

Dear Natalie,

Thank you very much for investing a lot of time in preparing a comprehensive report on CUMO for possible donors. We have reviewed the summary as well as the full write-up and wish to make the following clarification so that the information is accurately portrayed.

- **Focus on drop out –**

We notice that only 2 (SEF & AMK) of the other 9 MFIs seem to be rated higher than CUMO on drop out rates probably because of what you indicate as inconsistencies. We have not understood your comment and therefore taking corrective action or giving appropriate responses to your comment is difficult. We however wish to request that the statements below be edited as indicated:

- i. CUMO Calculates its drop out rate as the proportion of clients who dropped out during out during the period over the opening number of clients that existed at the beginning of the period.¹⁶ and that a drop out is any client who completes a loan cycle and does not take out another loan right away.¹⁷
 - ii. Clients had issues with the frequency of repayments in 2003,²⁴ and this remained a major reason clients cited for dropping out in 2008. In response to this, CUMO now gives clients an option of paying fortnightly or monthly. CUMO is also considering the possibility of introducing loans that can be repaid over 12 to 24 months.
- **Repayment rate –** In our telephone conversation on this matter I indicated that I had seen the repayment rate being reported in any of CUMO's previous reports. In view of this I had further indicated that I would check our Loan tracking system for the rate and revert to GiveWell. I am pleased to report that I have checked the system and I am pleased to confirm that we are able to get the repayment rates from our loan tracking system, Kredits. As of June 2010, the repayment rate (Calculated as: *Total Repayments in the Period less Prepayments/Installments and amounts due including past dues*) worked out at 87% not far off from the on time repayment rate given in the operations report. The Current Repayment Rate (CRR) (calculated as *Repayments in the period less prepayments/amounts falling due in the period*) worked out at 93%. Also note that both formulas do not take into account repayments received by the company that could not be allocated by the close of the reporting period. Please incorporate this in your final report.
 - **Room for more funds –** Statements placed in the summary on this matter do not match those made in the main report. The summary states "it appears unlikely that CUMO can effectively use additional donations to scale up current programs. Thus, we cannot confidently recommend CUMO to donors" while the main report has the following "The chair of CUMO's board of directors told us that additional donations would be used to expand lending activities to additional areas of Malawi and to pilot new products.³⁴ CUMO's CEO told us that such new products might include loans with longer repayment periods and support for social enterprises such as provision of safe drinking water.³⁵ We do not know how much in additional donations CUMO could productively use for these projects in the next year." The statement that follows he paragraph above ("CUMO told us that it is not in need of funding for its established loan products, though its reserves are lower than they were at the time of the M-CRIL assessment.³⁷") is probably what has created the wrong conclusion in the summary on the Matter.

- Please note that CUMO is currently operating in 11 of the country's 28 districts and has not fully covered the districts it operates in yet. For the future, CUMO would like to expand into other districts while at the same time ensure financial deepening in the districts it is currently operating. While current funding could support the deepening of existing products in the existing districts, expansion into new districts with the same products will require new funding. Furthermore, CUMO is aware of the need to introduce other products to supplement the existing ones as mentioned above and introduction of these too cannot be possible without additional financial flows into CUMO.
- It should also be noted that expansion will necessitate upgrading of internal systems including the loan tracking system, purchase of essential equipment such as motor cycles, bicycles and other items for reaching out to the new areas, office equipment for the additional personnel that will be required in the new areas etc. CUMO also anticipates the need to relocate its head office as business expands to northern districts of the Central region. Grant support will therefore be necessary and we would be grateful if you could edit the "Room for More Funds" section of the report accordingly. However, as we are now revising our strategic plan, we do not have specific values to the elements mentioned above at the moment. We hope to have these figures by October 2010.
- **Areas of Operation** – Please note that in CUMO the term "Business Area" means something else whereas the 11 you refer to as business areas actually refer to government administrative regions of the country. Please replace the words "11 Business Areas" therefore with "11 Districts".
- **How CUMO Protects Clients from Harassment** – Client activities are governed by provisions contained in written group constitutions. The constitutions provide various measures for averting risk and for members to support one another. Firstly, clients are encouraged to make regular savings into their group savings account which can then be used to cover a member who is unable to make his/ her installment. Secondly members agree to support one another by subscribing to the provisions of the group constitution. Thirdly, members do pledge to the group some asset that can be collected by the group in the event that a client has completely failed to repay for reasons other than illness and death. On its part, CUMO ensures a strong relationship between its officers in the field and the groups is maintained.
- You might also wish to note that there is no audit report that ever observed undue pressure on clients.

Remaining Questions

- *Interest rates.* Can CUMO share examples of repayment schedules (how much is due and when for a variety of loans)?
Please find sample repayment schedules below.

Payment Schedule [amwale]							
CUMO Microfinance Limited							
Payment Schedule						Report No. L06	
FSO: Watson Masamba						Printed: 10/08/10 10:45	
Client Name: [REDACTED]						Client Type: Group	
Loan No.: [REDACTED]						Index Currency MWK	
Date	Disbursements		Repayments				Total
	#	Principal	#	Principal	Interest	Fees	
07/07/10	1	125,000.00					
21/07/10			1	15,625.00	3,750.00	0.00	19,375.00
04/08/10			2	15,625.00	3,750.00	0.00	19,375.00
18/08/10			3	15,625.00	3,750.00	0.00	19,375.00
01/09/10			4	15,625.00	3,750.00	0.00	19,375.00
15/09/10			5	15,625.00	3,750.00	0.00	19,375.00
29/09/10			6	15,625.00	3,750.00	0.00	19,375.00
13/10/10			7	15,625.00	3,750.00	0.00	19,375.00
27/10/10			8	15,625.00	3,750.00	0.00	19,375.00
Total		125,000.00		125,000.00	30,000.00	0.00	155,000.00

Repayment Schedule for Fumba Loan

Payment Schedule [amwale]							
CUMO Microfinance Limited							
Payment Schedule						Report No. L06	
FSO: Peter Gama						Printed: 10/08/10 10:50	
Client Name: [REDACTED]						Client Type: Group	
Loan No.: [REDACTED]						Index Currency MWK	
Date	Disbursements		Repayments				Total
	#	Principal	#	Principal	Interest	Fees	
24/11/09	1	355,000.00					
22/12/09			1	0.00	17,750.00	0.00	17,750.00
19/01/10			2	0.00	17,750.00	0.00	17,750.00
16/02/10			3	0.00	17,750.00	0.00	17,750.00
16/03/10			4	0.00	17,750.00	0.00	17,750.00
13/04/10			5	0.00	17,750.00	0.00	17,750.00
11/05/10			6	355,000.00	17,750.00	0.00	372,750.00
Total		355,000.00		355,000.00	106,500.00	0.00	461,500.00

Repayment Schedule for Mtenthandebvu

CUMO Microfinance Limited							
Payment Schedule						Report No. L06	
FSO: Henry Maduka						Printed: 10/08/10 11:09	
Client Name: [REDACTED]						Client Type: Individual	
Loan No.: [REDACTED]						Index Currency MWK	
Date	Disbursements		Repayments				
	#	Principal	#	Principal	Interest	Fees	Total
22/02/10	1	5,000.00					
22/03/10			1	0.00	200.00	0.00	200.00
22/04/10			2	0.00	200.00	0.00	200.00
24/05/10			3	0.00	200.00	0.00	200.00
22/06/10			4	5,000.00	200.00	0.00	5,200.00
<i>Total</i>		5,000.00		5,000.00	800.00	0.00	5,800.00

- *Client indebtedness.* Are clients taking on too much debt? CUMO ensures that clients are not borrowing too much as follows:
 1. CUMO places its field personnel in the locality where clients stay and conduct their businesses. This enables the officers to know the clients and their businesses through regular visits to the client businesses. Using their knowledge of the client, CUMO officers can advise against borrowing more than the client can support.
 2. CUMO's loan application forms capture client business profitability data. Clients are not expected obtain a loan whose installment will exceed 40% of the profits the enterprise is able to generate over the installment period. In this way clients only take loans they can afford to repay with ease and from profits. The measure is also aimed at helping clients to build up capital.
 3. At the application stage, clients vote for or against the amounts requested by fellow members of group. In effect, clients appraise each other before the application is finalized.

Regards

Ezekiel Phiri