

Document name	Case Study 3 THE MALAWIAN UNION OF SAVINGS AND CREDIT CO-OPERATIVES (MUSCCO)
Document date:	16/09/2013
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OpenLearn Study Unit:	The resilience of Co-operative: lessons from Africa
OpenLearn url:	http://www.open.edu/openlearnworks/course/view.php?id=1598



Case Study

MZUZU COFFEE PLANTER CO-OPERATIVE UNION (MCPCU)

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1. INTRODUCTION

The 'Malawian Union of Savings and Credit Co-operatives' (MUSCCO) is the oldest co-operative union in Malawi. Set up in 1980, it represents Savings and Credit Co-operatives (SACCOs) operating in the country. Its mandate is to provide services and support its members.

SACCOs in Malawi were promoted in the 1970s by the government, the Catholic Church and the donor community. This development was in contrast to what happened to agricultural co-operatives at that time, which were deregistered and replaced by national authorities who controlled the agricultural sector.

The first SACCO dates back to 1973. Initially, 26 SACCOs came together to found the Union in 1980. Their savings amounted to only Malawian Kwacha (MK) 360,000 (about £700), with a similar amount in loan portfolio. Since then, both MUSCCO and SACCOs have experienced steady growth.

Currently MUSCCO has 46 affiliated SACCOs. Their total assets amount to around MK3.6 billion (around US\$11 million or about £7.2million) and their loan portfolio is more than MK2.4 billion (more than US\$7 million or £4.8million).

2. MEMBERSHIP, MAIN ACTIVITIES AND BENEFITS

MUSCCO has 116,122 members, of whom 60 per cent are male members; nearly 35 per cent are female members and the remaining are groups. Groups can be institutions, such as hospitals and schools, or organisations such as clubs, for instance women's clubs.

SACCO members buy shares in the co-operative. Members can also agree to make regular savings contributions, and can take loans from the co-operative at favourable interest rates.

SACCOs are divided in two main types: employees-based and community-based. In the first type membership is homogeneous. Members are usually employed in the same company and savings are deducted directly through their payrolls. In community-based SACCOs, members belong to the same community, creating a common bond between members. Although most will be farmers, the membership of community-based SACCOs can also be quite heterogeneous. In this type of SACCO, members themselves deposit savings in the co-operative.

In employee-based SACCOs, loans are mainly used to fill the cash gap between payday or as consumer loans. In community-based SACCOs, loans are mainly used to buy farming inputs, for small business activities or for household needs, such as paying school fees.

The internal organisation at MUSCCO works as follows. SACCOs own the Union by paying share capital. SACCOs are gathered in three chapters, one chapter for every region (37 per cent SACCOs in the southern region, 48 per cent in the central region and 15 per cent in the northern region). Every chapter elects delegates who participate in the MUSCCO General Assembly Meeting and elect the MUSCCO board of management. This is made up of five directors and three external technical members. Women represent 25 per cent of Union Board members.

A gender policy has been in place since February 2013 to acknowledge the inadequacy and gaps in gender composition at all levels in both MUSCCO and affiliated SACCOs. The gender policy works on these main thematic areas: education and training; governance and human rights; economic empowerment; gender empowerment; and gender-based violence and sexual harassment at the work place.

MUSCCO provides member co-operatives with services in main five areas:

- i. Finance

MUSCCO operates as a Central Financial Facility (CFF) whereby SACCOs invest 10 per cent of their share capital and 15 per cent of their deposits. The CFF

provides SACCOs with liquidity management system and short-term financing. It also provides banking facilities to member SACCOs where they can invest and borrow at a competitive rate. Revenues from CFF are MUSCCO's primary source of operating income.

ii. Operations

MUSCCO provides technical assistance to member SACCOs in the following areas: bookkeeping/accounting; business planning and budgeting; policy formulation and promotion; programme development; community relations; stakeholder linkages; research and analysis courses design; and SACCO education programmes' design and training materials.

iii. Management information system

MUSCCO provides SACCOs with specific ICT technical services to facilitate the transition to computerised operations and management information systems.

iv. Technology transfer

This includes specific training and technical services to facilitate advancing knowledge and the use of technology among member SACCOs and the installation of new technology.

v. Audit and inspection

The Registrar of Co-operatives has given a mandate to MUSCCO to conduct audits and inspection in all SACCOs. Moreover, according to the 2011 Financial Co-operative Law, the supervision of SACCOs falls under the Reserve Bank of Malawi (RBM). However, MUSCCO has been given the responsibility to supervise all the small SACCOs (those with assets less than MK75 million – nearly US\$230,000 or about £150,000) on behalf of RBM.

3. CO-OPERATIVE RESILIENCE

In so far as the MUSCCO is an ownership-based organisation, it should also be supported by the SACCOs to provide its services. However, Malawian SACCOs have been facing many challenges, which significantly affects the Union's resilience. In fact, the lack of viable SACCOs can easily result in a lack of financial sustainability for the Union.

In this respect, what has been happening since 2011 is illustrative. Some of the largest SACCOs have failed to honour their financial obligations with MUSCCO. This was for many reasons linked to governance and management challenges experienced by the SACCOs. A crisis in the tobacco market made the situation worse. Large SACCOs whose membership is mainly made up of tobacco farmers were almost wiped out because of a significant decrease in tobacco prices and the related difficulty of members to repay loans. In the 2011 financial year, MUSCCO reported a loss of MK10 million (around US\$30,300 or nearly £19,130), and donor support was crucial to keep the same level of business development services.

Low loan repayment and low capital adequacy (undercapitalisation) have therefore been identified as major challenges, both at SACCO and Union level. Measures have been put in place to assure that SACCOs borrowing from MUSCCO have capitalised enough with MUSCCO so that if they fail to repay their loans, the Union is able to recover. There has been a similar process at SACCO level. The approval of a Financial Co-operative Law has been an important achievement in promoting compliance.

MUSCCO has relied heavily on donor support but has an aware and self-reflective leadership that aims to build up the Union's resilience. This means providing training and capacity building for leaders, managers and members; encouraging adequate share ownership at both MUSCCO and SACCO level; promoting technological modernisation in operations; and improving governance. These factors are conducive to resilience in the ways explained below.

3.1 Membership

Resilience is hard to achieve in SACCOs made up of employees from the same company or farmers involved in the same crop production. Any shock affecting the company or the production or marketing of the crop would directly have an impact on the SACCOs and consequently on the Union.

For farmer SACCOs, for example, the main challenge is markets – either their lack or their volatility. Farmers usually borrow money to buy inputs but then they may be affected by price changes or markets controlled by middlemen, as well as droughts or floods.

There are other issues in homogeneous SACCOs. For example, in employee-based SACCOs, where savings are deducted from the payrolls, there have been instances

when the money has never been remitted to the SACCOs. This has been particularly critical in the last ten years and known as the 'payroll deduction problem'. The Financial Co-operative Law now acknowledges that withholding deductions is an offence.

The best performing community-based SACCOs are those where membership is diverse – made up of small business people and farmers – and where members have been able to add value to their products and access stable and equitable markets.

However, although membership diversification is good for risk management, it has been identified as challenging in terms of governance. Different types of members may have different interests/expectations from the SACCOs and governance may then be highly conflictive.

There is evidence that SACCOs with the highest increase in women's membership have performed better than other SACCOs. Reasons identified include women being more favourable to working in groups, and being able to build trust and support each other. However, it is also suggested that women's inclusion needs to be accompanied by training. For example, unequal gender relations in the home may result in spouses appropriating loans for their personal use, resulting in non-repayment. Women having both access to training and belonging to a group can strengthen their participation and ability to sustain the SACCO.

3.2 Collective skills

Governance in SACCOs has been reported as a major challenge. Part of the explanation is the lack of appropriate skills among members, leaders and managers. SACCOs can therefore be in the hands of a few skilled people who are tempted to use the co-operative for individual purposes. Although in recent years almost all SACCOs have been able to hire full-time staff supported by the SACCOs' financial resources, there is a skill shortage nationally and there are not enough highly qualified people in co-operative management. Those who exist may not be able to move to remote areas, where the majority of SACCOs are located, and some SACCOs cannot afford to pay them.

The lack of qualified leaders, particularly those who understand co-operative principles and values, is seen as a major challenge for co-operative resilience. Although MUSCCO has been providing leadership training, leaders are appointed for a maximum of six years, which limits the extent to which their knowledge can be capitalised on in the co-operative.

In the light of this, the Union and SACCOs also provide training for members on how to manage financial resources, as well as social issues such as gender relations and health concerns such as AIDS. The reach of this training depends on availability of resources and access to transport, particularly in relation to remote, rural SACCOs.

The increase in group membership has been acknowledged as an important strategy to increase governance and develop collective skills. Small groups, such as women's clubs, are considered more conducive to active participation and to developing collective skills. Fostering a collective culture of savings is considered the most important issue for co-operative resilience.

An important contribution to more transparent and accountable management and better governance is computerised operations and access to new technologies, explored below.

3.3 Networks

Dependence on donors is a major issue for MUSCCO. Since its foundation, MUSCCO has been supported by several development agencies such as USAID, the Danish and Norwegian Development Agencies, the Swedish Co-operative Centre; the Canadian Co-operative Association and the World Council of Credit Unions (WOCCU). Donor aid has been needed both to enable MUSCCO to deliver its services and to become more resilient in the longer term in terms of support for capacity building.

Collaboration between financial and producer co-operatives could have an important role to play in long-term resilience, especially in rural areas. Farmer co-operatives have the potential to engage in value addition and access stable and equitable markets. They would then be in a stronger position as SACCO members to save and repay loans. In this respect, MUSCCO has engaged with the Farmers Union of Malawi and the National Association of Smallholder Farmers of Malawi to create a consortium aimed at fostering collaboration between producer organisations and SACCOs.

3.4 Innovation

Two major innovations have been identified in MUSCCO: a process innovation and a product innovation.

The process innovation is in the use of ICTs. MUSCCO has been facilitating SACCOs' computerised operations and access to ad hoc software. Challenges and opportunities have been identified around this innovation.

SACCOs that have been computerised have been more effective in providing services to their members and information to stakeholders. ICT implementation is also expected to increase the SACCOs' competitiveness with commercial banks. Another important contribution is in terms of governance. Where SACCOs have been computerised, a clear line of responsibility between directors and managers has emerged. Moreover, it has increased transparency and made it easier for members to check information on directors and managers.

The challenges have been in terms of costs. For example, the annual maintenance costs of software can be unaffordable for SACCOs, especially if there is currency devaluation, as the software is paid for in euros. Some SACCOs that have engaged with computerisation and new software have collapsed. Moreover, some SACCOs are located in remote areas, where connectivity is weak. Technological literacy is a further challenge, and in this respect MUSCCO has been providing training.

The product innovation has been in terms of insurance provision. In this respect, MUSCCO has been running an in-house 'insurance' programme called SACCO Financial Protection Plan (SFPP). It is made up of two main products, namely Life Savings and Loan Protection. These two products were initially offered in partnership with CUNA Mutual – the USA Credit Union National Association – with which MUSCCO shared the risks. Since CUNA withdrew from Africa in 1999, MUSCCO has been offering the insurance products on its own, without an appropriate legal identity and without reinsurance (Enarsson and Wirén, 2005[1]).

The Life Savings scheme is available to every member who has shares and deposits with a SACCO. When a member dies, the appointed beneficiaries receive an amount equal to the deceased member's combined balance of shares and amounts on deposit, up to preset limits. The Loan Protection is available to every member who takes out a loan with the SACCO and is mandatory. When a member dies, MUSCCO pays the loan balance that is yet to be repaid to the SACCO, interest included. This scheme is particularly important for SACCOs where the mortality rate of members is high especially due to the HIV/AIDS pandemic.

The need of further insurance schemes is identified, for instance, to cover members in case of SACCOs' default. This has been particularly important due to several defaults experienced in recent years. The main concern is in terms of reputation. Lack of trust in SACCOs could significantly hit the whole movement of financial co-operatives.

3.5 Role of the government

The Financial Co-operative Act was adopted in 2011. It has been a very important achievement for MUSCCO, since SACCOs have been recognised as part of the larger financial sector in Malawi. The law may play an important role to create a modern and resilient financial co-operative system in Malawi. SACCOs and all financial co-operatives have to be registered and licensed with the Reserve Bank of Malawi and subjected to direct regulation. SACCOs now have to comply with directives on capital adequacy, licensing requirements, external borrowing, reporting requirements, premises, liquidity requirements and asset classification. SACCOs have been given until 2015 to comply, and administrative and monetary penalties are in place to enforce compliance. This requires further work for MUSCCO to support affiliated SACCOs to modernise their operations and strengthen their capital base. Merges between SACCOs to increase their size has been identified as a potential strategic option.

Although the Registrar of Financial Institutions regulates and supervises SACCOs, MUSCCO has been delegated to supervise small SACCOs. This has not solved a challenge that MUSCCO has experienced since its foundation: the conflict between its role as co-operatives' promoter and co-operatives' auditor/supervisor. However, the lack of adequate financial and human resources at the Department of Co-operatives requires the Union to perform these conflicting functions.

The adoption of the Financial Co-operative Law has been acknowledged as an important achievement; however, there is a need to harmonise this law with the Co-operative Act, which regulates all other types of co-operatives and it is crucial to avoid any conflict in interpreting and implementing the law.

Note

1. Enarsson, S. and Wirén, K. (2005) 'MUSCCO –Malawi Union of Savings and Credit Cooperatives', CGAP Working Group on Microinsurance Good and Bad Practices, *Case Study No. 8*.