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## Case Study

MZUZU COFFEE PLANTER CO-OPERATIVE UNION (MCPCU)

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# 1. INTRODUCTION

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The Community Saving and Investment Promotion (COMSIP) Co-operative Union was set up in 2006/2007 as an evolution of the World Bank Malawi Third Social Action Fund (MASAF 3) Programme that has been run in the country since 2003 and will end in 2015. The project development objective is 'to empower individuals, households, communities, and their development partners in the implementation of measures which can assist them in better managing risks associated with health, education, sanitation, water, transportation, energy, and food insecurity, and to provide support to the critically vulnerable through a variety of sustainable interventions (World Bank, "2003 [1], p. 4)."

Specifically, the programme has aimed at mobilising savings in the communities through COMSIP Clubs and investing their resources into income generating initiatives. Capacity building and the promotion of entrepreneurial culture and small business skills have been included.

COMSIP Co-operative Union developed as an independent organisation serving primary co-operatives that have emerged from those COMSIP clubs. The Union has received external funding from donors such as the International Development Agency of the World Bank, the Scottish government's International Fund and Procasur, an NGO from the United States that funds learning routes encouraging innovation to reduce gender bias. Internal resources are generated from interest on savings and share capital.

## 2. MEMBERSHIP, MAIN ACTIVITIES AND BENEFITS

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COMSIP had 51 member co-operatives. In 2012, these co-operatives together had 1949 members, an increase of nearly 17 per cent from the previous year. The Union takes its mandate from a Board of Directors, made up of nine democratically elected members from primary co-operatives and four non-voting technical members.

COMSIP Co-operative Union provides services to both affiliated co-operatives and non-affiliated co-operatives and groups (pre-co-operatives). In total, there are 75 non-affiliated co-operatives with 2674 members (2012). Membership of non-affiliated co-operatives increased by 51 per cent from the previous year. Moreover, in the period 2011–2012, 3298 pre-co-operatives were formed. Their membership is made up of 72,684 people (of whom 69 per cent are women).

The Union operates in rural and poor peri-urban areas where traditional SACCOs are not active. The Union's mission is to 'deliver flexible Savings and Investment products and services to economically empower Malawians to improve their livelihoods through member owned savings and investment co-operatives' (COMSIP Co-operative Union Annual Report 2011–2012, p.

3). Services provided by the Union are twofold:

- i. Building the savings' capacities among among rural and peri-urban communities.
- ii. Training in business management and adding value to products and services.

In 2012, saving volumes in affiliated co-operatives rose to Malawian Kwacha (MK) 15,267,745 (US\$46,266 or around £29,500), showing a growth of 155 per cent from the previous year. This includes MK3,450,000 (US\$10,450 or around £6660) in union shares. Similarly, in the same year, saving volumes in non-affiliated co-operatives increased to MK112,749,900 (US\$341,670 or nearly £218,000), growing 113 per cent from the previous year. Again in 2012, savings mobilised from groups were approximately MK311.5 million (approximately US\$944,000 or around £602,200) compared to MK 156 million (US\$472,000 or around £301,180) in the previous financial year.

Overall the figures show that both affiliated and non-affiliated COMSIP co-operatives and groups have been experiencing a steady growth in terms of membership and savings.

COMSIP members have identified the following benefits:

- Access to loans at a lower interest rate than that required by microfinance institutions.

- Opportunity to initiate individual business.
- Well-being improvements at household level (food security, housing, children in school, savings, access to healthcare).
- Improved financial literacy and management through access to training.

## 3. CO-OPERATIVE RESILIENCE

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There are two inter-linked challenges to building up a resilient Union and member co-operatives. First is the low capital base (both at Union and co-operative level). Second there is a lack of understanding of the co-operative model and of the self-help approach. Because the COMSIP model has been implemented by donor agencies, there is still an expectation of hand-outs amongst members. It means that it is difficult for members to understand that loans need to be repaid, otherwise their own co-operative businesses are at risk of failing.

These challenges are being addressed in a number of ways. First is through capacity building and encouragement to buy shares in the co-operatives as collateral against loans. Second, the COMSIP model combines saving with investment in business activities. Investments in viable businesses are intended to increase members' capacity to repay loans and therefore ultimately the co-operatives' and the Union's resilience.

### 3.1 Membership

Co-operative membership in COMSIP is fairly homogeneous. Members belong to the same rural community and experience similar levels of poverty. They may differ in terms of type of economic activity, which may be subsistence farming or small businesses.

Low repayment of loans is a major challenge. Low repayment can be due to delinquency; however, small farmers, in particular, face risks of not being able to access markets, being exploited by middlemen or experiencing variation in weather patterns, all of which can undermine their capacity to repay loans.

Low repayment is also affected by aid dependency and the expectation of receiving assistance from outside donors. As COMSIP was promoted initially as a development project with outside aid, some members find it difficult to understand that not repaying the loans will have a direct impact on their co-operative's and on the Union's sustainability. For the same reason, some members engage with non-governmental organisations and the co-operative at the same time, trying to obtain as much aid as possible.

Where COMSIP's capacity building has been effective and members have generated profitable businesses, the membership has been more committed to the co-operative. Furthermore, successful members have been a driver for membership

growth, since people from the community are more motivated to join the co-operative when they see successful experiences.

In this respect, an important driver of membership growth has been the participation of women. Women who engage with COMSIP co-operatives usually invest loans in their own small businesses. Their engagement with the co-operative has significantly increased household wellbeing, and many women members report that this has been generating a change in household relations, with husbands becoming more favourable to women's participation in the co-operative. Women's participation is also leading to increasing representation in decision making positions. In the Union Board, women constitute more than 30 per cent of the membership.

There is also considerable potential for the involvement of youth in the COMSIP model, even though it is still at a very early stage. Providing financial services to youth and developing a culture of savings is seen as crucial for the future resilience of COMSIP. At the same time, youth's engagement could contribute to the development of their vocational skills.

## 3.2 Collective skills

The lack of adequately skilled leaders, members and managers poses a challenge for effective governance within COMSIP co-operatives. Only a few co-operatives keep records and almost none has a bookkeeper. As a result, it is difficult for the Union to monitor and evaluate member co-operatives. The Union is therefore considering training a member in every co-operative as a bookkeeper. This member would also act as a link between the Union and the member co-operative.

The most important skill developed by members participating in COMSIP co-operatives is the acquisition of a culture of savings. This is crucial for co-operatives to increase their capital base and their resilience.

Through collective work and training, members have developed a degree of entrepreneurial skills. Sharing experiences between members has been reported as crucial to increasing members' self-confidence and identifying the most profitable and viable businesses. To support members in this respect, each co-operative has a loan committee whose role is to assess the viability of business proposals.

The common bond from belonging to the same community means that members know each other very well. This generates a degree of mutual control in terms of loan repayment. It also enables the loan committee to know more about the collateral held by the member who is asking for a loan. However, the most important collateral is the number of shares owned by the member.

Members also engage in collective co-operative businesses, which generate resources for the co-operative. Potential is seen here for adding value to farming activities. Co-operatives have been engaged with value addition to a very small extent so far. In this respect, there is high demand for skills to improve business competitiveness that has to be met by the Union. The demand is mainly in the

following areas: soap making, honey, bakery, batik, cane making, piggery management and poultry management. In 2011–2012 a very small proportion of members (133 out of 6798 members) has been trained in honey processing, wine making and agricultural product packaging.

Other people in the community are invited to co-operative training events, which provide opportunities for further recruitment as well as enhancing the skill base in the community as a whole.

### 3.3 Networks

Even though COMSIP has evolved as an independent organisation, donors' support is still an important component in providing services to member co-operatives, non-affiliated co-operatives and pre-co-operatives. However, building a resilient and independent Union requires sustainable member co-operatives, an adequate capital base, a committed membership and skilled leaders and managers. These features in turn require a strong, long-term vision among co-operative leaders to identify strategies for resilience.

As part of such a strategy, relations between COMSIP co-operatives have been seen as useful for sharing experiences and best practices. Increasing such connections is thus a priority, even though access to transport for members to travel between co-operatives remains challenging.

Although there are no relationships with other co-operative unions (in 2013), the Union's leaders and managers recognise the importance of establishing collaboration, particularly for lobbying and advocacy purposes.

### 3.4 Innovation

The key innovation of the COMSIP model is that it aims to bring finance and production together in the same co-operative. As in SACCOs, members buy shares and can obtain loans. However, as indicated above, farmer members in particular struggle to repay loans because of the risks they face as subsistence farmers.

For this reason, COMSIP is working on a strategy to offer services to members similar to those provided by producer co-operatives: collective marketing at Union level for farmers' produce and support for investment in adding value to products in the primary co-operative (for example, those outlined above).

However there are some major challenges: COMSIP co-operatives have inadequate technologies, lack specific expertise and find it difficult to obtain fair prices for their produce. Some co-operatives have obtained processing machines – for instance, to produce tomato sauce – from national programmes, such as the One Village One Product (OVOP) Programme. However, other inputs – such as training in using the technology and access to consistent supplies of electricity – are required to enable this technological upgrade to be converted into profitable businesses.

Better coordination between different programmes in the country working with co-operatives is therefore needed to build up a resilient and sustainable co-operative movement.

Finally in the COMSIP model, as noted, co-operatives provide loans directly to members who buy shares in the co-operative. In contrast, even though co-operatives buy shares in the Union and in turn receive services in terms of capacity building, they cannot borrow money from the Union itself. This is because the Union does not currently operate as a source of credit for affiliated co-operatives. The Union shares from the co-operatives are not kept in the Union but invested into a trust fund. The Union tries to facilitate relations between co-operatives and commercial banks to access financial loans, although interest rates are usually too high. Therefore, due to the difficulty of accessing access credit experienced by COMSIP co-operatives, which limits their capacity to innovate and develop their business, the Union is now exploring the possibility of enlarging the range of services offered to affiliated co-operatives, including providing loans.

### 3.5 Role of government

COMSIP co-operatives are registered under the Co-operative Act. They are regulated by the Department of Co-operatives in the Ministry of Industry and Trade. Being an evolution of a governmental programme, the Union also has close relations with the Ministry of Gender and the Ministry of Agriculture.

The Union benefits from government support in terms of extension services and co-operative education. Although useful, it has the contradictory effect of creating distance between the Union and the co-operatives, as the Union is not in contact with primary co-operatives on a daily basis. One result is the lack of effective flows of communication between the Union, co-operatives and members. This lack of routine communication reduces the Union's efforts to change members' expectations about hand-outs and to build a self-help approach. In this respect, as outlined above, the planned training of a bookkeeper in every primary co-operative should enable better communication between the Union and co-operative members, leading to better governance and greater resilience in the longer term.

### Note

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1. World Bank. 2003. *Malawi – Third Social Action Fund Project (APL)*. Washington, DC, The World Bank. <http://documents.worldbank.org/curated/en/2003/04/2351502/malawi-third-social-action-fund-project-apl>