare advisor has prepared a proposal (see APPENDIX 10 for MUSCCO - DEMATT collaboration in assessing and monitoring long-term loans). This will need to be followed-up by management.
- g. A procedure was prepared to advise field officers of long-term loan applications and also of action taken on them.

Recommendations

- a. Implementing changes to improve the lending process and to get control of local delinquency must be the top priority for MUSCCO management in the next quarter. The management of these functions will determine the future viability of the whole system. Completion and implementation of the new forms and procedures for lending is the first step.

b. Training must go hand in hand with implementation of improved documentation Training should be targeted as follows:

- persons responsible for handling and processing loans
- the Credit Committee
- the Board of Directors

In each case MUSCCO Management must determine, the level of skills, attitudes and knowledge required to implement these changes; and the methods to be used to attain the standards required to manage the lending process.

c. At date of writing, four long term loans had been granted and 80 new applications were on file. At best, it will be year end before recommendations a and b are implemented. In the meantime, on sight inspection of a loan applicant's business is going to be required to make prudent judgement on credit worthiness. MUSCCO does not have the staff resources to handle the volume expected. Therefore, immediate steps must be taken to secure a firm arrangement for support for loan assessment and monitoring from DEMATT, Department of Agriculture or any other potential resources. It will take time, training and experience for the savings and credit cooperative system to develop the skills internally to handle the long term loan program.

Fieldstaff should be trained in loan appraisal work. A lot of the local appraisals and monitoring activity could be done by fieldstaff in the normal course of their work particularly when they are concentrating on audit and delinquency follow-up with local societies.

d. The dispersal of funds is a very important part of the lending process. Before a check is issued to a member on an approved loan application, someone must make sure that all security documentation is in place and the member clearly understands the terms and conditions of the loan and his responsibilities for interest and principal payments. This must be a feature of the training program designed for people responsible for processing loan documentation.

e. A system must be developed for monitoring approved long term loans. The Africare Advisor is experimenting with a formal agreement with local societies for monitoring on the four loans now granted and is planning to pursue arrangements with DEMATT on this issue as well.

The easiest types of loans to monitor are the ones with the most frequent payment intervals. Assuming credit risks are equal, the easiest place for MUSCCO to start the long term loan program is on loans where the borrower can make monthly or quarterly payments of interest and/or principal. This will also generate cash flow for MUSCCO. A missed payment on these loans provides a warning of possible problems before the situation is

out of hand and should trigger immediate follow-up action. On the other hand, a missed payment on a loan with only annual payments may be too late to take remedial action.

As a strategy, it is recommended that a planned monitoring process be in place with each long-term loan granted where there are only annual payments of interest and or principal. The repayment record on loans with monthly or quarterly payments should be a fairly reliable indicator of how well these borrowers are doing. Even in these cases however, a periodic on site inspection is desirable, at least once a year.

- f. Steps should be taken to speed up the dispersal of funds to local societies on loans approved by MUSCCG's credit Committee. At present, board signing officers must sign all checks. It is recommended that any two of the General Manager, assistant General Manager, Central Finance Officer, or the current board signing officers be authorized to sign checks, for dispersal of funds, on approved loans to local societies from the Central Fund operating account. A quarterly report of loans approved and dispersed should be made to the board of directors.

4. Need of Improved Delinquency Control

The main issues associated with preventing delinquency have been addressed. This section deals with measures required to correct the existing problems.

Recommendations

- a. Leadership must set an example: If anyone in a leadership position is personally delinquent in his/her loans, the information becomes known throughout the system and his/her credibility suffers. This person then becomes ineffective as a leader in persuading others to deal with their delinquency problems and as a result, the whole system suffers. "Our actions speak louder than our words."

MUSCCO Board has adopted a policy that a director or staff member who is delinquent in her/his loan payments and does not correct the problem within two months, will be removed from his/her position. A written directive, signed by the Chairman and the General Manager, should be given to everyone affected by this policy as soon as possible. It may be difficult for some people to completely eliminate the accrued delinquency but two months is ample time to make appropriate arrangements with the lender. The most acceptable alternative is to bring all interest and principal payments up to date. The second alternative is to bring all interest payments up to date and arrange with the lender to catch up on principal over an agreed time period. As a last resort, the lender may agree to re-write the loan over a longer term.

This policy should be rigidly enforced. Failure to comply with the terms of the policy should be grounds for immediate removal from office.

- b. This policy should also be implemented in local societies as quickly as possible. Any societies not complying with this policy should be reported to the Registrar to use the powers available to him under the Cooperatives Act to deal with the problem.

There may be cases where implementing the policy leaves a local society without enough people to fill the various offices in the society. In such cases, the Registrar should place the society under the direct supervision of the local field officers for a fixed period of time during which the association will be expected to meet this requirement. If not, it may be best to begin the process of dissolving the association.

The 1983 Price Waterhouse study also proposed direct management intervention by MUSCCO in local societies with uncontrolled delinquency. (see page 90 of the Price Waterhouse report.) It is a common procedure used in many countries when financial cooperatives are not managing effectively and are putting undue risk on member savings.

During the time of supervision, the field officer should be authorized to take such steps as are necessary to firstly, get officers in place who meet the requirement and secondly, to bring the society's delinquency under control. This must be done to protect members share capital and the credibility of the whole savings and credit cooperative system. The power to do it can only come from the Registrar. Discussions should be held with the Registrar on this subject or soon as possible.

- c. It is my understanding that the time people will have money from crops harvested is during the next three or four months (September -- December). This is the time to collect on loans with annual payments due. If this opportunity is missed, local societies may have to wait for another year for payment. An immediate strategy must be implemented to collect on delinquent loans.
- d. While a thorough review of local loan policies was not undertaken, it is obvious from the records reviewed that new local loan policies in keeping with the loans policies adopted by MUSCCO need to be implemented as soon as possible.
- e. Local society loan policies must include a clear cut collection procedure. If the lending process is done right, this procedure should only be required with a small percentage of loans. The following is an outline of a collection procedure:

(i) Reminder notices are a must on all loans where payments are only due semi-annually or annually, otherwise members forget. Such notices should be courteous but firm and must be easily understood by the members. The notice should be in Chichewa, should state the date and amount due, and should be in the members' hands well in advance of the due date. Central now has a sample in Chichewa which should be reviewed to be sure it covers the foregoing points and made available to all local societies for immediate use.

Where payments are due monthly or quarterly, the reminders notice should be sent if payment is not received within 30 days of due date.

(ii) On semi-annual and annual payment loans a Demand notice should be sent 30 days after due date of a loan payment. The same procedure should be used on monthly and quarterly payment loans if payment is not received within 30 days of the reminder notice. The demand notice should state "A payment of K_____ was due on _____ and is now over-due by _____. It is the policy of the society to enforce collection on delinquent loans and unless the member pays the amount due by _____, collection procedures will begin". The notice should also make it clear to the member that failure to make payments when due will have a bearing on his/her opportunity to borrow in future. A member's payment record is always reviewed when he makes a new loan application.

(iii) A list of members not meeting the conditions set out in (2) should be submitted to the next regular monthly Board Meeting and a plan of action set up for personal contact. This should be done within the next 30 day period and results reported to the next regular monthly Board Meeting.

(iv) If this does not produce results, immediate steps should be taken to either hire a Collection Agency or take the member to court. Any collateral taken as security should be applied to the outstanding balance and the membership cancelled.

(v) There will be exceptions where, due to loss of a crop, health problems or other unexpected circumstances, a member is unable to pay. The policy should allow for leniency in such cases. The best procedure is to re-write the loan under terms and conditions the member can handle, make sure the loan document indicates the reasons for the re-write and set up the new loan contract with the member at an amount that pays off the outstanding balance (principal and interest) on the old loan. However, the old loan document should be kept on file so that future credit committees can trace the member's history.

(vi) Sometimes a member knows in advance that he will not be able to meet payment when due because of some situation coming

up either within his business or in his family. In such cases, members should be encouraged to let the society know immediately so that the terms of repayment can be adjusted and the member will not jeopardize his credit rating with the local society.

5. Need to Extend Time Frame for Utilizing the Long Term Loan Fund

It is quite evident at this stage that MUSCCO cannot meet the targets set out in the business development plan prepared by Price Waterhouse in August, 1983. The main problem is at the grassroots level. Local societies must be set up to operate on a sound business basis before the long term loan funds can be used effectively.

The original plan was to have up to \$300,000 (U.S.) available for long term loans through MUSCCO over a three year period. Long term loan applications from individual members are processed by local societies and, if approved, sent to MUSCCO for funding. The intent is that funds used in this program will become part of the capital in the Central Fund. Interest earned by local societies and MUSCCO in the administration of these loans will contribute to the goal of attaining self sufficiency in the system.

It is in the interests of the system to take full advantage of this program. However, it is doubtful that MUSCCO can do that within the time frame presently planned for the program without taking undue risk. Proper systems, procedures and controls must be in place to assure a high quality lending process or the program will not help the system build self reliance. To rush the process could defeat the purpose. Therefore, consideration should be given to extending the time frame for availability of these funds so that the emphasis can be on development of a high quality lending program.

Recommendations

1. Discussions need to get underway between MUSCCO and funding agencies immediately to revise and update the business plan set out in the Price Waterhouse 1983 report. The main concern is to update the time frame.

2. MUSCCO should request that the \$300,000 long term loan fund be available for a longer period of time. The emphasis must be on quality rather than quantity in using these funds productively.

6. Need to Build Trust and Confidence in the System.

Some of the main elements of building trust have already been addressed. These include everything from improving the credibility of leadership to translation of documents to a language that members can understand.

If people have confidence in a financial system, it works. If they don't, it soon will falter, regardless of how many rules or regulations are imposed. This seems to hold true throughout the free world. The

challenge to the savings and credit cooperative system in Malawi is to build the kind of trust and confidence that encourages people to put their savings in the system.

The key to the future success of the system is to mobilize savings. At present, however, the main reason given by members for putting their money in local societies is so that they can get loans when needed.

The person with savings and no interest in borrowing is not likely to trust his money to an organization that is badly managed or putting money out in bad loans. He wants to feel that his money is being managed safely. While he may accept a lower return for the use of his money for a while, he will eventually expect a return that is reasonably competitive with what he could have obtained in a Post Office savings account.

Steps are underway to remove the 5% limit on dividends and to change local By-Laws to allow 18% to be charged on loans. The 18% level is still well below alternative sources of credit in Malawi and the removal of the 5% limit will allow local societies that are profitable, to pay a reasonably competitive rate for savings.

Recommendations

- a. That the planned changes in loan interest rates be implemented as soon as possible. The added income will help local societies to pay for the management skills required for efficient administration and also to pay a competitive return on savings.
- b. Removal of the ceiling on dividends will allow profitable local societies to pay a competitive return on member savings.
- c. Promotional programs, operating policies and procedures must be designed to make local societies attractive to savers as well as borrowers.

7. Need to Recognize Minimum Levels of Economic Viability

At present, local study clubs are formally organized into savings and credit societies when they have completed their study. While targets are set for member share subscriptions, there is no minimum level set for total accumulated member deposits before the society starts lending to members.

There are start-up costs associated with organizing a new society and there will be expenses in the first period of operation long before there is any revenue from loans. The problem is how to generate cash flow to cover these expenses before revenue is received from loan interest payments.

It is recommended that a minimum level of member deposits be set which must be attained before any loans are made to members. It will take some research to determine the minimum level required to begin a viable lending operation in Malawi. The following example illustrates how the system might work. Figures used are for example purposes only.

When it appears certain that a study group is ready to be organized as a local society, share subscriptions could be collected and held in trust in a postal savings account. If the organization does not proceed, funds collected should be returned to each person along with interest earned. If the organization goes ahead, the MUSCCO Field man should have a good idea of what start up costs will be and how much money it will take to cover the costs of operation until the first loan payments are received.

Assume it is an agricultural community where people can only make annual payments. Assume the start up costs (supplies, registration, etc.) are K80 and the operating costs for materials, filing reports, training, etc. in the first year are K10 per month. This would mean a cash flow of K200.00 is required before interest payment on loans start to come in. Using these figures, the society should keep about K2,000.00 invested in short-term deposits in the first year and only lend out funds in excess of this amount. As cash flow is generated from interest payment, the amount retained in short-term interest bearing investments can be reduced and more put out in loans.

Start up costs	=	K80.00
Monthly operating costs in 1st year @ K10.00 per month x 12	=	<u>K120.00</u>
TOTAL		K200.00 =====
- Income from K2,000.00 @ 10 3/4% in 1st year (Postal savings rate)	=	K215.00
- Reserve at end of 1st year	=	K15.00

It should not be difficult for people experienced in organizing new groups in Malawi to come up with an accurate estimate of operating costs in the first year and start up costs. If you know the type of loan demand (monthly, quarterly, semi-annual or annual), you can easily project the amount required in short term deposits to meet cash flow needs.

Use of this approach with new groups will meet the following objectives:

- help establish the understanding that savings comes before loans

- start the society on a sound business basis
- allow time to build up some skills in the local leadership before they assume all the risks associated with lending (an evolutionary approach to development).

8. Need to Reconsider Development Strategy

Post Office savings bank accounts appear to be the place where most ordinary citizens in Malawi keep their savings.

Somehow, the development strategy for the savings and credit cooperative system in Malawi got off to the wrong start. The impression was created that to be a good member of a society, you had to borrow money. You were not considered a good member if you only put your savings in the local society.

The initial lending to members was based on "leveraging" share savings. Withdrawal of funds from share savings accounts was discouraged, if not restricted. Some societies started with as low as a one-to-one ratio--for every kwacha in shares, the member could borrow one kwacha. Members were encouraged to borrow rather than withdraw savings.

Members soon realized that all the societies were doing was lending them back their own money and charging them interest for it. The comment was made at the staff meeting that people seem to pay back better on the loans not covered by shares. Part of the high delinquency in the system is a direct result of restricted share withdrawal privileges. Members do not feel a personal commitment to pay back a loan if their primary interest was to access their savings and the only way they could do it in a local society was through a loan.

The experience of long established savings and credit co-operative systems, even in other developing nations, is that the member whose main need is a safe place to put savings and the member whose main need is a loan to help meet some personal or business need, is not necessarily the same person. In most cases, they are two different people and the challenge to the society is to meet the needs of both types of members.

The conventional experience is that young members establishing themselves for life have the greatest need for loans (growing families, setting up a home, or establishing some business to get ahead). The challenge to the local society is to teach these people good savings habits while helping them to get ahead with loans they may require from time to time. The time will come when these members no longer need loans and are able to put some money away for old age. Probably a substantial part of the money now in postal savings accounts in Malawi comes from people who are now at the stage in life where they can accumulate some savings. The research currently being done by the READI Project should provide some very useful information on savings habits in Malawi.

The strategy must be to make local societies not only a good place to borrow money, but also, a good place to save money. The reason people put their money in a postal savings account is that it is safe and it pays a

good return (10 3/4% daily interest at present). The problems are that withdrawal privileges on postal savings are very limited, depositors cannot borrow against their savings and accessibility is limited. The reason people save in a local society is to be able to make loans when needed, and to get the insurance coverage provided. To compete with Post Office Savings Accounts, societies must develop the same level of trust in the safety of the savings and they must be able to pay a competitive rate. At present, the limit is 5% dividend on shares, but few local societies are able to pay anything.

The emphasis must be on building sound business operations at the local society level that can be competitive in attracting savings and provide financial services not now available through any other source in Malawi to serve average citizens.

There is a tremendous need for a savings and credit cooperative system in Malawi. There is also a great opportunity for this type of self help system to develop to meet the needs for financial services, particularly in rural communities. A sound business base is crucial to development of the kind of cooperative financial system that can play an effective role in social and economic development.

Recommendations

MUSCCO should adopt a deliberate strategy to emphasize savings in all aspects of the development of the system. This includes:

- a. Building local societies that are sound business operations able to pay a competitive return and recognized as a safe, dependable place for savings.
- b. Documentation at MUSCCO and at local societies should either use the proper name (savings and credit cooperative societies) or abbreviations which emphasize the "savings" in the name.
- c. Promotional material for development of the system should emphasize mobilizing local savings for "self help" in social and economic developments.

No. of Kms
Traveled

--	--	--	--	--	--	--	--	--

Kms end of week _____
Kms beginning of week _____
Total: _____
Less Personal _____
Net MUSCCO Kms _____

Explanation of other expenses
1. _____
2. _____
3. _____
4. _____
5. _____

WORK DONE DURING WEEK

Sunday : _____
Monday : _____
Tuesday : _____
Wednesday : _____
Thursday : _____
Friday : _____
Saturday : _____

Signature: _____
Date : _____

Approved by: _____
Position : _____
Date : _____

(Be sure to complete reverse side)

PLANS FOR NEXT WEEK

Sunday: _____
Monday: _____
Tuesday: _____
Wednesday: _____
Thursday: _____
Friday: _____
Saturday: _____

Appendix 2

DRAFT TRAVEL EXPENSE POLICY

1. Each staff member required to regularly travel in the course of his work will be provided with a travel advance of K _____ (imprest). This advance is the property of MUSCCO and must be refunded if, for any reason, employment is terminated.
2. Travel expense along with a report of work done and plans for the following week must be submitted weekly.
3. Receipts must be submitted for all expenses other than the meal allowance.
4. An allowance of K2.00 may be charged for each meal away from home that is not provided, e.g., no charge may be made for meals at a seminar or meeting where MUSCCO has provided meals.
5. Details must be provided along with receipts for other expenses.
6. Km's travelled must be recorded each day. The total for the week should be the same as the total for speedometer readings.
7. Beginning of week and week-end speedometer readings must be recorded to check against daily totals for week.
8. Personal travel must be recorded. Each person entrusted with a MUSCCO vehicle is honour bound to report this accurately.
9. The accounting department will maintain a record of personal kilometers travelled. Each staff member authorized to have a vehicle shall be allowed _____ Kms for incidental personal travel during the year. Anything in excess of that amount will be charged at the rate of K _____ per Km for motor-vehicles and K _____ per Km for other vehicles. The accounting department will advise staff members when they have reached their allowed maximum free personal travel.
10. Personal use of MUSCCO vehicles for any single trip in excess of _____ Kms must be authorized in advance by Management. Any personal use of MUSCCO vehicles for holiday travel must be authorized in advance by Management.
11. Work completed during the week and work plans for the next week must be completed or reimbursement for expenses will be withheld until the information is obtained.
12. The principles underlying this policy are that MUSCCO wants to reimburse staff members for actual expenses incurred in travelling on the job. Each category of expense will be closely monitored as well as the reporting of personal use of vehicles. Breaches of this policy may be grounds for dismissal.

Appendix 3

DRAFT VEHICLES POLICY

Vehicle expenses are the second largest expense of MUSCCO (the largest is salaries.) Therefore, the following policy has been adopted to control costs in the area.

1. Each person issued a MUSCCO vehicle must sign an agreement that he/she will use and maintain the vehicle in accordance with the policies.
2. The vehicle may only be driven by the person to whom it is assigned or persons authorized in writing in advance by Management to drive the vehicle.
3. The person to whom the vehicle is assigned will be fully responsible for all costs resulting from any accident occurring during unauthorized use of the vehicle.
4. The authorized driver has responsibility for the care and maintenance of the vehicle in accordance with the recommendations set out in the operations manual provided by the manufacturer.
5. Personal use is restricted to incidental travel around home or in the community where the work is being done. Written permission must be obtained in advance from Management for an extended personal trip of more than _____ Km.
6. An accurate record must be maintained of all personal kilometers driven and total personal travel recorded on the weekly expense report. Each person assigned a vehicle is allowed _____ Km personal travel per year free. The charge for travel in excess of this amount will be K _____ per Km for motor-vehicles and K _____ per Km for cars. These charges are based on actual operating costs but do not include the cost of depreciation.
7. Staff on extended leave, training or away on international travel will be required to leave their assigned vehicle at MUSCCO head office so that it can be used by other authorized drivers in his/her absence.

Appendix 4

CRITERIA FOR CLASSIFYING LOCAL SOCIETIES

1. Dues Paid.
2. Risk Insurance Premiums current.
3. Financial and Statistical Statement submitted monthly to MUSCCO.
4. No Central Finance delinquency.
5. Central Finance Shares up-to-date quarterly.
6. Have less than 10% delinquent or show a 10% improvement over last year's delinquent rate.
7. Have no officers delinquent on a loan more than 2 months.
8. Show a collection of interest of at least 90%.
9. Show no cash shortages or un-accounted difference for year.
10. Maintain a 10% liquidity most of the time.
11. Expense ratio (minus cost of money) less than 45%.
12. Hold regular committee meetings and have minutes.
13. Have written loan policies.
14. Written goals.
15. 20% share growth per year.
16. Average member share balance of K100.00.

Appendix 5

DRAFT

Member Loan Application Form

Savings and Credit Cooperatives Society Ltd.

1. Name of Member -Mr. _____
-Mrs. _____
-Miss _____ (Please Print)

2. Postal Address _____

3. Home Address-Village _____
Chief/T/A _____
District _____

4. Purpose of Loan _____

5. Amount of Loan _____

6. Member's Age _____ Education - Grade _____ Year _____

Family Status

Wife's/Husband's Name(s) _____

Ages of Children _____

Other Dependants _____

7. Work Experience

<u>Names and Addresses of employers</u>	<u>No. of years</u>	<u>Salary</u>
_____	_____	_____
_____	_____	_____

<u>Previous employers</u>	<u>No. of years</u>	<u>Salary</u>
_____	_____	_____
_____	_____	_____

12. What effect will this loan have on your income (this year, while loan is being paid off and when fully paid). Describe fully.

13. Repayment Plan

- Terms of Loan _____ (The borrower may pay off the loan at any earlier date without penalty).
- Interest at _____ % per _____ will be charged on the unpaid balance until the loan is repaid in full.
- Interest payments will be (monthly, quarterly, semi-annually, annually) _____.
- PRINCIPAL REPAYMENTS of K _____ will be made as follows: (describe frequency and amount of each payment in the repayment plan).
- THE FIRST PAYMENT of interest amounting to K _____ will be due on _____ and principal amounting to K _____ due on _____ date.

14. Security offered for loan (list co-signature, promissary notes, shares, or any other collateral)

15. Declaration:

I, the undersigned, hereby declare that all the information provided by me in this application form is true, correct and completed to the best of my ability and that I am prepared to abide by the terms and conditions as set out for full payment of interest and principal on the terms and conditions set out above

Signature

Date

Witness

FOR OFFICIAL USE ONLY

Membership Record

- 1. Years of membership _____
- 2. Current shares _____
deposits _____
- 3. Loans outstanding

<u>Date granted</u>	<u>Amount</u>	<u>Date Due</u>	<u>Repayment Record</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

4. Previous Loans

<u>Date granted</u>	<u>Amount</u>	<u>Repayment Record</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

5. Credit Committee Decision

(approved, rejected, deferred--if rejected, or deferred--reasons.)

if approved, any terms or conditions, other security, etc. and amount approved. If terms, conditions or amount is different than amount set out on the application, have member initial changes. Member should have copy promissary note he signs or copy of the loan contract.

Signatures of Committee

Appendix 6

DRAFT

_____ Savings and Credit Society, Ltd.

Application to MUSCCO for a Central Finance Long-Term Loan

1. Name of applicant _____
(be sure to attach copy of completed member application form if loan is to be used to finance a loan to a member)

2. Amount of loan K _____

3. Society's qualification to borrow

a. Has the required authority to borrow resolution been passed? ____
(please attach if copy is not on file at MUSCCO) _____

b. Total number of shares in society end of last quarter _____
Current society shares in MUSCCO _____
Amount required to meet 5% by-law requirement _____

c. Central Finance Loan Status:

List Loans	Date Due	Repayment Record
_____	_____	_____
_____	_____	_____
_____	_____	_____

d. MUSCCO Dues - amount outstanding current K _____
arrears K _____

e. Insurance Premiums due K _____

f. Month last financial statement submitted to MUSCCO _____

4. If the purpose of the loan is to finance a long-term loan to one of your members, please complete the following:

a. Main reasons why your board of directors are recommending this loan.

b. Will the member use the funds for the purposes outlined on the application?

c. How will the member be able to generate additional income with the loan to meet interest and principal payments when due? How?

d. Comment on the honesty, business ability and any other strengths or weaknesses of the individual.

e. Would you lend your own personal savings for this purpose? (In other words, does the proposal make sense, is the information provided correct, will the member benefit from this loan and is he/she really committed to meet interest and principal payments when due?)

f. What kind of monitoring will be required to assist this member develop his business plan and to make sure the business does not get into difficulties which would cause delinquency in meeting the repayments?

How often? _____

g. What part is your organization prepared to take in monitoring this loan?

h. What additional monitoring, if any is needed? _____

i. Are there any other conditions which should be placed on the loan? (security, amount, repayment plan, or any other conditions?)

j. This application was considered and approved at a meeting of directors held on _____ with _____ directors present.

k. We hereby certify that the board of directors has considered the attached application as approved by our credit committee and recommend it to MUSCCO for funding based on the information provided above.

Date _____

Chairman _____

Secretary _____

Treasurer _____

(Signatures)

(over)

FOR MUSCCO USE ONLY

1. Size of local Society _____ members _____ assets
 2. Current ranking _____ (class)
 3. Current local delinquency situation _____
 4. Other local operating problems _____

 5. History of relations with MUSCCO
 - Dues ayments _____
 - Loan repayment record _____
 - Share capital subscriptions _____
 - Insurance premium payments _____
 - Other _____
 6. Management recommendation _____
 - Credit Committee decisions
 - 1. Approved, rejected, deferred _____
 - 2. Amount _____
 - 3. Terms _____
-
-

Signatures of Committee

Date _____	_____
Date _____	_____
Date _____	_____

LOAN PROCESSING CONTROL SHEET

_____ CREDIT UNION

APPLICANT: _____

REGION: _____

PURPOSE OF LOAN	AMOUNT	DATE			ACTION TAKEN (AND BY WHOM)	DATE				RESULTS				
		SENT BY C.U.	RECEIVED BY MUSCCO	OF VISIT		INVESTIGATION COMPLETED	REPORT SENT TO C.U.	RETURNED BY C.U.	C.F. CREDIT COMMITTEE CONSIDERED	APPROVED	POSTPONED	REJECTED		

1-11

Appendix 8

CRITERIA FOR AND TYPES OF CENTRAL FINANCE LOANS

A. CRITERIA FOR CENTRAL FINANCE LOANS TO CREDIT UNIONS:

Each Credit Union should :

1. Pay dues to MUSCCC on time and in full.
2. Keep 5% of their share capital in Central Finance and keep it paid in full on a quarterly basis.
3. Pay insurance premiums on time.
4. Keep current their Central Finance loan principle and interest payments.
5. Provide MUSCCO with monthly Financial Statements.

B. TYPES OF CENTRAL FINANCE LOANS TO CREDIT UNIONS:

It must be well understood that each Credit Union is responsible for repayment of all types of Central Finance Loans, both interest and principle. It is the obligation of the Credit Union not to have late or defaulted payments on interest and principle.

There are two major types of Central Finance Loans to Credit Unions.

1. Short Term Central Finance Loans

These loans to Credit Union are to be two years or less - the total loan to a credit union cannot exceed 50% of the credit union's total share capital. The methods to disburse and to repay these loans have been established and currently are being followed. Two sorts of short term loans exist.

a. Credit Union Development Loans.

These loans are being used to buy stationery, calculators, and safes.

b. Revolving Loans.

These loans to credit unions are used for short term member loans (Annual Fertilizer and other recurrent needs).

These two kinds of short term loans cannot exceed in total amount, when added together, 50% of each credit union's share capital.

2. Long Term Central Finance Loans

These are new kinds of loans. They are of a period of up to five years. The total amount of long term loans to a credit union may

exceed their 50% share capital. Methods to disburse and to repay will be new and must be worked out by MUSCCO staff and Board members. Even the interest rates on these loans may be higher than short term rates. These long term loans can provide new opportunities for credit unions and member businesses. Most should be in rural areas. With new opportunities come new responsibilities. The individual credit unions must realise the seriousness of their new obligations. A good loan makes money for the credit union. A bad loan can break or seriously hurt a credit union. The maximum amount for each long term loan should not exceed K8,500.00 except for exceptional cases.

There are two sorts of these long term loans (up to 5 years)

a. Credit Union Business Loans

These Central Finance loans to credit unions are for businesses owned and managed by the credit unions. Examples are small manufacturing businesses (e.g. Bricks or Soap) or others such as maize mills. Management and supervision will require new skills and much training, and that will be a function of the two MUSCCO staff members provided by Africare.

b. Credit Union Loans for Individual Members.

These Central Finance Loans are to credit unions for a member's long term business project. Such a project should be a major income source for the member and could be an ex-cart, a poultry business, etc.

The credit union must accept new supervision responsibilities for these loans, because these will be larger and longer term. And the credit unions must understand their obligations to Central Finance to ensure prompt payments are received by MUSCCO.

Appendix 9

PROCEDURES FOR LONG TERM CENTRAL FINANCE LOANS

In the initial stages preference will be given to Credit Union business loans, rather than individual loans. This is not to discourage individuals, but rather to encourage the Credit Unions to develop projects which can aid their self-sufficiency. For example, as part of a Credit Union business, a building could be constructed to house both the business and the Credit Union. Also profits from the business might be used to pay the Credit Union Treasurer. Furthermore, once Credit Union officers understand the procedures and responsibilities involved in these loans, individuals can be trained more readily.

Applications for long-term business loans first should be reviewed by the Credit Committee. In the case of an individual the applicant should be interviewed. The more information which is gathered at this stage, the greater the chances of success and the speedier responses can be to the application. The Regional Field officers should be used as resource persons to help gather and organize this information. Also the Credit Union Board may wish to be involved even at this early stage, since these large loans are major enterprises for which the Credit Union must take responsibility. The following list of information to be gathered is only a suggestion. Each business will require its own unique investigation. And Credit Union businesses will be handled differently than an individual's business proposal, though the proposed manager of a Credit Union business could be interviewed in much the same way as an individual applicant.

PROJECT INFORMATION

(More may be included)

- Loan amount requested
- Description of loan purpose
- Likelihood of success. What is the market for product or service?
- Is transportation of the product a problem?
- Are required materials available?
- Where will the business be housed, if so required?
On lease or freehold land?
- Terms of financial requirements, For how long and in what amounts at various stages of development.
- Cash flow, repayment schedule. Can the business pay all costs including interest and have a surplus for principle repayment?
- What competition exists for the proposed business?

CLIENT OR MANAGER INFORMATION

- Name and address
- Age and state of health
- Time lived at current address
- Previous address and time lived there

- Education
- Work experience, skills relevant to proposed project
- Savings and loan repayment habits
- Other places (than the Credit Union) where the applicant has obtained credit. Were the loans repaid on time?
- Complete list of financial obligations. Applicant must understand that honesty and openness is crucial.
- Total assets.
- Character and business references.

Evaluation of management skills is an art and no form or formula exists for easy solutions. Whether interviewing a potential Credit Union business manager or an individual/owner applicant, the Credit Union Board and Credit Committee should pursue its own line of query and not be bound by any form. Intuition and common sense must lead the way. Below are some qualities the interviewers may wish to examine:

- CHARACTER : Is the person honest? Does he always honour his word?
- INVOLVEMENT IN THE PROPOSED PROJECT: Is this to be the main source of income? Will the applicant be the active manager?
- FINANCIAL RESOURCES: Will the applicant put substantial resources of his own into the project? What security is being offered?
- COMPETENCE: Has the applicant knowledge and experience relevant to the project?
- INITIATIVE: Is the applicant alert to opportunities, willing to try something new, and ready to follow up?
- INTELLIGENCE: Does the applicant quickly understand important points about a problem or proposal or question?
- DRIVE AND ENERGY: Does the applicant work hard and continuously and do his results show it?
- SELF CONFIDENCE: Does the applicant believe in his own abilities?
- FRANKNESS: Does the applicant talk openly about the project's weak points, as well as its good ones?
- PATIENCE: Is the applicant counting on quick results? Does it seem likely he could be discouraged easily?
- PEER RESPECT: Do people who know the applicant have full confidence in his abilities?

If the proposed project looks good and the Credit Union Board agrees to become responsible for the loan, the Board can send one copy of the application information to the MUSCCO Central Finance Loans Officer and one copy to the Credit Union's Regional Field Office.

The Central Finance Loans Officer first will make sure that the Credit Union has met all the necessary criteria to qualify for a Central Finance loan. Then he will contact the Regional Field Officer for a preliminary assessment of the project's feasibility. If responses are positive for these steps, the Central Finance Loans Officer will proceed with a Feasibility Study at his earliest available moment.

This Feasibility Study will include a thorough investigation of the application information requested above. Additional details should include:

- Clearly established objectives of the project and a development plan to accomplish them.
- Financial analysis of the project balance sheet, provisional profit and loss, cash flow projection, recommendation for financing
- A market survey indicating profitability
- Project costs including proforma invoices
- Assessment of management's entrepreneurial qualities
- Define monitoring needs and procedures
- Detail the preconditions which will have to be completed before loan disbursement

A copy of this Feasibility Study will remain at MUSCCO headquarters and another copy will be sent to the applying Credit Union.

After studying this report, the Credit Union Board should discuss again whether loan is sound enough for the Credit Union to accept responsibility for monitoring and ensuring its success. If the Board approves the project, Loan Application information as the formal request material for loan approval presented to the MUSCCO Credit Committee.

The MUSCCO Credit Committee then considers the loan request with the Central Finance Loans Officer as an information source. At least four general areas must meet the Committee's approval:

- Does the Credit Union meet all the Criteria for such a loan?
- Does the particular proposal comply with Central Finance's objectives and guidelines?
- Is the proposed project a sound venture with a competent manager?
- Does the list of preconditions set out by the Central Finance Loan Officer provide adequate loan security and monitoring?

If approval follows the above deliberations, the Central Finance Loan Officer is authorized to send the Credit Union a letter of approval stating the preconditions which must be met before loan disbursement. Examples of these preconditions are:

- An agreement on loan monitoring procedures
- Arrangements for adequate insurance coverage
- Legally correct loan security documents
- Clear title to real estate or signed long term leases
- Completion of required training programs on bookkeeping, technical skills, etc.

- A management agreement detailing the various responsibilities
- An agreement on loan disbursement indicating which suppliers will be paid directly by Central Finance.
- A signed contract on loan repayment.

When the Central Finance Loan Officer is satisfied that the preconditions are being met by the Credit Union, loan disbursement from MUSCCO Central Finance can occur.

The monitoring phase begins with both Credit Union and MUSCCO involvement. This must be a pact of collaboration which all parties see as necessary for the project's success. The details of the monitoring may vary with each project. At the Credit Union level the method of choosing a monitoring individual or committee may vary. And on its behalf MUSCCO may request monitoring help from another agency such as DEMATT. The basic two tier system will always be present. The Credit Union monitoring service will provide immediate notification of trouble, whether in loan repayment or in management or in business conditions. Any aspect of the project which is doubtful should quickly be brought to the attention of the Board which in turn may contact MUSCCO for help in resolving difficulties before they become serious.

Appendix 10

RE: MUSCCO-DEMATT COLLABORATION

OBJECTIVE: To provide technical assistance to credit union members who apply for long term loans. MUSCCO is now and probably will be short or staff to handle a large number of applications. Thus DEMATT assistance is sought.

STRATEGY: MUSCCO and DEMATT have agreed that the functions of both institutions is to help the credit unions' applications. MUSCCO now can firmly set out our recommendations dealing with procedures. If we appear unsure, DEMATT will push for a greater participation in our process. We want it clear that DEMATT is providing technical assistance when requested.

RECOMMENDED COLLABORATION PROCEDURES:

- * Credit unions screen applications.
 - * Approved applications sent to MUSCCO.
 - * MUSCCO sorts applications. Some go to DEMATT; MUSCCO makes the decisions based on DEMATT's expertise in the particular area and on DEMATT's logistical capability to handle the application. DEMATT Regional Managers will be contacted when information is needed.
 - * Applications are sent to the relevant DEMATT Regional Office, with notification to DEMATT headquarters and to the MUSCCO Regional Office. The Regional Dematt Office then decides which applications it chooses to handle, and returns unwanted ones to MUSCCO.
 - * DEMATT does a complete feasibility study on each application, including an assessment of the applicant and of the viability of the project.
 - * DEMATT forwards their package to the credit union.
 - * If approved by the credit union, the application is sent to MUSCCO.
 - * MUSCCO examines the package. If all is in order, it goes to the MUSCCO Board.
 - * The MUSCCO Board considers the proposal.
 - * DEMATT Regional and Headquarters is informed of MUSCCO Board's decision.
 - * If approved, monitoring begins at 3 levels:
 - Credit union monitor
 - DEMATT
 - MUSCCO
- Particularly to begin with, MUSCCO should check DEMATT's monitoring work.

We might further recommend a series of seminars for DEMATT staff, to explain credit unions and to detail our needs in the feasibility studies and especially in the monitoring area.

Appendix 11

Advisory Note to Regional Office on
Central Finance Loan Request

Credit Union _____

Type of Request (check one) Long-Term _____ Short-Term _____

Amount of Request _____ Date _____

Purpose: (If long-term, name of applicant, member and purpose of loan request)

Appendix 12

DRAFT

PROMISSORY NOTE

AMOUNT : _____ DATE : _____

For value received _____ (K _____)
I promise to pay back to the _____ Savings and Credit
Cooperatives Society the total amount of the loan plus the interest due, as
explained below. I will offer as security for this loan the following
terms: _____

Unless I default in this loan, I understand that I may use the property and
will keep it in the area unless I get your permission to move it. I will also
keep it insured with proper fire and theft coverage and provide you with proof
of coverage.

1. Terms of loan _____ yrs. (It is understood that I may pay off the loan
at an earlier date without penalty).
2. Interest at _____% per _____ will be charged on the unpaid balance
until the loan is repayed in full.
3. Interest repayments will be made _____ (indicate monthly,
quarterly, semi-annually or annually)
4. Principal repayments will be _____ (indicate frequency)
5. The first payment of interest amounting to K _____ will be due
on _____ and principal amounting to K _____ will be due on _____
date date

I also agree to other conditions of the Society listed below including the
condition of making my records of business and other business related matters
available to the authorized monitors of the Society.

Other conditions:

SIGNATURE

WITNESS

COSIGNATURE

WITNESS

Appendix 13

DRAFT

MUSCCO CENTRAL FINANCE PROMISSORY NOTE

Date : _____ Amount Borrowed : _____
(in words) _____, for
the value received by the _____ Savings and
Credit Cooperatives Society promises to pay MUSCCO Central Finance the
sum of _____ in payment of

plus interest payment due in _____ instalments,
the first instalment to be made on _____ 19____.

The interest rate will be figured at _____% on the unpaid balance
of the loan.

In case of any defaults in payment as herein agreed, the entire balance
of this loan shall immediately become due and payable at option of MUSCCO
Central Finance.

The _____ Savings and Credit
Cooperatives Society, further hereby pledges for security on this loan
all shares of this society as listed in the loan application and
financial _____ report
dated _____.

	<u>NAME</u>	<u>SIGNATURE</u>	<u>DATE</u>
CHAIRMAN	_____	_____	_____
TREASURER	_____	_____	_____
SECRETARY	_____	_____	_____

Appendix 14

CURRENT

GUIDE USED FOR ORGANIZATION OF SOCIETIES

1. When an invitation/inquiry has been received by MUSCCO or the Field Worker:-
 - a) Determine if the group has a (Common Bond), Potential Membership of 400.
 - b) Review the history and problems of the group. Can a society help?
 - c) Determine the leadership's attitude toward a Savings and Credit Society.
 - d) Does the group meet any MUSCCO objectives for the establishment of new societies.
 - e) Is there a location to conduct meetings and society business.
 - f) Banking Facilities.
 - g) Review briefly of Credit Union history, structure and operations.
 - h) Determine if group is interested.
 - i) Arrange date for first training session for leadership.
 - j) Obtain name and address of important leaders.

2. 1st Training Session:
 - a) Obtain names of those present (list).
 - b) Outline training requirements.
 - c) Establish dates and place, time for all training sessions.
 - d) Set tentative date for making application to Registrar for society.
 - e) Conduct training.

3. Reminder of Training Sessions:
 - a) Obtain names of trainees and compare with previous weeks.
 - b) Assess progress of trainees.

4. Final Training Session:
 - a) Make application to Registrar.
 - b) Set tentative date for starting operations, (60 days).
 - c) Establish goals for 1st month.
Members: _____
Shares : _____
 - d) Determine stationery and supply needs.

5. Begin Operations:

- a) Deliver supplies and stationery.
- b) Open books.
- c) Promote, Promote, Propaganda.
- d) Official Opening.
- e) Membership Meeting.
