

Social Performance Assessment
and
Institutional Case Study
of
CUMO, Malawi

March 2009

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INTRODUCTION

CUMO Microfinance Limited is a not-for-profit rural microfinance company providing an integrated set of financial services (savings, credit and micro-insurance) and market information services to exclusively rural clients located in remote and difficult-to-reach areas. It was established in 2000 as a project of Concern Universal but was incorporated as a standalone Company in May 2007. CUMO currently serves over 32,000 clients (85% of whom are women) in 1,486 villages across 11 districts of Malawi. A rated Company (Credit Rating was conducted by Planet Rating Agency in February 2008) and listed member of the global MIX Market (Microfinance Information Exchange), CUMO is also a member of Africa Microfinance Network and Malawi Microfinance Network.

CUMO has previously used a rigorous client-led Impact Assessment (IA) system called PLIMS (Participatory Livelihood Monitoring System) comprising a Livelihood Asset Status Tracking System (LAST), Focus Group Discussion and Case Studies. These qualitative tools have been supplemented by semi-structured questionnaires to collect more quantitative data. The overall objective of CUMO's IA protocol has been to provide a qualitative and quantitative measurement of the socio-economic difference its financial services are making in the lives of its clients particularly in the areas of food security, housing, land cultivated, savings, household asset accumulation, business volume, and other indicators. This participatory monitoring and evaluation system has not only provided ongoing assessment of impact on clients' livelihood but also critical information on clients' needs and expectations.

Previous Impact Assessments have assisted CUMO in making strategic decisions. Now with CUMO placing a greater emphasis on the social performance and impact of its services on all stakeholders, a wider ranging Social Performance Assessment was carried out by M-CRIL, forming the first part of the assignment.

On an annual basis, CUMO publishes a report outlining CUMO success stories, product development, operational changes and future plans. CUMO commissioned M-CRIL to compile a detailed examination of CUMO's history, organisational changes and successes which have taken place in the last 5 years, in the form of an Institutional Case Study, which forms the second part of this assignment.

SCOPE OF WORK

Working closely with CUMO's Technical Advisor and top management, M-CRIL carried out the following tasks:

Social Performance Assessment

1. Reviewing and understanding CUMO's current monitoring systems.
2. Reviewing the initial baseline study and previous assessment studies.
3. Redesigning the monitoring tools to take into account all aspects which are needed to conduct a Social Performance Assessment in future years. This would also take into account all changes within CUMO since the last assessment was carried out.
4. Using the Social Performance Assessment to assess what changes to impact on clients have been made between the last assessment date and now.
5. Producing and submitting a publishable report on the key findings, including recommendations to CUMO management.

Institutional Case Study

1. M-CRIL included these areas in the institutional case study.
 - History, vision and objectives
 - Governance, values and objectives
 - Coverage and operations
 - Products and services

- Financial Management – income and sustainability
 - Monitoring and Evaluation tools (including social performance analysis)
 - Achievements to date
 - 2009 and going forward
2. M-CRIL has consolidated these documents with its observations in the field and discussions with management, to produce a publishable institutional case study for submission to CUMO's management.

THE PROCESS

The social performance assessment and institutional case study process took six weeks, and involved a team of three, the Director and two analysts with the following activities:

1) Preparation (in advance of visit by team to the MFI)

- Review of annual reports, planning documents, operational manuals, recent research documents and recent internal/ external assessments (documents are listed in annexure 1, page 29)
- Data request to MFI, sent in advance and completed by the MFI
- Sharing of questionnaire for survey of recent clients.
- Selection of areas for field work

2) Visit by the team to the MFI

- Understanding the Malawi context, CUMO's social objectives, strategies and a detailed understanding of the methodology, products, services, operational structure and processes.
- Presentation to MFI to introduce social performance assessment concept and approach
- Interviews with senior management and staff
- Follow up collection of data, reports
- Review of Board minutes
- Orientation/training of field staff on questionnaire and data collection
- Field visits with MFI field staff – for client survey and Focus Groups

3) Collection of Client Level Information

- Client level information was drawn using a survey designed by M-CRIL, administered by 6 field staff from CUMO, under M-CRIL's supervision. The questionnaire was administered to 138 clients. The Progress out of Poverty Index (PPI) tool for Malawi (published in February 2009), was used for collection of client poverty level, and formed part of the questionnaire form for the client survey. Other questions focussed on basic client profiling.
- Client information was also collected by M-CRIL's analysts through 7 FGDs with a total of 91 clients. Information on awareness, use of other financial services and indebtedness, various effects experienced by clients after association with CUMO's programme, suggestions and other issues were discussed.

Micro-Credit Ratings International Limited offers
Comprehensive social assessment to complement financial rating

Microfinance rating until now has focused on organizational and financial performance related to risk assessment. Financial sustainability is vital for continuity and expansion, but is only half the story of microfinance. Most microfinance institutions (MFIs) and those who support them (investors, bankers, policy-makers, and donors) have a *social mission*. A social rating/ social assessment complements the financial analysis of a credit rating with analysis of the social performance of MFIs, providing an assessment of the double (or triple) bottom line.

Social assessment – a tool for social performance assessment, based on a new definition

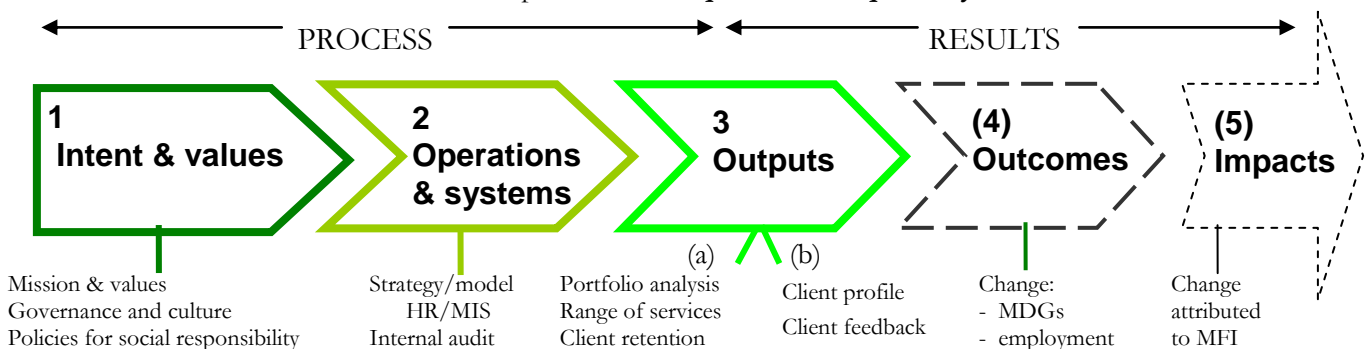
The social assessment tool has evolved with current thinking around social performance in terms of strategically analyzing the steps that are necessary to create impact (in comparison with a focus on impact assessment per se). Social performance is defined as:

the effective translation of an institution’s mission into practice in line with accepted social values; social values include serving poor and excluded people, improving quality of services, supporting enterprises and employment, improving the economic and social conditions of clients, and being socially responsible.

[Social Performance Task Force]

This new definition emphasises governance and management processes, outputs and outcomes (not just impact), and generic values around outreach and social responsibility. This approach has the inbuilt flexibility to be relevant to all MFIs, with varying models of microfinance and different articulations of mission.

Social assessment covers the first three steps of the *social performance pathway*:



M-CRIL was the first microfinance agency to develop a social rating product, drawing on the experience of its parent company – EDA Rural Systems – in undertaking social assessments. M-CRIL is a member of the Social Performance Task Force, chairing the sub-committee for social performance rating and reporting.

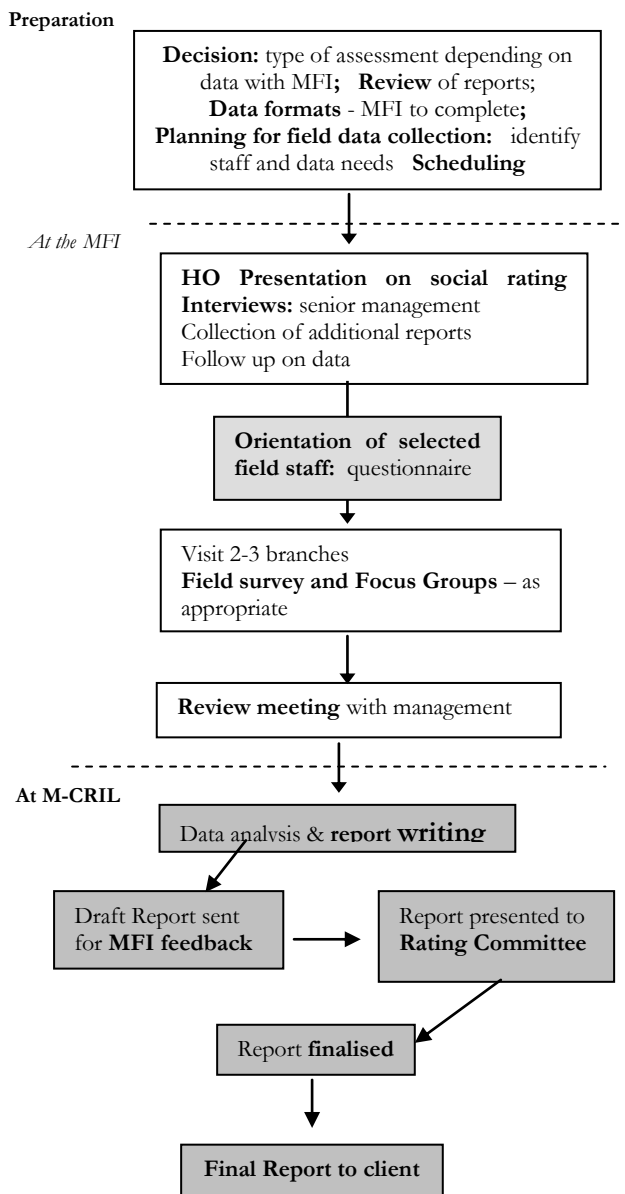
The conceptual framework and methodology has been refined through a series of pilots starting in 2005. 17 preliminary social ratings were undertaken in India and Bangladesh. Since 2007, M-CRIL has completed 8 comprehensive social ratings in India, Vietnam, Cambodia, Kenya, S Africa, Haiti and Bolivia.

Why have a Social Rating/ Social Performance Assessment?

Social performance assessment offers a number of important benefits – as an internal management tool and as a reporting tool – to **MFIs, funders** and **discerning social investors**:

1. It encourages MFIs to **improve** their social performance management and reporting.
2. It promotes **transparency** on social performance and social risk
3. It provides a basis for **benchmarking** and comparing social performance
4. It provides information relevant to external **social reporting**
5. It **promotes** investment in MFIs with a strong social performance.

The Process



Key Questions Addressed

- ⇒ **Mission clarity and alignment of systems:** Does the institution have a clear and comprehensive social mission that is shared by all stakeholders and integrated in decision-making? Are its services and strategy consistent with mission? Does the institution orient and incentivise staff appropriately? Does it have systems in place for effective monitoring and reporting on social objectives?
 - ⇒ **Social responsibility to clients:** Is there a clear code of conduct for client protection, covering key ethical principles, with effective mechanisms to monitor? What are the effective costs of services in comparison with accessible alternatives and microfinance costs? As applicable, are there effective processes for member governance or non-financial services?
 - ⇒ **Other social responsibility:** What is the institution's policy on gender equity, staff benefits and opportunities, community and other stakeholder values, and environmental risks relevant to its operations? How effectively are such policies implemented?
-
- ⇒ **Outreach results:** In addition to the number of clients – is the institution reaching its target clients? Is it reaching the unreached (the poor, those otherwise excluded from formal financial services)? In under-served areas?
 - ⇒ **Quality of services:** Apart from the range of services, are they appropriate to target clients? What is the market feedback? Are there any issues for clients? Are clients fully aware of all terms and conditions? What is the rate of drop-out (as an indicator of client dissatisfaction)?

Social Performance Assessment: Implementation

The social performance assessment usually involves a team of two persons, spending 2-3 days at the Head Office and upto 3-5 days in the field. Careful preparation is necessary to establish the information available with the MFI, and deciding the scope of field level data collection for the social assessment.

Social Performance Assessment

A relatively quick, practical assessment, with a focus on the steps to achieving impact and social value, the report presents findings on key questions of social performance. In the context of country level development indicators and microfinance industry data, the report highlights:

- MFI adherence to social mission, alignment with accepted values, consistency of systems and results.
- Issues that need attention to improve social performance for mission consistency.

This exercise is an assessment of an institution's Social Performance – its values, systems and results in terms of outreach and quality of services.

Contributing to social reporting and social performance management in microfinance

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CUMO	Malawi								
<i>Company limited by guarantee</i>	2009								
<p>Mission Statement: To take relevant, affordable and valuable financial services to rural people, particularly targeting women and the poor.</p> <p>Values:</p> <ul style="list-style-type: none"> • Responsiveness to client needs • Using home-grown solutions • Using existing facilities for service delivery • Strategic partnerships for efficient operations • Sustainable but socially responsible operations • Zero tolerance for arrears • Innovation and change • Regulatory compliance 	<p style="text-align: center;">SYNOPSIS</p> <p>CUMO Microfinance Limited (CUMO) began operations in 2000. CUMO is located in the Central district of Dedza. In a highly underdeveloped country CUMO pioneered lending to the poor people in rural areas, with a focus on women. CUMO has demonstrated reasonable poverty-outreach results and a commitment to delivering value to clients, by designing products and processes to facilitate ease of transacting and lowering of costs. CUMO is committed to achieving the double bottom line, and has established linkages with agricultural input companies and commodity exchanges for the dissemination price information. CUMO has attained stability, operating in a difficult area, and is planning to fully cover its 11 districts of operation before further expansion. As of December 2008, CUMO has 28,792 women members and 9,645 men members with portfolio outstanding of MWK 180.2 million (US\$1.2million). As a private company, CUMO does not collect deposits but it has active strategic partnership with a number of banks, particularly Standard Bank in which its clients are encouraged to save in group accounts, and internally, for on-lending. Total savings in group accounts (banked and internally rotated) is MWK 26.2 million (US\$ 0.17 million).</p> <p>Strengths</p> <ul style="list-style-type: none"> ⇒ Balance of social and financial goals evident, Board regularly monitors achievement of social objectives ⇒ Operating strategy and product design are strictly aligned to the social mission, while reaching untapped market potential ⇒ Encouragement to clients to save in banks, and to develop financial discipline through internal rotation of savings ⇒ Good quality internal reports, especially on client exit, loan utilisation and client satisfaction ⇒ Responsiveness to client needs evident through product modifications and launch of funeral benefit insurance ⇒ Reduction of client transaction cost and integration of non financial services (MACE/AIDS awareness/business training ⇒ Strong alignment with community and traditional leadership <p>Issues</p> <ul style="list-style-type: none"> ⊖ Lack of clear (SMART) social objectives, particularly for poverty outreach, and rural outreach ⊖ Low utilisation of available funds for outreach ⊖ Interest rates on loans appear to be nationally competitive but are high due to high operational costs of reaching far-flung areas; cash collateral poses a difficulty for clients ⊖ Systems require improvement in terms of collection and consolidation of operational data, before social performance parameters (such as client profiling at entry, awareness levels, interview at exit, etc.) can be integrated on a continuous basis ⊖ Quality of reporting can be improved considerably, with more quantitative data collection, analysis and tabulation of results ⊖ Quality of supervision at the field requires attention ⊖ Staff satisfaction should be tracked on a regular basis 								
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #800000; color: white; padding: 2px;">Model:</td> <td>Solidarity group lending</td> </tr> <tr> <td style="background-color: #800000; color: white; padding: 2px;">Services:</td> <td></td> </tr> <tr> <td style="background-color: #800000; color: white; padding: 2px;">Financial</td> <td>Micro-credit for enterprise and agriculture Encourages client savings in formal banks, and voluntary saving and loans internally in groups Insurance through partnership</td> </tr> <tr> <td style="background-color: #800000; color: white; padding: 2px;">Non-financial</td> <td>Linkage to farmer support services and price information Direct - Started: HIV-AIDS awareness programmes for staff, plan to extend to clients Direct - Not yet started: Plans to introduce entrepreneurship training</td> </tr> </table>	Model:	Solidarity group lending	Services:		Financial	Micro-credit for enterprise and agriculture Encourages client savings in formal banks, and voluntary saving and loans internally in groups Insurance through partnership	Non-financial	Linkage to farmer support services and price information Direct - Started: HIV-AIDS awareness programmes for staff, plan to extend to clients Direct - Not yet started: Plans to introduce entrepreneurship training	
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<p>Exchange rate: US\$ = 150 Malawi Kwacha (Mar 2009) Organisational data as of December 2008</p>									
Micro-Credit Ratings International Limited, Gurgaon, India									

Organisational data as of 31 December 2008

SOCIAL PROFILE
Systems and MIS
Mission orientation: Provision of quality services, rural focus, supporting women, serving poor

Clients (active borrowers) 28,997

Rural 100%

Women - active borrowers ~72%

Women - members 85%

Women - staff 49%

Client protection: Guidelines as part of operations: client freedom in setting group constitution, staff behaviour and checking over-indebtedness

Average outstanding loan \$42

Average size of loan disbursed \$68

Loans < \$300 NA

EIR (av. cost to "Masika" clients, incl. insurance, cash collateral + processing charges., excl savings effect) 194%

Agriculture clients with market linkage? 175

Dropout rate (M-CRIL formula p17) 5%

Client information (2009) In percent
Indicative sample data ^a

[comparative Malawi data]

 Depth of outreach: ^b

Below national poverty line 36 [44]

 Below \$1.25/day at 2005 PPP NA [65]^c

 Below \$2.5/day at 2005 PPP 92 [90]^c

Implied number of clients

 Clients completed primary schooling ^{b+} 15 NA

 Borrowed from moneylender (prev. yr)^b 0

 Household – client of another MFI ^b 0

 Women headed households ^b 22%

 No adult earning member ^a 43%

^a The sample is small and indicative only; apart from the poverty assessment sample (see note below) the findings reflect results from a 7 FGDs with graduated clients of CUMO (total of 91 clients)

^b Estimated from poverty assessment sample survey undertaken by CUMO staff, applying the Progress out of Poverty Index for Malawi with a cluster sample of 138 entry level clients in March 2009

^c Taken from "A simple poverty scorecard for Malawi, Mark Schreiner, 2009".

Financial performance	Dec-08
Operational Self Sufficiency*	91.3%
Borrowers/field staff	354
Operating Expense Ratio	75.7%
Portfolio at Risk (30 days)	1.2%
Annualized Percentage Rate	149.0%
Portfolio yield	62.8%
Average cost of funds	0.0%
Return on Assets	3.0%

*As per M-CRIL formula, does not include incomes from bank interest, foreign exchange gains and sundry incomes.

Assessment Highlights

Governance: CUMO's Board is strongly committed to achievement of positive social change through provision of financial services. The Board closely monitors CUMO's performance on financial aspects and social "impact", through external impact assessment studies and internal reporting on client satisfaction, client exit and loan utilisation patterns.

Mission and strategy: Social goals are not clearly articulated, but a broad sense of mission has been assimilated throughout the organisation. CUMO's strategy is closely aligned with reaching rural areas, women and the poor. The loan size filters out non poor (reflected in outreach results), while expansion is exclusively in rural areas. CUMO has successfully offered clients a mix of savings and loans, while pioneering micro-insurance in Malawi, and encouraging clients to rotate savings while maintaining group bank accounts. Changes in policies to incorporate client suggestions have helped reduce costs, while increasing convenience for clients.

Information System: CUMO needs to tighten information flow processes before financial and social information can be tracked simultaneously on a regular basis. PAR and dropout have to be manually reconciled with Kredits Software calculations because of deficiencies in the software. Although socially relevant data is collected regularly through client surveys (both internal and external), there are weaknesses, especially in the impact studies, such as excessive reliance on qualitative data, and weak measurement of actual effects. With a stronger and more systematic information flow from the field to the head office, and adequate monitoring of data quality, this, and other client profiling information (such as the PPI) could be collected for all CUMO clients and analysed on a regular basis, in-house and at low cost. CUMO could also track clients cycle-wise and product-wise on a continuous basis. Division of data collection and consolidation between Dedza and Zomba regional offices may facilitate easier monitoring and coordination.

Client protection: Internal audit reports are detailed and of good quality covering client protection issues partially. CUMO's policies are designed to prevent client indebtedness and to maximise client convenience while reducing transaction costs. CUMO's EIR is very high due to high operating costs of reaching far off villages and currently there is no scope to reduce it because this will adversely affect sustainability. Some lapses in documentation have occurred due to inadequate supervision and follow up.

HR: CUMO selects socially oriented candidates and gives quality classroom training, but lack of mentoring at the field-learning level needs attention. The new incentive is not aligned to the social mission of reach rural, poor and women, rather it focuses on portfolio quality, client number and client retention. Performance appraisal is well designed to cater to financial and social goals. Field staff require constant reinforcement of CUMO's values, as fear of negative impact on performance incentives may prevent them from fully disclosing CUMO's policies to clients

Other social responsibility: Strong buy-in with the community through linkages with traditional authorities. Introducing business training for clients, dissemination of information on HIV/AIDS, market linkages and agriculture-related information.

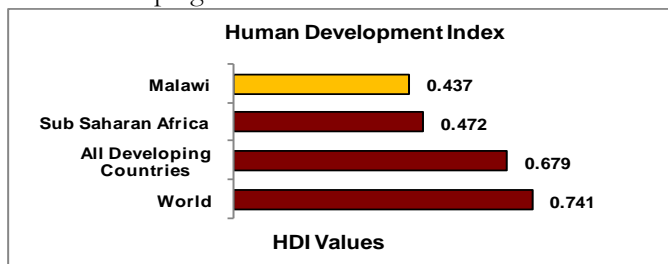
CONTEXT

Malawi has a population of 13.9 million (2008), which is predominantly rural (82%). CUMO has its HO in Dedza, with operations in 11 districts in Central and Southern Malawi.



Economically it is a low income country, with p.c. GNI of US\$161.7 in 2006. Malawi scores low on development indicators, with life expectancy at birth of 46.3 years, fertility rate of 6 births per woman, infant mortality at 125 per 1,000 births, and 35% population undernourished. It is also beset with health problems, the most important being malaria, hepatitis A, typhoid and cholera. 14.2% persons aged 15-49 years are infected with HIV/AIDS. Probability at birth of not surviving to age 40 is 44%.

Out of 177 countries, Malawi ranks 164 on the Human Development Index (HDI which reflects life expectancy, literacy/education and per capita GDP) – lower than the average for sub-Saharan Africa, and well below the average for all developing countries.



UN Human Development Report, 2008

Malawi is heavily dependent on agriculture, with over one third of the country's GDP contributed by tobacco and maize cultivation, and 84% primary exports, mainly constituted by tobacco. In 2005-06 there was a widespread

famine in the country, triggered by failure of the maize crop. Malawi's economy is mainly fuelled by donor aid representing 26.8% of its GDP in 2005 (at 575 million).

Millennium Development Goals: indicators		
Poverty	Popn. < Nat. poverty line 2005 PPP*	44%
	Popn. < \$2/day at 1993 PPP*	60.8%
	Popn. < \$1/day at 1993 PPP*	30.4%
Education	Adult literacy (15 yrs +)	35.9%
	Net primary enrolment	95%
	Net secondary enrolment	24%
Gender equality	Female : male ratio – adult literacy	0.72
	Female : male ratio – primary enrolment	1.05
	Female: male ratio – secondary enrolment	0.81
	Women in Govt: Parliament Seats [‘04]	13.6%
Health	Economic Activity Rate	95%
	Life expectancy (years)	46.3
	Population with access to: - improved water source	73%
	- improved sanitation	61%

*Statistics from “A Simple Poverty Scorecard for Malawi”, Schreiner 2009. All others from, UN Human Devlpt. Report, 2008 (2005 data)

Microfinance

The microfinance sector in Malawi is divided between public entities, private institutions and NGOs. Microfinance in Malawi refers to the entire sub-prime lending sector, covering 20 providers, 5 of which are public sector entities, others being private companies or NGOs. Most of the MFIs (except those operating as banks) are not permitted to collect public deposits. A microfinance policy drafted by the Government of Malawi in 2002 states that the Government supports the development of microfinance institutions. However, a bill for standardisation of the sector and regulation by the Reserve Bank of Malawi is still pending in Parliament. Currently there is no formal regulation of microfinance providers. The Malawi Microfinance Network (MAMN), with 20 members, was established in 2000 to facilitate exchange of experience and provide for capacity building and implementation of best practises across MFIs in the country. MFIs lend in the range of MWK 10,000-250,000 and charge interest rates ranging from 48%-60% p.a.

Microfinance/NGOs in Malawi (Sept 2008)

Name of MFI	Active Borrowers	Portfolio (USD mn.)	Average Loan Size (USD)	% of p.c. GNI
MUSCCO (Cooperative)	171,235	7.4	43.3	26.8%
MARDEF (Govt project)	105,015	4.6	44.1	27.3%
CUMO (Pvt.corporation)	32,583	0.8	25.0	15.4%
OIBM (Licensed Bank)	28,550	18.5	649.4	401.6%
FINCA (Pvt. corporation)	16,348	2.0	124.9	77.2%
MRFC (Govt corporation)	4,487	2.4	532.2	329.1%

USAID Deepening Microfinance Sector in Malawi, Sept 2008. Per capita GNI USD 161.7 (2006)

INTENT & DESIGN

MISSION

Clarity and communication

Clearly articulated, guiding operational strategy, not broken down into specific objectives

CUMO's mission is stated with a focus on outreach to rural areas, specifically targeting women and the poor. The mission also states that the financial services provided should be relevant, valuable and affordable, indicating that client satisfaction with the services in terms of product design and cost should be maximised. CUMO's mission was formulated by its stakeholders in 2006, although its principles have guided the organisation in its strategy from inception. CUMO's expansion strategy has deliberately focussed on rural areas, including some of the poorest districts in the country.

CUMO's strategic vision is to create a viable regional rural microfinance network with the capacity to meet the diverse needs of remote communities, as part of efforts to reduce poverty.

In order to track the profile of clients being reached, CUMO uses a tool called Livelihood Asset Status Tracking (LAST) System in its impact assessment studies, to measure client poverty levels based on asset ownership. The tool asks clients to respond on pictures, depicting different types of houses, household assets, livestock, food stocks, and other assets. The tool categorises four types of clients – non poor, upper poor, middle poor and poorest. LAST is not a regular screening tool used for all clients and it is used only for around 10% of clients who are screened as part of the impact assessment study.

Social objectives are not clearly defined in terms of specific targets for outreach to poor, women, or maximum acceptable dropout rate. CUMO has not stated specific (SMART) objectives in terms of outreach, although its products are mainly directed towards the poor and designed to exclude the non-poor. For its impact assessment study, CUMO has stated its social goal as "to improve the livelihood security of resource poor households in rural areas, with a target of 5% yearly increase in clients' livelihood status for CUMO clients as compared to non-clients" (more details on page 27). However, this is not mentioned in any other strategic document at CUMO.

Although targets are mentioned in the business plan, these do not specify outreach to poor particularly. CUMO states in its product policy documents that there should be at least 80% women members in the programme overall, however results show that women currently constitute only

72% of CUMO's borrowers, despite constituting 85% of members. Business targets have been defined for the Kasupe product, which is meant to reach peri-urban clients, with a higher loan-absorption capacity.

The spirit of mission is reasonably strong throughout all levels of management and staff. Staff are oriented to help the clients and be supportive in terms of suggesting better means of doing business, and extending market-related information. However, the designation of operations staff as Financial Service Officers (FSO), Financial Service Supervisors (FSS) and Business Area Supervisors (BAS), emphasise provision of financial services and focus on business, rather than on aspects facilitating social change.

Governance

CUMO was established in 2000 as a project of Concern Universal (CU) but gradually gained autonomy and was incorporated as CUMO Microfinance Limited in May 2007 under the Companies Act of Malawi, 1986 as a Company limited by guarantee. CUMO is wholly owned by Concern Universal. The governance structure of CUMO comprises an Executive Board, a Chief Executive Officer and three departmental heads of Operations; Finance & Administration; and MIS.

CUMO has a nine-member board, all of whom were appointed in September 2006. The Board presents a mix of relevant experience in microfinance, banking, economics, accounting and corporate law, while two members have academic qualifications in farm management and community development. The Board is active, with 4 meetings a year and reporting on a variety of issues, both financial and social. The Board takes an active interest in assessing CUMO's social impact.

CUMO's directors have shown a keen interest in the achievement of sustainability, while encouraging optimum use of finances for extending outreach. CU has supported the evolution of CUMO from its initial days as a project and continues to take a keen interest in its development. There is a very positive relationship between the two institutions, which is expected to continue. CUMO together with CU has successfully managed and closed out a grant from DFID of US\$4.8 million, made in 2003. Although the original grant period was four years (2003-2006), the DFID funding lasted over 5 years on the basis of two consecutive non-funding extensions till December 2007 and further till March 2008. Till date, the funding structure of CUMO consists of grants (DFID and Irish Aid), in-kind technical assistance (USAID/Deepening Microfinance Sector) and internally generated revenue (operations). CUMO's funding consists of donated equity in the form of a capital grant from DFID, constituting the entire equity base of the organisation.

CUMO is in the unique position of having surplus funds at its disposal, a substantial proportion (48%) of which has been used for short term investments until such time as it is used for expanding the loan portfolio. CUMO has no plans to raise commercial loans or debt in any form over the next three years, as per its business plan, since it already has sizable surplus liquidity to meet its short term needs. CUMO also states the current legal form (company limited by guarantee) will continue to be suitable. However, with the advent of new microfinance legislation and if CUMO needs to raise substantial amounts of new funding, then one key issue is whether to convert to be a deposit taking institution (bank) as this will allow it to raise relatively cheaper retail funds (from savers) or wholesale funds (from other banks), compared to having to borrow on commercial terms.

Among CUMO's objectives in the short term, are achievement of FSS by December 2011, viable operations in at least 15 districts by 2012, and an active client base of 45,000 saving and borrowing clients by 2010, and 60,000 by 2012. There is no mention, however of social targets: of how many, for example, are expected to be women, or rural clients – or 'poor' by different levels. Considering the existing operational profile, it can safely be assumed that rural areas and women will continue to be a priority for CUMO.

ALIGNMENT OF SYSTEMS

Model for service delivery

Strong emphasis on convenience for clients – partnering with other agencies

CUMO uses a branchless and cashless system, both unique to Malawi, in order to provide maximum convenience and safety to both its clients and staff. CUMO places strong emphasis on constantly aligning its methodology to client requirements.

CUMO uses the group model for financial intermediation, to encourage collective decision making, as well as to facilitate joint liability and preliminary risk assessment. CUMO has not followed a poverty based screening/selection system, and anyone is free to join the programme (except local village heads) through self selection during group formation. Although CUMO has a poverty assessment tool (LAST), this is only administered on a sample basis during impact assessment studies, and does not constitute a criterion for applicants' selection into the program. Potential clients are encouraged to form solidarity groups of 10-20 members, which save and lend internally. After establishing a history of internal lending, the group can approach CUMO for its first external loan.

Group meetings take place fortnightly using existing physical infrastructure (church, schools) in the villages, and

are attended by the Financial Service Officers. The meeting is a forum for collection of savings, internal lending and repayment of CUMO loans. CUMO's procedures ensure that group members collectively pass each other's loan applications, impose fines on members making late payments, and take turns for depositing collections. The group secretary is responsible for cash counting, book-keeping, and recording the minutes. Training in CUMO's policies is provided to the group members over six weeks by staff. CUMO also facilitates the opening of a group savings bank account.

Most of the client's financial transactions are made through depots of Agora and Farmer's World, two leading agricultural input agencies in Malawi, which have a very wide presence in rural areas. Groups are also encouraged to deposit their repayments in Standard Bank branches, wherever these are accessible. (CUMO negotiated with Standard Bank and Malawi Savings Bank to lower the minimum balance requirements for CUMO group accounts, an important step in enhancing financial inclusion). The agreements with Agora and Farmer's World have reduced transaction costs and time spent, by enabling clients to make their repayments at the most accessible point from their village. CUMO is shortly planning a pilot of smart-cards and mobile banking with Malawi's two leading providers (Malswitch, Makwacha and others), so that its clients can benefit further from reduced transaction costs, through doorstep deposits using POS terminals.

All groups have a group account in Standard Bank or Malawi Savings Bank in which their loan disbursements are made. Withdrawals from this account are made by the group leaders in the presence of two other members, and the loan amounts are handed to the group members. Only repayments are deposited at the Agora/Farmer's World depots, and savings must be internally rotated as loans or banked in the group account.

Money is collected and counted at the group meeting, and deposited immediately after. Receipts are made by the depot staff on CUMO's pre-numbered receipt books, in quadruple copies (one for the depot office, one for CUMO's head office, one for the depositor, and one for the Business Area Supervisor (who visits the depots on a monthly basis to collect all receipts for tallying field records with Head Office accounts).

CUMO does not collect savings deposits but encourages clients to save in their Bank group account. Deposits are collected in cash at the centre meeting, which are banked immediately or rotated as internal loans. Even when balances remain after internal lending, some clients tend to prefer keeping the amount in the custody of the group treasurer as an emergency fund, rather than banking it. The fortnightly saving amount is decided upon as part of the group constitution. Clients are discouraged from using

their savings to meet CUMO’s cash collateral requirements, although this is allowed in exceptional cases.

CUMO does not follow a branch model, as this would add to costs for clients. Instead, the field staff (FSOs) live within a 10 km radius of their field area.

Market strategy

Strong poverty focus – area and clients

Areas: CUMO started its operations from Dedza, because of its affiliation with Concern Universal, its parent foundation, which had its office in this district. The microfinance operations originally started as an experiment in rural microfinance. After covering all the counties in the district (referred to locally as Traditional Authorities or TAs), CUMO expanded to other contiguous districts.

The organisation targets villages and rural trading/market centres. While prioritising districts for expansion, CUMO follows certain criteria, listed below:

- Geographical proximity to existing operating districts
- Population density and potential for business
- Cost of expansion and operations
- Districts in which CUMO has considerable understanding of the people and their socio-economic conditions
- Districts in which CUMO has active support from the district assemblies, Traditional Authorities and community leaders
- Physical presence of CUMO’s service providers/partners – banks, Agora, etc
- Concern Universal (CU) operating districts in which CUMO’s operations compliments CU’s healthcare, clean water, food security and other livelihood services thereby ensuring holistic livelihood services and maximum impact.

Clients: CUMO aims to target poor people, primarily women. It does so through its Masika loans, which are designed to attract only the poor. The low loan size is sufficient only for very tiny businesses, which are typical of those run by small entrepreneurs in rural areas. Self selection takes place during the group formation process. CUMO specifically mentions that rich or salaried persons should not be included in groups, so also prominent members of the community. Others excluded are defaulters on loans to other MFIs, and the very sick or very old. However, CUMO does not apply a formal screening criterion (such as poverty profiling or cash flow analysis) to all clients.

Products: *Enterprise and agriculture loans, adapted to suit client needs*

CUMO’s Masika Loan Product

Clientele	Groups
Loan guarantee	Social guarantee
Min. Size	MWK 3000 (\$20)
Max 1 st loan size	MWK 5000 (\$33)
Max loan ceiling	MWK 50000 (\$333)
Term	4-6 months Fortnightly or monthly (from 2nd cycle, only if average loan is MWK 7,500 and criteria* are met)
Instalments	
Loan linked savings	Internal saving should be as per group constitution and group bank account must have been opened

*Criteria: Savings performance at least 90%, group meeting attendance 90%, on time external loan repayment rate, at least 95%, internal repayment rate, at least 90%, record keeping as per requirements.

CUMO’s Masika loan offers clients lower interest rates on subsequent loan cycles: 6% p.m. till second cycle, 5% from third to fifth cycle, and 4.5% p.m. till the tenth cycle. Groups with members’ average loans of MWK 7,500 can shift to monthly repayments from their second cycle, while those taking an average of MWK 17,500 can extend their loan term to six months. Clients are incentivised to borrow higher amounts, while staying with CUMO’s programme for several cycles. Staff often do not tell clients about the six month option (as per client exit survey, December 2007), to reduce chances of seasonal change and consequent defaults. Loan size starts at MWK 3,000 (\$20) up to a maximum of MWK 5,000 for a first loan. (Loan costs are discussed on page 17.) CUMO’s loans are specifically intended for use in productive enterprise.

CUMO also has an agriculture loan, called Fumba. This product is meant to be disbursed at the onset of the rainy season, so that clients can cultivate maize, tobacco, or other crops and repay at the end of the season. Fumba loans can only be accessed by clients who have successfully completed one cycle of Masika. The loan, when first introduced used to be in kind, generally in the form of an agricultural input such as seed or fertiliser. However, CUMO had a bad experience when the government introduced a fertiliser subsidy, while CUMO had huge stocks of fertiliser bought at original prices in its warehouse.

CUMO’s Fumba Loan Product

Clientele	Groups
Loan guarantee	Social guarantee
Min. Size	MWK 3000 (\$20)
Max 1 st loan size	MWK 10000 (\$67)
Max loan ceiling	MWK 40000 (\$267)
Term	4-6 months

Instalments	Balloon repayment at the end of the season
Loan linked savings	Internal saving should be as per group constitution and group bank account must have been opened

Clients can access a Fumba loan while they have an outstanding amount on their Masika loan. Although the Fumba loan is designed to have a balloon repayment, the staff encourage clients to pay some amount on a monthly basis, to reduce the risk in case there is a crop failure.

CUMO has also introduced a solidarity-group based loan product for graduated clients, called Kasupe. For this product, groups of 5-7 are formed, with clients co-guaranteeing each other. This product is open to graduating clients of Masika who have completed ten cycles of (till MWK 50,000 Masika loans). New clients can only access up to MWK 30,000 in their first Kasupe cycle. CUMO is also targeting new clients in peri-urban areas with Kasupe loans. The maximum loan that can be extended under Kasupe is MWK 200,000 (in the sixth cycle). Repayments are monthly and there is no grace period in this product. CUMO intends to increase the portfolio under Kasupe to at least 20% of its entire portfolio so as to cross subsidise its other products.

CUMO has also recently piloted a new product called Mtenthandevu, which is a small-holder tea growers' loan, extended in solidarity groups of 5-7, ranging from MWK 10,000- 50,000, with monthly repayments over 4-6 months. This is specifically extended to tea-growers with small farm holdings.

Borrowers - % of borrowers; and % of portfolio

	Masika	Fumba	Kasupe	Mtenthandevu	TOTAL
No. of loans outstanding	25,335	7,740	81	978	34,134
Portfolio (\$mill)	0.67	0.47	0.02	0.07	1.2
Average o/s loan (\$)	26	61	256	74	42

Savings are compulsory in CUMO, although the organisation does not engage in the collection or management of these funds. The internal saving regularity is seen as an indicator of credit-worthiness. Some groups voluntarily collect an “emergency fund” as additional savings to meet their instalment repayment in the event of any contingency. It is compulsory for every client to save at every fortnightly meeting and clients may withdraw their savings in accordance with their constitution (usually when they leave the programme). The minimum amount of saving is decided by the group, and usually is around MWK 50 – 200.

CUMO has partnered with NICO LIFE, a leading insurance provider in Malawi, to provide funeral benefit insurance to its clients. Each client contributes 2% of their loan amount (collected for every loan cycle) and in the event of death, the outstanding loan amount is covered. In addition the client’s family receives MWK 5,000 to cover the funeral costs. CUMO plans to introduce hospitalisation insurance, based on client feedback, and is in the process of negotiation with different insurance partners for introducing this product at lowest cost to clients. CUMO currently earns a small commission on a profit-sharing basis with NICO LIFE.

HR

Aligned orientation and training, comprehensive performance appraisal system, incentives based on financial and operational performance

CUMO advertises itself in its recruitment strategy as a microfinance organisation working in rural areas, primarily with poor and women. Short-listing is done on the basis of the candidates’ resumes, with a minimum qualification of secondary schooling for the field staff. Any experience in organisations working in rural and development related work is considered an added advantage. The minimum qualifications for Regional Managers and Business Area supervisors are university first degree and diploma respectively.

Trainee field staff are selected on the basis of an interview, during which questions involving simple mathematical problem-solving and book-keeping are asked. Particular preference is given to those with a development-work orientation. CUMO prefers women field staff because of the job responsibilities involving interaction with a majority of women clients.

CUMO field staff are given an orientation by the HR Manager/ Operations Manager/Regional Managers of two weeks in organisational policies and procedures. Emphasis is on working with the poor and women, and the training is interactive, with use of local language, and case studies for better practical understanding. Trainees are also oriented to the concept of women’s empowerment, and are taught how to encourage women to take responsibility for assets which are normally associated with men (business, money, bank accounts). Each trainee field staff is then placed in the field for on-the-job training of three months, at the end of which they are expected to be attending meetings of at least 350 active clients (approximately 24 groups).

Although CUMO constantly upgrades skills at all levels through various internal and external training modules based on informal needs assessment by the top management (details on pages 21), there is a need to improve on mentoring and hand-holding of field staff, as only a few trainee staff achieve a target of 350 clients in

three months, which is the required number of clients per FSO.

The job responsibilities for FSO, FSS and BAS are clearly mentioned in the operations manual. Performance appraisals support the social mission and values, by covering various aspects such as client awareness and staff conduct. FSOs appraisals are done on a monthly basis, and are based on six parameters: internal operations (group attendance and level of awareness, repayment of internal loans), external operations (loan appraisal, completeness of documentation for CUMO loans), group meeting accounts (quality of group level record keeping), loan portfolio (PAR, recovery efforts), professional conduct (punctuality, customer relations), and managerial capability (quality of supervision, leadership role and initiative). Scores are assigned and tabulated for all field staff and the annual score is calculated for deciding the increment to staff. Those with above average scores get a single notch increment and staff who achieve an exceptional score of 25 points get double notch increment of 10%.

CUMO has a revised incentive system in place, which is very comprehensive and detailed. It is awarded on achievement of active clients equal to or greater than the budget target, client retention of at least 90%, outstanding portfolio of at least MWK 1.2 million, growth in loan portfolio of at least 20%, on time repayment of minimum 98%, and PAR 14 of not more than 2%. As can be seen, emphasis is more on business volumes and portfolio quality than on social parameters, such as specific outreach to poor, or women. Since BASs get 50% of the total incentive payout for their area subject to achievement of the area budget target for the quarter, they are also incentivised to achieve targets, rather than to pay attention to performance on the mission. Average incentives have amounted to 40% of basic salary for FSOs and 25% for BAS.

There is a strong recognition and reward system, with the “best” (highest over-achievement of targets, and with good behaviour record) FSOs, FSSs and BASs being awarded with a cash prize, a trophy and their picture displayed prominently in the head office. The competition is conducted on a yearly basis. Long service awards are also given to staff that have completed five years service with CUMO.

Information and reporting *In-house studies adequately capture client exit and satisfaction Gaps in consolidation of data, gaps in systematic internal social reporting, and weaknesses in methodology of impact assessment studies require attention*

CUMO’s MIS is based on the Kredits Loan Tracking Software (developed by the U.S based Technical Development Solution), Sage 50 accounting package and

Quantum Solution payroll system. CUMO has faced some challenges before adequate customisation was made in its Kredits software. As a result, there are many gaps in operating information, owing to problems in data entry and consolidation. The software has not been utilised to the optimum level, and reports on portfolio quality and dropout rate are generated manually, because of problems in reconciling the accounts and the client numbers from the field. For instance, the audit reports mention information-related problems such as delays in postings of loan repayments in the system, insufficient or careless filling of documentation from the bank officials leading to an increase of unidentified deposits¹, untimely correction of errors after submissions at the banks and CUMO’s head office, and delays in entering disbursements of loans in the system, which limits postings after clients have started repaying instalments.

In an effort to manage data better, CUMO will now have databases in two regions (Zomba and Dedza), where all operational and accounting information for the region will be collected by despatch riders. It is planned that the information from both databases will be consolidated on a monthly basis at the head office. This will result in easier supervision of timely data collection and entry.

As regards information systems for tracking social performance, CUMO’s Marketing and Product Development Officer (MPDO) has prepared client exit survey reports, loan utilisation reports and client satisfaction studies. The MPDO has resigned recently and the organisation is in search of a suitably qualified person to take over this position (designation and role has now been changed to Research, Training and Development Manager).

CUMO has been reporting to the Board on a variety of performance indicators, including socially relevant statistics, such as gender based outreach, drop-out percentages, and collection and rotation of internal savings (although these are not collected by CUMO). CUMO has hitherto tracked achievement of its social objectives using frequent in-house and external studies, rather than systematically capturing social data for all clients as part of its regular information system.

CUMO has used the information from its studies to make changes in its product policies (fortnightly to monthly payments, reduction in interest rates in later cycles of Masika), and repayment processes (networking with Agora and Farmers’ World to reduce transaction costs and distance for clients).

¹ Data on repayments, and receipt copies are collected from the banks and the depots on a monthly basis by the BASs and sent to the Head Office

A summary of the methodology of the reports is given below:

- 1) Impact Assessment Report: Conducted by external consultants in 2006, as follow up to a baseline study conducted in 2004-05, the latest study presented data from 243 members and 136 non-members. Although sampling has been representative for both control and experiment groups (control group included non clients in CUMO's operating areas, as well as non clients in areas where CUMO was not operating), migrants (perhaps dropouts) who were not traceable from the baseline survey presented a difficulty.
- 2) Client Satisfaction Survey: Conducted annually, internally, using cluster sampling. Most recent study (December 2007) included survey of 829 clients and FGDs with 11 groups from 6 business areas. This constituted a representative sample for the time of the study (4.2% of clients, 75% women and 25% men). However, the sample was not stratified according to loan cycle, which might have been more representative. The study included responses on levels of satisfaction with various aspects of CUMO's services, and comparisons across gender and business area. It could be extended to include comparisons across products, as well as market segments (very poor, medium poor). This would ideally involve client profiling at entry for all CUMO's clients, plus setting of parameters defining each market segment.
- 3) Client exit survey (conducted annually, most recent being March 2008). Survey was conducted with 205 clients and FGDs with a total of 86 clients, using cluster sampling in 5 business areas. The study included reasons for dropout, stage at which clients dropped out, analysis of dropout across various business activities (based on loan utilisation), impressions about CUMO's services, and proposed suggestions for improvement of the programme. The quality of exit surveys can be improved by analysing product-wise differences in reasons for dropout, difference across market segments. Representative sampling could help in understanding dropout patterns across different business areas (rural, peri-urban). However, a pre-requisite is that data is tracked from inception on parameters for segmentation (rural/ peri-urban, male/ female, very poor/ medium poor, etc.)

Groups which have sub-optimum numbers (below 12 members) are tracked as marginal and special groups and result in lowering of incentives for FSOs. The dropout calculations are made using the M-CRIL formula, and reports are made manually by the Operations Manager.

In order to track the profile of clients being reached, CUMO used a tool called Livelihood Asset Tracking System (LAST) in its baseline for impact assessment (conducted internally in 2004), to measure client poverty levels, based on asset ownership. LAST is defined as "A

rapid impact monitoring system designed along with primary stakeholders and based on DFID's Sustainable Livelihoods conceptual framework. It is intended to track the ongoing dynamics of five capital assets essential to household livelihoods as a proxy for impact"². The LAST tool was used again by Kadale Consultants in 2006 for the follow up impact assessment. It includes client status on locally relevant indicators linked to poverty reduction:

- quality of housing
- food adequacy
- value of business assets
- quality of clothing and level of confidence

Although CUMO does not implement its "LAST" tool for all clients as part of the selection process at the time of group formation, it uses baseline data from 2004, to assess "impact" on clients who have continued with the programme. The study in 2006 reports on changes experienced by the clients in terms of various forms of capital: physical, natural, social, financial and human. The study also track livelihood related outcomes, such as less food shortage and changes in livelihood patterns after accessing finance from CUMO. Comparisons are made between the "experiment group" with CUMO financial services and the "control group" 'without CUMO financial services', although there are problems, such as some members (30%) of the control group of 2004 having been lent to by either CUMO itself or by other MFIs by 2006.

The impact assessment report of March 2006 shows CUMO's performance on the Millennium Development Goals, especially those related with poverty reduction, increased access to education for clients' children, promotion of gender equality and women's empowerment and improvement in access to health services. (Summarised in final section, page 27).

The methodology in the impact assessment study is not very robust, due to excessive reliance on qualitative information, such as responses that cannot be generalised, and were not tabulated even as a percentage of the sample. Limitations to follow up with old clients were 1) because of weak level of detail regarding location of respondents from the previous survey and 2) due to migration of clients (might also include dropouts, but nothing is mentioned to this effect). Also, the 2006 study was conducted at the end of the rainy season whereas the base-line was undertaken in November 2004, at the start of the rainy season. This resulted in higher percentage of negative responses due to food shortages experienced by clients during the rainy season.

The process of tracking changes or "effects" on clients

² Bond, R and Mukherjee, N, "Livelihood Asset Status Tracking: An Impact Monitoring Tool?" Journal of International Development 14, pp.805-815 (2002)

could be made further robust by:

- Introduction of client profiling using a relevant poverty assessment tool at entry level for all clients. (PPI would be simplest to implement). This will provide a robust baseline.
- Conducting client profiling using the same tool at appropriate intervals and comparing the results provides a measure of change (outcomes), when repeatedly administered at appropriate intervals. (This will not provide a measure of impact – which requires a non-client control group. But, this is a practical approach, because of the existing difficulties of identifying an appropriate ‘control’. And there can be supplementary questions and analysis, or Focus Groups, to explore reasons for change.
- In addition to the specific poverty tool (PPI) indicators, additional information is relevant can be collected relevant to the local context and to achievement of the Millennium Development Goals. Specifically to consider: vulnerability (food shortage, women headed households), main source of household income, access to education (number of boys and girls of primary and secondary schooling age, actually attending school), employment supported in loan-related activity (within family/ hired labour, part time/ full time, male/female); other options related to gender (e.g. engagement of female client in the financed enterprise) and access to health care. (formats included in annexure 3, page 35)
- Tracking numbers reached through non financial services such as linkage to agricultural exchange, entrepreneurial training (when it is introduced)
- Disaggregating operational data to track outreach to rural/ peri urban, very poor/ medium poor/ non poor, and women/ men. (This will help in construction of a stratified sample for future studies, so that results can be compared across segments as a precursor to improving or designing products and processes to suit specific needs.

Further, on a sample basis, as part of client research, or as part of internal audit process, the following could be included:

- Tracking clients’ access to other financial services before joining CUMO and subsequently monitoring changes in profile of financial services accessed (moneylenders, ROSCAs, etc (formats included in annexure 3, page 37)
- Collecting information on client awareness regarding upfront and interest charges, other product-related information, group norms, and grievance mechanisms (formats included in annexure 3, page 34)

The above would require establishing quality control mechanisms in data collection (training of FSOs, review and accuracy checks on a sample basis by FSS/BAS,

inclusion of data quality checks in the internal audit reports)

CUMO will need to allocate internal responsibility for analysing poverty outreach data (for new clients – by branch and FSO) on a routine basis (monthly/quarterly); and whilst FSOs could collect follow up data, CUMO could continue to engage external consultants for assistance in analysing change data over time.

This information in client exit surveys and client satisfaction surveys is summarised in the later sections on client outreach and exit (page 26).

While CUMO’s studies have been a good start (and indicate the extent of involvement of the Board and management with performance on the social mission), routine integration with the MIS is important. With implementation of low cost tools like the PPI, CUMO could become a trend-setter for establishment of strong social performance management systems in Malawi.

SOCIAL RESPONSIBILITY

CUMO emphasises social responsibility in its mandate, highlighting responsiveness to clients, transparency, accountability and regulatory compliance in its stated values. The HR manual and policy documents describe CUMO’s high level of engagement with the community, especially traditional authorities and local leadership. Although CUMO does not have a specific client protection policy, its operations cover most of the relevant elements.

CLIENT PROTECTION

CUMO’s policies broadly cover the various elements of client protection. Clients are given training in all aspects of CUMO’s policies and procedures, and are slowly oriented towards regularly saving, internally lending, and finally taking external loans. This helps build in understanding of group norms and member responsibility. Some aspects of client protection, (such as client awareness levels), can be strengthened through inclusion of sample checks by the Internal Auditor, or by the MPDO.

Currently, CUMO has two Internal Auditors, who visit all 11 business areas, at least once (usually twice) a year. The scope of the internal audit is wide and covers analysis of portfolio quality, portfolio growth, matching MIS and accounts, and matching head office accounts and MIS data with field-level data. Client protection issues include checking of group level records, and spot-checks at meetings to check for adherence to CUMO policies and procedures. The audit also checks physical existence of clients on a sample basis to avoid disbursement of ghost loans. Although CUMO mentions “zero tolerance for

arrears” in its values, the internal audit evaluates measures taken in the case of delinquent loans to make sure that staff are acting in accordance with CUMO policies and clients are not being unduly harassed. Recovery of delinquent loans is community-based, with the help of traditional authorities and village leaders, rather than through pressure from staff and group members alone.

Audit reports are detailed and of good quality, with recommendations for corrective action. The scope of the audit can be broadened eventually (when the team is expanded) to include loan utilisation checks, and client level credit risk assessment. Some issues have been reported, which are indicative of inadequate supervision of FSOs, for instance, holding several meetings at a single location and time, occasional collection of cash instead of receipt from clients, and FSOs living far away from their designated area of operation. Compliance will require more attention from the management, as it appears that the same mistakes are often repeated.

CUMO also made changes to its procedures, realising that some clients would be unable to attend meetings, if severely affected by AIDS. CUMO’s proxy system allows members who fall sick, or those members who have to be absent from the area for a period of time, to nominate another person – a ‘proxy’ – to attend CUMO group meetings and to access financial services in place of the original member. In the event of the death of the member, (and provided the group accepts them permanently), the proxy can continue to benefit from CUMO’s services and thus cushion the household during times of financial stress.

A mandatory ‘funeral benefit insurance’ scheme operates for all CUMO loans, paid for by a 2% fee levied on clients at the time of loan application. This covers the full amount of the outstanding loan in the event of death of the member plus a payout of MWK 5,000 for funeral expenses. The insurance safeguards the group from having to discharge loans taken out by a deceased member.

Transparency

Communication to clients regarding CUMO policies is mainly done during the six week training and orientation of clients by FSOs, before they can apply for a CUMO loan. Interaction takes place during the group meetings, and FSOs explain group norms, as well as product terms and conditions and costs involved to clients, during the preliminary meetings. While the group constitution (which details the savings and internal lending terms) is written by the group in its local language, the CUMO terms and conditions are also written in the local language in the loan documentation, including flat interest rate. A repayment schedule is printed for clients, so that they are aware of the amount due each fortnight. Sometimes, different product options are not explained to clients because the staff do

not want to increase the risk of non-repayment (the on-set of the rainy season in November-February poses large repayment risks for most clients, since businesses are adversely affected by loss of mobility. For instance, Masika loans (4th cycle onwards) are available for 6 month repayment periods. However, staff may not tell clients about this, thereby limiting their options to a maximum of 4 months. Similarly, in Fumba loans, most staff encourage clients to pre-pay (by making monthly repayments instead of balloon repayments), to limit risk associated with seasonality and crop failure. This is contrary to the very purpose of the Fumba loan, which is designed to be an agriculture loan.

Receipts for transactions (in English) are issued by the local bank branch/ depot of Agora/ Farmer’s World. This can be an issue, since clients may not be able to understand whether the correct amount of deposit has been recorded.

Individual group member transactions are tracked (savings, internal loaning, fines and emergency fund, if any), and this is consolidated and monitored as part of CUMO’s performance indicators. However, in the MIS under Kredits, the loan information is maintained group-wise, and there is no member-level recording, as a result of which PAR and overdues may often be heavily overstated.

Most clients (80% of clients in the FGDs) do not have an insurance certificate, because NICO LIFE and CUMO feel that this will add to the stationery cost burden for clients, if it is passed on to them. Clients compulsorily pay the premium at the start of each loan cycle, so the submission of claims is done by the CUMO head office, and the client’s family only has to produce the death certificate to finalise the claim process.

In some cases the pass books of individuals are kept with the group secretary for safe-keeping, or because the individual members cannot read. All members should be encouraged to keep their own pass books, even if they cannot read themselves, or there should be emphasis (checked during internal audit visits and supervisory visits) on clients being made aware of their loan and savings balances, through verbal sharing during meetings. Among the groups visited, pass books in one group had not been updated for over six months, while two groups had not received pass books despite making the payment for them, because of delays by CUMO staff.

Avoiding over-indebtedness

In order to avoid over-indebtedness for individuals and their families, and also for groups (indirectly, when individuals default), CUMO advises that family members of existing borrowers, and sick and very elderly persons are not included in groups. So as to decrease risk of wilful default (which may place an undue burden on group

members), the rich, salaried and those in positions of authority are excluded from groups.

CUMO uses client attendance, internal savings and internal loan repayment record as an indicator of client's borrowing capacity. CUMO does not undertake any business evaluation of clients, such as stock, business experience, or estimated income. Group members collectively authorise, or limit the amount of credit available to any individual member, and this usually prevents over-indebtedness, since members tend to sanction each other's loans conservatively. However, CUMO's staff training manual states that the following criteria are a must when evaluating a client's credit absorption capacity.

- Member's source of income for repayment (seasonal, or regular)
- Repayment burden as percentage of current income
- Member's history on regularity of internal savings
- Total value of member's savings
- Collateral appropriate to loan size
- Is the loan size reasonable for the usage?

Product design is such that clients progress from one cycle to another, with higher borrowing limits each time. This gives them the opportunity to expand their small businesses slowly and steadily. However, in most cases clients do not borrow the maximum limit available to them, and prefer to limit their credit to small, manageable amounts to avoid risks. CUMO also feels that clients are unable to grow their businesses beyond a certain point without entrepreneurship training and specific business development services. CUMO intends to eventually provide these services, in the hope that it will help clients to optimally utilise the available credit limits.

Group members are allowed to borrow different amounts, but mostly are encouraged to borrow at the same time (disbursements are made collectively into the group account) unless they want to take a "rest" from external loans and continue with only savings and internal loans for a while. To maintain group numbers, there may be pressure on individual members to borrow, even small amounts, rather than to "rest" between loans.

As regards internal loans, CUMO encourages clients to lend at internal interest rates of 20-40% (the operational manual and training manual do not mention what interval), although CUMO management states that this refers to the per annum rate). However this appears to have been interpreted by the groups as 20-40% per fortnight, which clients feel is justified, because it results in higher dividend distribution. CUMO's data (from the client satisfaction survey, December 2007) showed 91% of surveyed clients have availed internal loans, averaging MWK 746 per person, indicating that most members take loans, so dividend distribution is not highly skewed in favour of a

few. 78% of surveyed clients paid 20-25% interest per fortnight, while 15% paid over 25% per fortnight.

Staff are actively encouraged in the training manual to advise clients to take shorter term loans because there is less risk in these loans.

In order to reduce the burden of fines on defaulting clients, the "per late day" fine of 10 MWK per day has been cancelled and the group pays 100 K for late repayment, and no daily fine.

CUMO has client-friendly policies in case of client illness or death. Very sick clients can be replaced by a proxy, after the proxy has been accepted by the group, and CUMO has been informed in writing of the change. This enables HIV positive and other indisposed clients to hand over their financial responsibilities to a family member.

Under the Funeral Benefit Insurance, clients who die during the loan term are insured towards payment of the outstanding loan by NICO LIFE, as well as MWK 5,000 to family members for funeral expenses. CUMO is also in the process of negotiating product terms for a hospitalisation cover for clients, after feedback that it is not enough to provide benefits only once the person is already dead.

At the time of a widespread famine in Malawi in 2005-06, several loans ran into default, because families had no money even for food, let alone loan instalments. CUMO wrote off 18.7% of its portfolio constituting such loans in 2007, although efforts are still being made to recover as much of the overdues as possible.

Cost to clients

CUMO charges clients an EIR of average 149% (weighted average across products), broken down into a loan processing charge of 3% of the loan amount, a funeral benefit insurance of 2%, and cash collateral of 5% of the loan amount. Interest on Masika loans is 6% per month for the first two cycles, followed by 5% per month for the next three cycles, and 4.5% per month for the remaining four cycles. Clients have to bear the cost of the group and individual pass books. In addition to this, clients have to bear the transaction costs of depositing their repayments in the depot/ bank branches. It is also common for the group (in their constitution) to pledge member assets which can be seized and sold in the case of non-payment (although CUMO does not take any responsibility for this).

For Masika loans, effective rate of interest to clients (not including the imputed cost of savings, and transaction costs) is 194% per annum. For Fumba the EIR is 92% and for Kasupe 183%. However, for Fumba the real EIR may be higher because staff encourage clients to pre-pay their instalments. After imputing the cost of savings and

transaction costs, the EIR would increase even further, although this would be off-set by the member's earnings on dividends. CUMO, though at par with other MFIs in Malawi, still charges a high interest rate, and this has come up in the Board meetings as a matter of concern. Reductions on interest rate have been made on Masika loans in later cycles (4th cycle onwards) to encourage client retention. However, an immediate reduction in overall interest rate is not imminent, since CUMO is still struggling to achieve financial sustainability.

CUMO has tried to limit transaction costs to clients by partnering with Agora and Farmer's World, since the branches of its original partner Standard Bank were very far from most clients. In an effort to achieve better client convenience, CUMO has recently partnered with Malawi Savings Bank, as another option for clients to deposit repayments. CUMO pays a fee of 0.5% of amounts collected, as a commission to its partners, and this cost is passed on to clients.

CUMO has very high operating expenses as a proportion of average portfolio (see following table). One reason for the high OER is the low loan to asset ratio, wherein loans constitute only 36.4% of the asset base of the organization, 48% of assets being tied in short term investments till such time as the political and economic environment is optimum for CUMO to expand its portfolio significantly

The following table analyses CUMO's portfolio cost structure in comparison with data for other African MFIs of similar size category reporting to the MiX:

Cost structure: % of av gross portfolio	CUMO	Africa 'small non FSS'
[number reporting]		[45]
Average loan o/s (\$)	42	137
Borrowers/staff	228	111
Costs		
Operating expenses	75.7 %	48.7%
Financial expense ^a	0.0%	9.7%
Loan loss provision ^a	2.3%	3.6%
Total costs	78.0%	62.0%
Yield	62.8%	25.7%
Surplus	-15.2%	-36.3%
PAR/outstanding portfolio (60 days)	1.2%	5.4%
Write-off	0.0%	2.1%

MiX Data for, 2007: medians for 45 African MFIs with gross portfolio above USD 0.12 million (up to >USD1.9 million, with average 68% FSS); ^a Ratios based on average assets are recalculated as ratios of average gross portfolio.

CUMO's staff costs are 80% of average portfolio, compared to an average of 25.2% for small Africa MFIs. CUMO's rural operations and its very low loan size have also resulted in the high operating costs. Portfolio quality is reasonably good, but prone to political and other risks, as a result of which CUMO is very cautious about limiting

portfolio growth and provisioning adequately. CUMO has made high write offs of 18.7% in 2007, following widespread defaults due to a nationwide famine. CUMO's yield is a low 58.2% of the APR (estimated at 149% = average EIR, weighted by product percentage of total portfolio). Poor portfolio quality at the field level may be a reason for this low ratio, although the reported PAR₆₀ is just 1.2%.

Client interactions

CUMO's client interactions take place at the fortnightly/monthly group meetings, which are held in an organised manner, emphasising punctuality and discipline, with imposition of fines for flouting group norms. The groups have democratically elected leaders – Chairman, Secretary and Treasurer. All meetings are minuted, and the proceedings are usually recorded by the Secretary, and read to the entire group before being accepted and approved at the closure of the meeting. The meetings are attended by CUMO FSOs, who facilitate the proceedings and advise the group on any relevant matters.

In case of member arrears, the group usually makes up the instalment amount, and recovers it later. In case of chronic non-payment the offender is not allowed to borrow subsequently, even if he or she pays back their dues in full. In case of member default and inability to pay back dues, the group has the right to seize the physical collateral of the member and sell it to recover its dues. Usually the FSO, FSS and BAS follow up with the member, before authorising sale of physical collateral as a last recourse.

Group meetings usually take 1.5-2 hours. In case of sickness of indisposition, clients may take the permission of the group to send a proxy in their place. The proxy will take on the financial liability of the original member and be bound by the same terms and conditions regarding group responsibility, etc as the original member. The funeral benefit insurance however continues to accrue to the original client and not to their proxy. Group members take it in turns to deposit the repayments to the depot or bank branches. The transaction costs vary from MWK 100 to MWK 700 for the round trip, and time taken can be anything from 15 minutes to three hours. CUMO clients in the FGDs indicated that they had no problems with behaviour of the depot and bank staff.

CUMO regional managers and BAS provide their mobile numbers to the clients so that in the event of any problem the clients can freely report to CUMO. The clients do not often use this facility. Clients stated (in the FGDs) that any problem should be referred to the FSO or the BAS.

Non-financial services and linkages

Among CUMO's non financial services, business training has been proposed and its funding is awaited before roll-out, while HIV-AIDS interventions are under-way for staff, and information on agricultural prices has been piloted in Dedza and is awaiting extension to other districts.

Integrated: Business training: Until now Regional Managers and BASs have provided informal training to clients, on how to grow their businesses, but this has had limited results, as what is needed is specific advice for particular businesses, in addition to general technical skills such as elementary accounting and stock-taking. Requests for such training have often been reported in the FGDs conducted in the course of this SPA. CUMO has recognised a need for business training for its clients, as a key to its long term sustainability, since clients are currently under-utilising their credit limits.

CUMO had partnered with Malawi Enterprise Development Institute (MEDI) to conduct these trainings, but they were discontinued, because the material was found to be too sophisticated to be useful for CUMO's clients. CUMO has approached USAID's "Deepening Microfinance Sector in Malawi (DMS)" programme, and is likely to get funding for its entrepreneurship training. Deliverables proposed include the following:

- Provide entrepreneurship training for 45,000 clients (of which 36,900 will be women) in 11 districts through an autonomous "CUMO Training Centre", which will be a mobile unit, delivering relevant, doorstep business training in the local language. Trainings are intended to be held in clusters of 3 groups, for 2 hours per session, for the first five loan cycles. Subsequent trainings would be more intensive and specific-business oriented.
- Increase clients' access to formal and more profitable markets by 50%
- Train clients to think about more profitable and environmentally friendly businesses, gradually influence/shift their focus away from charcoal burning and reduce the number of CUMO's clients currently engaged in charcoal burning/retailing by 33%
- Provide HIV/AIDS sensitization/counselling of 45,000 clients in 11 districts and gradually reduce clients' mortality rate by 25%
- Improve CUMO's loan sizes, portfolio quality and client retention and assist clients to move to "non-traditional business sectors".

CUMO plans to charge an additional 1% of Masika and Fumba loans and 1.5% of Kasupe loans as entrepreneurship training charges until 5 loan cycles. The CTC would eventually become self sufficient by providing fee-based training to interested persons, whether clients of

CUMO or not.

It will be important to monitor the effectiveness of this training, and feedback will be useful for further upgrading the course content and staff skills. It is suggested that systems are designed (as a part of social performance management) to monitor business training outreach, and client feedback on an on-going basis.

HIV/ AIDS interventions: CUMO has implemented an AIDS/ HIV policy in which it educates staff and clients about HIV, provides condom-dispensing machines at its office, and has undertaken monitoring of AIDS/ HIV incidence among its clients, as a part of impact assessment. CUMO also intends to take the following measures with regard to educating staff about HIV/ AIDS:

- Develop staff training in HIV/AIDS awareness
- Train and appoint specific HIV/AIDS focus persons for information collection, dissemination and referrals
- Organise awareness for staff and information on testing and counselling
- Create a central, confidential referral service for staff affected by HIV/AIDS
- Provide medical insurance and reimbursement of medical costs
- Provide a specific fund for Anti Retroviral Treatment (ARVs)

CUMO plans to introduce HIV/AIDS as an important element to be tracked during the impact assessment studies also, but will limit its role to general sensitization and will not collect profile clients at entry for HIV status (by asking them), as this may be misunderstood as a sign of discrimination.

Linkage: CUMO has partnered with the Malawi Agricultural Commodity Exchange (MACE) for dissemination of price-related information to its clients since a large proportion of them are small farmers. The project has been piloted in Dedza, and will be rolled out to other operating areas soon. The initiative is called **Agriculture Marketing Information Services**. The aim of the project is to shorten the supply chain and provide CUMO clients with higher and more profitable market prices. It will also help transaction brokering and transport coordination as well as assisting CUMO clients build strong business relationships with private sector organisations such as aggregators and agro processing units. The project will use simple technology such as neon tickers, and mobile phones for information updates, through collaboration with Malawi Telekom Network (MTN). Clients will eventually be charged for these services on a membership basis, although in the current MoU, CUMO has agreed to bear the membership charges, while clients will pay a 4% commission on the proceeds of commodities traded at the exchange.

CUMO has plans of linking up with Concern Universal and other agencies in the development space to extend other services to its clients, but these ideas are in the conceptualisation stage, and there is nothing on the ground at the moment.

OTHER SOCIAL RESPONSIBILITY

GENDER APPROACH

Strongly supportive for staff and clients

Client level: In Malawi, women are very active in the informal economy, although the gender divide is evident in the rural areas, and women are confined to petty trading and manufacture of home-based products. There is a high percentage of women headed households in the rural areas. CUMO has made it mandatory for all groups to have at least 80% women, although this ratio sometimes falls due to dropouts. The overall ratio of women members is currently 85%, but the women borrowers are only, a phenomenon which CUMO needs to investigate, since it may be indicative of women’s reluctance to take loans since staff incentivisation and performance is not linked to this. However, staff are aware that women are to be encouraged to join the programme.

CUMO also ensures that the group democratically elects its leaders, and that adequate representation is given to women (although the post of Secretary is often filled by a man, since very few women are educated enough to keep records). CUMO’s strategy to reach women in rural areas is in line with its mission, since most of these women are very poor, often undertaking agricultural labour (*ganyu*) to supplement their meagre income from trade. Women and men in the group co guarantee each other and there is no need for the women to get permission/guarantees from their husbands, which represents a step towards women’s independence.

CUMO retains its outreach to male clients, since there are several male entrepreneurs who are in need of finance, especially in the rural areas. CUMO’s outreach to men also helps in gaining social acceptance, since women are not traditionally seen as entrepreneurs, and an all-women programme might have been viewed with antagonism. The Kasupe loans are extended to smaller groups of 5-7, and the ratio of 80% women does not have to be maintained in these groups. CUMO has realised that women, however, have a better credit record, and that among the defaulters 91% have been men. It is interesting to note that in some of the groups visited, the men sat on chairs, while the women sat on the ground, indicating that societal power equations manifest themselves in the groups also.

CUMO could track women and men clients in terms of their access to various products, average loan sizes, loan size as a percentage of maximum credit available, type of

businesses, and repayment record. This would help understand gender-based differences in loan size and usage patterns and could result in interesting product and policy changes.

Staff: CUMO has good representation of women in its field operations, with 55% of FSOs, and 55% of BAS positions constituted by women. However, there are no women in the top management or in the Board of CUMO.

Women staff

Staff level	Feb-09	
	Total	Number of Women
Management	11	4
Field staff	102	57
Accounts/admin	4	1
Support staff	10	0
Total	127	48 (49%)

The HR manager is a woman, and acknowledges that CUMO would like to recruit more women in senior positions, but lack of qualification poses a barrier.

CUMO’s policies and operations support equal pay and opportunities for women. 7 out of 9 of the best performers at FSO and BAS level in 2008 were women. The HR manual clearly mentions the sexual harassment policy in the company, although no one has yet been dismissed for sexual harassment because there has been no incident till date.

RESPONSIBILITY TO STAFF

Comparable levels of remuneration, good classroom training, mentoring should be encouraged and opportunities for staff feedback should be introduced.

CUMO has a capable HR officer, who has 5 years experience in her field. CUMO’s approach to training and skill development appears adequate in terms of orientation and classroom training, but more mentoring and hand-holding may be necessary at the field level in order for trainee FSOs to achieve the target client base of 350 active borrowers. Senior staff and management are sent for external trainings. In-house refresher trainings are conducted for the staff, but the level of assimilation requires attention, as policies extending flexibility to clients are sometimes ignored by staff in an effort to mitigate or limit risk. All staff are covered with medical insurance, accident and life insurance, and are eligible for gratuity payments. Staff that have stayed with CUMO for five years get a cash award and a certificate.

Salary levels are comparable with those of other MFIs in Malawi, with the exception of OIBM, which pays its staff significantly higher salaries. While FSOs earn monthly

salaries in the range of US\$192-252, BASs earn US\$270-400. Managers earn monthly salary in the range of US\$750-1,200. Staff are also eligible for incentives (detailed on 8), which can range from 20-50% of their basic salaries. Staff are also granted personal loans from CUMO, limited to 50% of their salary. CUMO also pays for the funeral expenses of staff or their immediate family members.

Staff are also given opportunities to attend external trainings, many of which are undertaken by SAMCAF (Zimbabwe), School of Applied Microfinance (Kenya) and external consultants hired by CUMO. A recently conducted (2008) training at SAMCAF aimed at exposing credit supervisors and managers to key microfinance principles and basic accounting was attended mainly by regional managers and business area supervisors. The workshop sessions focused on such themes as lending methodology, interest rate setting, credit appraisal and credit risk/delinquency management. It also covered loan collection methods, portfolio quality monitoring, customer care and basic accounting.

In July 2008, a refresher course was conducted for Financial Services Officers (FSOs) to acquaint them with newly revised policies and procedures manual for each of the three loan products (Masika, Fumba and Kasupe) and the funeral benefit insurance. Prior to the manual revision/construction, CUMO had only 'one fits all' manual for its old and new products, causing inadequate understanding by FSOs of the subtle differences between the procedures for different products.

CUMO has also bought motorbikes for the BASs to travel in the field. However, the FSOs have to travel into the interior areas by bicycle, which is seen by some of them as a stigma, since other MFI staff travel by motorbikes. Operational areas are often remote, and each FSO is expected to live within a 10 km radius from his/her groups, which means that they are sometimes cut off from contact with colleagues and families. Field supervision does not seem to be as regular as it should be, and efforts must be made at the FSS and BAS level to cover the entire field area at least once in six months through regular field visits. This will also be a motivating factor for FSOs, since they will get frequent opportunities to interact with their superiors.

CUMO has never undertaken a staff satisfaction survey and it is recommended that a comprehensive survey is designed and administered on an annual basis, to collect staff feedback. Staff interact with their immediate supervisors on a weekly basis and all BASs meet the top management in the monthly Operating Committee reviews at head office. However, the discussions are often relegated to operational matters such as achievement of targets.

CUMO started the cashless payment system in 2004 after a number of attempted theft and robberies made it evident that staff were exposed to risk in the field because of carrying cash. CUMO immediately changed its policy and partnered with Standard Bank for direct deposits of repayments.

Staff turnover at CUMO was 9.7% for the year 2008, and most of the staff that left were at the field level. CUMO has also dismissed some staff for minor frauds, flouting policies, or on disciplinary grounds. Exit interviews are conducted for staff that leave. Many of them leave for further studies or to join other jobs in the development space, not necessarily with other MFIs.

RESPONSIBILITY TO COMMUNITY & ENVIRONMENT

CUMO exhibits a strong responsibility to community in its functioning. CUMO has from inception believed in gaining the community leaders' acceptance before commencing operations in the area. CUMO's management seeks the approval of the Traditional Authority (a type of local self government), and the authorisation from the District Executive Committee before CUMO enters the area. Before group formation processes begin, the Group Village Heads and Village Heads (local leaders picked by the community) are consulted, and various aspects of the programme are explained to them. It is only after they give the go-ahead, that CUMO begins its operations at field level. This gives the field staff confidence because the programme has the backing of the community leaders. CUMO names its Business Areas after the traditional authorities instead of adopting the district name, as a reflection of the organisation's respect for the traditional leadership in Malawi. The local leaders are invited to witness disbursements and repayments to gain confidence about the programme. Twice a year, CUMO organises leaders' meetings to get community leaders' feedback on the programme.

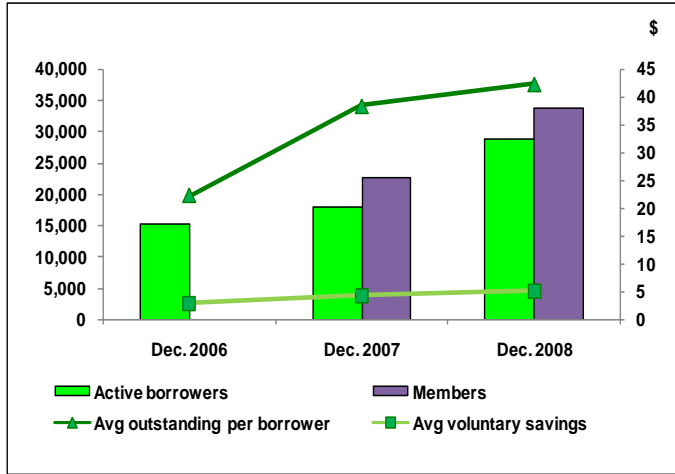
In order to prevent local leadership misusing their position for personal gain, CUMO bars any local or community leaders or their family members from joining its groups.

CUMO does not support illegal activities such as selling of drugs, and checks are possible during the Loan Utilisation Surveys at client level. In its new Entrepreneurship Training effort, CUMO intends to cover use of alternative forms of energy for cooking fuel and lighting, since there is a major problem of deforestation in Malawi due to illegal trading in coal. Coal is commonly used as a fuel in Malawi and is often illegally traded, something that CUMO intends to advise clients against through behavioural change communication and introduction to more environment-friendly, low cost forms of energy. The practicality of this approach, however, may require further consideration.

RESULTS - OUTPUTS

OUTREACH

Growth in borrowers and portfolio



CUMO has expanded its outreach to almost 34,000 members and 29,000 clients at the end of 2008. CUMO’s growth in terms of borrower numbers has fluctuated from 79% in 2006 to 17% in 2007 and 61% in 2008, reflecting cautious expansion in 2007, following widespread defaults after the famine which affected Malawi in 2005-06. Portfolio growth has been steadier, ranging from 109% to 78% (2006-2008), perhaps reflecting extension of higher loans to the same clients.

Client outstanding balances have steadily increased, to an average of MWK 6,351 (\$42) in 2008, while voluntary savings are still low, at an average of MWK 775 (\$5) per saver. CUMO’s average loan outstanding is the lowest in Malawi.

Areas of operation

CUMO’s area of operation is in the central and southern parts of Malawi, with districts Dedza (19.1%), Ntcheu (12.8%) and Rural Lilongwe (12.1%), constituting a large proportion of operations. CUMO also has operations in the districts of Phalombe, Balaka, Mulanje, Mangochi, Zomba, Salima, Machinga, and Thyolo. Areas of operation are rural and remote rural areas. With the exception of Kasupe which is specifically designed for peri-urban areas, CUMO expansion remains focussed on remote rural areas.

Phalombe, Zomba, Thyolo and Dedza are ranked 2,3,4 and 7 respectively, in a district-wise poverty assessment in the 1997-98 Integrated Household Survey. This confirms that CUMO is working in some of the poorest districts of the country.

Client level data presented in the following sections of the report is drawn from CUMO research studies supplemented by a client survey

of 138 new (less than a year with CUMO) clients designed by M-CRIL and conducted by CUMO staff. Findings from the M-CRIL team’s FGDs (7 groups, total 91 clients – at 4th-10th cycles) conducted during the visit is also presented. (The discussions covered men and women clients with Masika and Fumba loans only. Surveys and FGDs were conducted in the same operating areas (market centre, rural and remote rural).

Sample profile	Number of clients in sample	% of clients in sample
Remote Rural	75	54.3%
Rural	63	45.7%
Group member	91	65.9%
Group leader	47	34.1%
Agriculture as main income source	114	70.8%
Non-agriculture as main income source	24	17.4%
Women	103	74.6%
Men	35	25.4%

- In the sample, group leaders form a slightly higher proportion of the sample (34%), than in the actual client base (on an average there are 3 leaders per group of 15 members, 20%).
- There is a higher representation of men (25.4%) in the sample, than in the member base (15%), although men are under-represented in terms of active clients (28.5%).

Financial inclusion

- the unbanked

CUMO has reached clients who have not had any access to formal financial services. CUMO’s impact assessment study (2006) reveals that in 2006 only 7% of members had access to savings (not mentioned, whether banks or others) facilities and 2% to loans (not mentioned whether banks or any providers, even informal ones).

From the FGDs, the following observations have been noted regarding CUMO clients’ access to financial services:

- No client had borrowed from a bank, ever.
- No client had an individual savings bank account before CUMO began its programme.

- the poor

Depth of outreach is based on client poverty level at entry, - i.e. for new clients, or those with an MFI for less than 1 year – reflecting the situation before potential change through microfinance. The “food line” represents the subsistence poverty line for Malawi (MWK 27.5, comparable with USAID’s “extreme” poverty line at MWK 29.3), which is at 50% of those below the National poverty line. This is lower than the \$1.25 national poverty line. The

PPI Malawi (Feb 2009) was used in the client survey (138 clients) and the results are presented below.

	<Food	<National	<\$2	<\$2.5	>=\$2.5
Expenditure line per capita per day (in MWK at 2005 PPP)	27.5	44.3	60.8	125.4	
Poverty Rate for Malawi*	16.6%	43.6%	NA	90.3%	9.7%
Total Sample (%)**	9.2	35.9	58.7	91.8	8.2

*For \$1.25 per day at 2005 PPP (MWK 64.3), the rate is 64.7%, all lines and poverty rates quoted from "A Simple Poverty Scorecard for Malawi, Mark Schreiner, 2009).

**N= 138

The data suggests that CUMO has a reasonable poverty outreach, with 58.7% of the sample at entry living below the \$2 poverty line at purchasing power parity (PPP), and 36% below the national poverty line. However, it is clear that CUMO is not reaching the poorest, since the sample statistics reveal that outreach is not even as much as the actual presence of poor in the population for food and national poverty lines. 8.2% of its clients can be classified as non poor (above \$2.5), and this indicates that while CUMO has designed its operations to include only poor, without client targeting strategies some non-poor are included in the programme.

Category wise distribution of the client sample has been presented in the following table:

Disaggregation of PPI results on the basis of location (rural/remote rural), client status in group (member/leader) and household's main source of income (agriculture/others) gives the following results:

Poverty data by context categories

	<Food	<National	<\$2	<\$2.5	>=\$2.5
Remote Rural (%)	11.6	41.9	65.5	94.0	6.0
Rural (%)	6.4	28.9	50.6	89.3	10.8
Group member (%)	10.0	37.5	60.1	92.3	7.8
Group leader (%)	7.7	33.2	56.2	91.1	8.9
Agriculture (%)	9.7	36.8	59.3	91.8	8.2
Others (%)	6.8	32.0	56.1	92.1	8.0
Women (%)	9.8	36.8	59.2	91.6	8.5
Men (%)	7.6	34.0	58.0	93.0	7.1

Remote rural clients show higher poverty likelihoods than their rural counterparts. Group leaders, predictably are slightly better off than the other members and those engaged in agriculture (as primary income source) are poorer than those engaged in business. Only in remote rural/rural are the differences likely to be significant. Women are poorer than men, although not significantly. Differences appear more of a trend in the other categories,

may not be significant because the margin or error is +/- 10%

- the vulnerable

One in five of the clients surveyed (22%) are women-headed (no adult male present). CUMO as a matter of policy does engage in determining the HIV status of its clients but allows replacement of sick clients with their relations or siblings (proxy system).

Employment

From the responses during FGDs, 33% of the clients started new businesses with their CUMO loans. Two thirds have existing businesses to which they add capital using their loans. Employment is mostly family based, including other family members (44% of clients). One in five clients hire non-family workers, part-time. One reason for this is the number of clients using their loans for agriculture, for which they would hire casual labour during the harvesting season.

CUMO's loan utilisation reports reveal the following loan usage pattern (Jan-Dec 2008), percentage based on number of clients.

Purpose	Loan 1*	Loan 2*
Agricultural produce	27.7%	25.5%
Aquaculture	20.4%	19.7%
Butchery	9.5%	5.0%
Home based food production	14.3%	12.4%
Home based beer production	9.3%	11.0%
Trade (clothes, grocery)	8.6%	19.7%
Others	10.2%	7.7%
Total	100.0%	101.0%

* The loan which was being serviced during the Loan Utilisation Study was defined as the second loan while the previous loan to the current was defined as the first loan.

Client profile

Data from the client survey (138 clients) indicates the following:

- 58% clients are between 18-35 and 29% between 36-50 years of age. Most clients would therefore have young children to support
- 5% had over 5 dependent children, while 63% had 2-4 dependent children
- Among women clients (=103), 10% are divorced or separated, 10% are widows, 3% never married
- 24% clients have no education, 52% have some schooling (below primary), but only 15% have completed primary school.

- 82% derive their main household income from agriculture/ agricultural labour and 11% from non-farm self employment. This reflects the high degree of CUMO's rural outreach.
- 40% clients had taken Masika loans, 34% had taken Fumba loans, and the rest had both loans.
- 78% of clients had family members (including themselves) working as *ganyu* (agricultural labour)
- 85% of clients access an unprotected source of water
- 93% use biomass, residue, and collected materials for cooking fuel, although 96% used paraffin, electricity or gas for lighting
- 69% clients had no furniture in their homes, not even a chair.
- Only 42% clients owned a bicycle, 26% a clothes-press for ironing, and 50% a paraffin lantern.

APPROPRIATE SERVICES

Information on client awareness and feedback comes mainly from structured FGDs with 91 clients undertaken by M-CRIL analysts. Some data is presented from CUMO's in-house client exit surveys and client satisfaction surveys, as well as the latest impact study (Kadale Consultants, 2006).

Client awareness

Before a group is recognised by CUMO, it has to undergo six weeks training, conducted by the FSOs, on operational policies and product features. Topics covered include group responsibility, election of group leaders, savings procedures, loan disbursement and repayment policies. The training is meant to acquaint clients with CUMO's processes, and to inculcate financial discipline and group cohesion.

Client awareness during the FGDs was reasonably good with regard to loan sizes and repayment processes, while there were weaknesses in responses to questions regarding interest rate and other charges, or insurance premium and coverage. Members' awareness was very good on internal savings and internal loans, including interest rates. Knowledge of terms and conditions regarding external loans did not vary between group members and leaders. However, questions regarding insurance, were mostly answered correctly by group leaders.

Repayment cards carry the instalment repayment schedules but do not list the charges or any grievance addressal procedure. However most of the RMs and BASs share their mobile numbers with clients during their visits. A formal grievance addressal process should be made

available to the clients. Most clients depend on the FSOs for conveying any form of feedback. Only 10% clients get selected for the client satisfaction surveys, impact studies, etc, so it is important for CUMO to make it possible for clients to convey their feedback.

Group systems

Clients are very well aware of the group norms and the processes surrounding internal savings and internal loans. This indicates that the group constitution is adhered to. Some groups had fined their members for late payments and non-attendance. A high degree of importance is placed on peer selection at the time of group formation. In many cases, responses were most forthcoming from the group leaders, and other members had partial knowledge. This may lead to over-dependence on the leaders, and it may become necessary for CUMO to encourage more frequent rotation of leaders (currently it is once in three years).

Member selection is finalised during group formation through voting, in the absence of the concerned person. This makes it easy to vote out any risky person. Group leaders are elected in a democratic show of hands, again, in their absence. This avoids any feeling of compulsion among group members while electing their leaders. In most groups visited during the FGDs, the leaders had been rotated at least once. However, in most cases, men held the post of secretary, because of their writing skills. Internal audit reports include reporting on group dynamics and whether group procedures are being followed according to their constitution and CUMO's policies or not. Supervisory checks should be followed up with a written surprise visit report, detailing observations and expected follow-up. This will improve the quality of supervision and make tracking of supervisory visits easy.

Client feedback

Access to other financial services

The following observations were made from the FGDs with older clients:

- Clients used to go to moneylenders before CUMO started lending to them
- One-third of clients belong to a ROSCA or merry-go-round.
- There are no funeral cooperatives, but most people informally help each other at the time of funerals in the village, based on an understanding that their neighbours will help in their time of need.
- Some groups had constituted an emergency fund to use in times of contingencies for instalment payments or for extending as internal emergency loans. Many groups had not deposited their 'excess' (not being internally rotated as loans), savings in the Bank

account, but preferred to keep the money with the treasurer as an emergency internal lending fund.

Client satisfaction

An indication of client satisfaction comes from the latest client satisfaction survey (December 2007, conducted by CUMO’s MPDO in 6 business areas). The overall level of satisfaction with external loans is good at 79%, with positive feedback on interest rate and loan processes, as well as group dynamics. The insurance product received a high satisfaction rating of 93.6% overall. Some results from the study are presented in the following table:

CUMO programme features	% Very Satisfied	% Satisfied	% Dissatisfied
CUMO’s services	73	26	1
Insurance	68	26	6
Cashless payment	68	26	6
Group size	63	32	6
Cash collateral	60	27	12
External loan (size)	59	21	20
Loan fee	56	36	8
Interest rate	49	35	16
Loan term	45	32	23
Repayment frequency	21	24	55

[CUMO survey, 829 clients]

A higher proportion of older clients (those in higher loan sizes) are satisfied because of the 6 month loan term and monthly payments. Satisfaction levels did not vary between men and women, and the common reasons given for appreciation of CUMO’s programme were that clients were able to access loans, start a business, and that CUMO was helping alleviate poverty. Market segmentation is a very important part of analysis that may be ignored because of lack of client profiling at entry. Once CUMO is able to profile its clients, it can track the extent of satisfaction for different segments (eg. very poor, medium poor) in order to design relevant products/ make improvements, catering to the needs of each segment.

From the FGDs, clients listed the following as positive aspects of CUMO’s services.

- savings,
- easy loan processes,
- possibility of earning dividends through internal lending,
- low loan processing time,
- possibility of pre-paying the loan, and
- friendly staff.

Some issues

Client dissatisfaction mostly revolves around the loan term and repayment frequency, interest rate, cash collateral, and external loan size, as can be seen from the table above.

Clients prefer monthly repayments to the fortnightly frequency, which they say puts a burden on their small businesses. Some clients (16.1%) feel that the interest rate is high, especially when compared to other providers like OIBM (although it must be kept in mind that only OIBM charges 3.5%p.m. and being an MFI bank, it is not comparable with the other MFIs). A smaller percentage (12.1%) feels that the cash collateral of 5% of the loan is high and puts pressure on them to pay, especially since they are discouraged from using their savings for meeting this requirement. However, other MFIs require 10-20% cash collateral apart from compulsory savings that clients do not have access to unless they are exiting. In addition, many MFIs request for 100% physical collateral which CUMO does not require). Clients cited that FINCA charges loan processing fees only on the first loan, and subsequent loans do not carry this charge, unlike CUMO. However, CUMO reiterated that FINCA charges higher interest rates (an assertion that M-CRIL was unable to verify due to funders’ unwillingness to disclose information).

Early loan cycle clients are likely to be dissatisfied with the loan sizes because they want to expand their businesses quickly. However, not many of the 7th-10th cycle Masika loan clients are accessing loans to the extent of their credit limit, because their businesses have not expanded in tandem, hence CUMO’s decision to introduce entrepreneurship training.

CUMO has already responded to some of this feedback, by offering lower rates of interest to clients in the later loan cycles of Masika, and allowing flexibility of loan terms (upto 6 months, with monthly payments) from the 4th cycle onwards. However, the staff sometimes hide this information from the clients, because they perceive this flexibility as an additional risk of default.

From the FGDs conducted, clients would prefer:

- A grace period (of around 2 months), as immediate repayments on Masika loans are a problem especially when the loan utilisation is for businesses other than trade
- Larger loan sizes in early cycles (progression of increasing loan sizes is spread over too many cycles and this hampers business growth)
- Lower interest rate so that clients can plough back their business profits into their enterprises.
- Incentives to members of groups with good repayment (such as gifts, cash-back offers, or interest rebates)
- Marketing support and business training to encourage clients to take up untapped business opportunities - especially since many clients undertake similar businesses (often selling perishables such as vegetables)

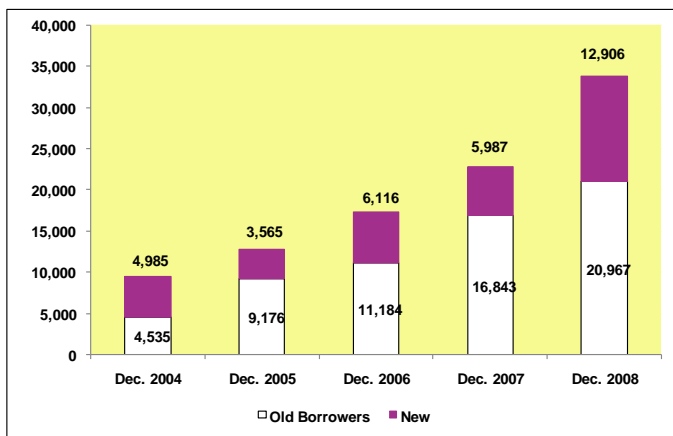
and fruits) and compete against one another. Marketing support could provide an avenue for aggregation of agricultural produce. On the other hand, business training may help clients identify new un-tried business activities, rather than copying existing businesses.

- Increased Fumba loan amount to match agricultural input prices, which have increased over the years
- Loans in kind in case of Fumba loans; (these used to be given in the form of agricultural inputs, a practise which CUMO stopped after the government introduced a fertiliser subsidy – see page 11).

Client exit

A mapping of annual numbers of clients, including the number of new clients each year, gives an indication of the degree of exit as presented in the following graph.

Client retention – and new clients



CUMO follows the M-CRIL formula for calculating dropout rate. Since the MIS system removes clients who are inactive for 25 weeks (without external loans from CUMO), the dropout rate is also calculated manually, and does not include clients who are borrowing internally as dropouts. Re-joiners get counted as new clients, something that CUMO should seek to remedy when assigning client IDs.

Calculating the dropout rate		Dec-07	Dec-08
a	Total clients – end of year (incl those who completed loan cycle w/i last 6 m)	22,830	33,873
b	New clients during year	5,987	12,906
c	Clients at beginning of year	17,300	22,830
	Rate of dropout [c+b-a/c+b]*	2%	5%
	<i>Number of dropouts</i>	457	1,863

* M-CRIL formula

Dropout rates have not been monitored cycle wise on a regular basis, although the exit surveys provide information on a sample basis of stage at which, and reasons why, clients drop out. The most recent exit survey of clients (291 dropout clients, interviewed by CUMO’s MPDO in

March 2008), reveals that most dropouts (42.4%) were in the loan size range of MWK 3,000-5,000 and in their first cycle (55.1%). In terms of loan utilisation, exits (from the sample in the study) of clients in business/ trading (32%) were slightly higher than those undertaking agricultural activities (27%). Reasons for exit are available from the survey, and are tabulated in the following table:

Reasons for Dropout		% sample
Product Related	Repayment frequency	30.1
	Expensive interest and fees	21.6
	Short repayment length	17.0
Client related*	Small Loan Size	1.5
	Business seasonality	8.0
	Family crisis	5.2
Group related	Unwilling to borrow	5.1
	Failure to repay	4.0
	Reallocation	3.1
CUMO staff	FSO’s behaviour	11.5

*originally mentioned as “group related”, re-grouped by M-CRIL

While the reasons for dropout are extensive and multiple aspects, they can be grouped better; for instance, client-related aspects such as family crisis and unwillingness to borrow, can be separated from failure to repay and reallocation which are linked to group dynamics. Other aspects of group dynamics can be included, such as behaviour of leaders or other group members, or disbanding of the group due to failure to repay.

Clients who dropped out because of “repayment frequency” are those who found fortnightly payments too burdensome. CUMO has not studied the profile of clients who found the repayment frequency difficult (whether men/ women, or the type of businesses undertaken). Other dropouts were dissatisfied with the loan charges, and 17% clients who complained of short repayment period (4 months) were not aware that they had the option of extending their loan term to 6 months because staff had not shared this information with them. Some clients also dropped out of CUMO’s programme because of fear of their physical collateral being seized in case of default (they had seen this being done to some other defaulters in their group). Some stated that the processing charges were very high and other providers like FINCA, take a single processing charge at the time of membership, while CUMO collects processing charges on every loan.

Some of the clients in the FGDs attributed dropouts to failure of business (only 1-2 per group), or (more often) due to sickness and family crises. In most cases in the rural areas, clients said that there were no other MFIs and dropouts would have to depend on local moneylenders for loans. 70.8% clients in the exit survey said that CUMO loans had helped them, while 16% said that they had been of no help, and the others were undecided.

The exit surveys are of good quality, and in addition to documenting the reasons for dropout, the studies also record the changes which the clients suggest would prompt them to re-join CUMO, and analyses the relationship between dropout and delinquency. Differences in results over the years, include a higher percentage of dropouts in the first loan cycle at vary loan amounts (MWK 3,000-5,000) at 49% as opposed to 43% a year ago. CUMO has subsequently introduced staggered lowering of interest rates on Masika loans of older cycles, to encourage clients to stay with the programme.

OUTCOMES/IMPACT

The most recent impact assessment study was conducted in 2006 by Kadale consultants, using 243 members from a baseline survey in 2004-05 (from the original 398 members sampled, others being untraceable (migrated, or dropped out), with a control group of 136 members (35 non members from the older study and the rest new non-members) for comparison. The study mentions that average relationship time of members with CUMO was 26 months, or 4 loan cycles.

CUMO's "LAST" tool was used for client profiling. The purpose of the study was to measure whether CUMO had achieved its goal "to improve the livelihood security of resource poor households in rural areas", with a target of "5% yearly increase in clients livelihood status for CUMO clients as compared to non-clients" Livelihood status has been defined in terms of asset holding, wherein different assets are weighted, clients are scored on the basis of ownership, and the individual scores are added into weighted composite score for "livelihood status".

Some of the issues with the methodology of the impact assessment (2006) are listed below:

- The control group was not exactly comparable with the baseline control group, because of migration (and perhaps dropout) of several of the clients (number not mentioned), rendering them untraceable.
- Several members from the control group (30%) had been lent to by CUMO or other MFIs between 2004 and 2006, and had to be dropped for the follow up in 2006.
- A major limitation of the impact assessment study is that achievement on the MDGs has not been measured, quantified or even tabulated as a percentage of responses; rather, experiences of clients have been quoted and a conclusion about performance has been drawn from these.
- Definition of non-members' access to savings and loans has not been detailed (whether with banks, post office or any providers).

Some of the results of the same study are presented in the following paragraphs:

- The report states that members have experienced a sharp increase in mean asset holdings (scored at 12.3 points) in comparison to only a 3 point increase for non members (only the baseline clients were compared). The report does not mention whether productive assets bought with CUMO loans are also included – if so, this severely biases the score to clients.
- The report suggests that qualitative (perception) findings demonstrate a similar pattern, with the majority of respondents feeling positive about CUMO and attributing positive changes in their livelihoods to accessing loans, to being introduced to the discipline of savings and to having those savings as a buffer against shocks. However, the report quotes experiences of clients (proportion of sample not mentioned) who have struggled with their loans, perhaps having taken too large a loan or taken it at the wrong time and who had had to sell assets to make repayments.
- The study also documents clients' feedback about CUMO loans having inculcated a sense of financial discipline in them, so much so, that even if the loans were not extended anymore, clients would be able to save and internally lend, thereby meeting at least partial credit requirements.

CUMO's performance on the MDGs has been mentioned as follows in the study:

- Children's education appears to have improved in terms of clients having higher incomes, from which they are able to pay for secondary schools. Also, the report, mentions "well-being" of children, indicating that they could study better because their parents could now afford to give them something to eat before sending them to school. The report does not reveal the numbers with positive responses, but quotes client statements, and makes a generalisation. In Malawi primary education is free; however uniforms and stationary costs present a challenge to poor families and better incomes may enable more children to stay in school. Secondary education is not free. Several CUMO members, in FGDs and case studies mentioned that they had been able to maintain their children in secondary school because of access to the CUMO loan.
- People's access to health services had also improved (again, the study does not quantify or measure this). Clients have been quoted saying they were now able to access private or fee-paying facilities, which tend to be better stocked with drugs, have shorter waiting times and longer consultations.

- Members also felt that their diets and access to food had improved, stating that they can now eat more (numbers not revealed in the study).
- Women noted that their status in the household (in terms of respect and decision-making) had increased due to membership with CUMO. (Again, number of women responding on similar patterns has not been noted).

PERSPECTIVE - CONCLUSION

CUMO has clearly articulated its mission and has worked on achievement of both financial and social objectives, as stated therein. CUMO has pioneered delivery of financial services in remote rural areas of Malawi, contrary to the practise of other MFIs in the country and has successfully offered a range of services (savings, loans, insurance and non financial services) to its clients. CUMO has targeted women and poor, through a mix of expansion strategy and product design. CUMO has constantly tried to incorporate client feedback and suggestions in its product design, introducing the cashless system, partnering with a variety of players for collections, and allowing flexibility in repayment terms for its graduated clients.

CUMO has monitored several aspects of social performance through good quality internal surveys on client exit, client satisfaction and loan utilisation. External impact assessment studies have given useful insights into client’s benefits from association with CUMO - both tangible and perceived. However, improvements in the quality of data collection and analysis are required, which have been mentioned in earlier sections of the report.

Client level results from the client survey (with PPI) and FGDs indicates that CUMO’s outreach to poor is reasonable, while improvement is required on client awareness levels and completeness and accuracy of documentation, through adequate supervision.

CUMO has grown considerably (61%), maintaining a low dropout rate of 5%, but still needs to expand its loan portfolio to adequately utilise its excess funds. CUMO staff require training to reinforce the importance of certain organisational processes.

Systems for SPM will be easy to establish since CUMO is already tracking elements of client exit, and satisfaction on a sample basis. CUMO needs to regularise its collection of data, and incorporate quality checks for accuracy. Cycle-wise and product-wise data should be collated. Client profiling tools (such as the PPI can be administered for all clients entry and comparison could be made by collection and analysis of data at subsequent intervals). Information systems have to be improved so that accurate data is made available and is consolidated and reported in a timely manner (suggestions are included in annexures).

CUMO’s efforts to integrate a variety of non financial services such as market information, business training and HIV/ AIDS awareness training are commendable, and the outreach and feedback on these programmes should also be monitored on a regular basis.

CUMO could also monitor client awareness, quality of documentation at the field level, and integrate performance on these aspects with staff rewards and incentives. Inclusion of these parameters in the internal audit reports would also ensure compliance and serious supervision of these aspects at the field level.

CUMO has exhibited commitment to the achievement of its social objectives and is poised for growth and diversification into new services in the period ahead. Expansion of portfolio, tightening of information systems and better supervision will ensure that it achieves financial sustainability, without undermining its social objectives.

Annexure 1: List of Documents Reviewed:

1. CUMO Brochure
2. CUMO Historical Performance Trend
3. CUMO History and Mission
4. Business Area Selection Criteria
5. Map of Operating Districts
6. LAST: description and tool
7. Board minutes
8. Audited Financial Statements of 5 years
9. Strategic Business Plan
10. USAID Deepening Microfinance Sector Comparative MFI data
11. Product Manuals for Masika, Fumba and Kasupe
12. Product Manual for Funeral Benefit Insurance
13. Concept Paper for Funeral Benefit Insurance
14. Exit surveys for 2005, 2006, 2007
15. 2006 and 2007 Client Satisfaction Survey
16. 2004 and 2006 Impact Assessment baseline and follow up study
17. Loan Utilization Study (2008)
18. CUMO Performance Indicators (report to management on annual performance)
19. Planet Rating Credit Rating report for CUMO
20. HR Manual
21. Performance Incentive Calculation
22. Performance Appraisal sheet
23. Internal Audit manual
24. Internal Audit reports
25. Accounting Manual
26. Fund raising proposal for Entrepreneurship Training
27. Agreement with Agora and Farmers' World and CUMO for tie-up
28. Agreement with Malawi Agricultural Commodity Exchange and CUMO
29. Agreement with NICO LIFE and CUMO for Funeral Benefit Insurance
30. Malawian blog on Malawi Agricultural Commodity Exchange and CUMO's tie up
31. Output to Purpose Review for DFID
32. FSO's manual for Training of Trainers
33. Group Training Manual (Group Resource Manual)
34. IT Concept Paper (for corrections in Kredits, in 2008)
35. CUMO Staff and Clients HIV-AIDS strategy

Annexure 2a: Poverty Scorecard

Indicator	Question	Value						Points (weight)					
		1	2	3	4	5	6	1	2	3	4	5	6
1	How many household members are 14 years old or younger?	Five or more	Four	Three	Two	One	None	0	2	6	9	13	21
2	How many household members engage in agricultural activities or own agricultural land of some sort?	Seven	Four-Six	Three	Two	One	None	0	4	8	12	23	6
3	What is your main source of drinking water?	Communal standpipe, Communal open, unprotected well, Communal hand-pump/ lake/ reservoir/ river/spring	Piped into dwelling, piped outside dwelling, personal hand-pump, personal protected spring or personal well					0	6	#N/A			
4	What is your main source of cooking fuel?	Collected firewood, Crop residue or animal waste	Purchased Firewood	Paraffin, electricity, gas, charcoal, sawdust or other				0	5	8	#N/A		
5	What is your main source of lighting fuel?	Collected wood, grass or other	Paraffin	Purchased firewood, electricity, gas, battery, dry cell, torch or				0	6	12	#N/A		

				candles						
6	Does the household own a lantern (paraffin)?	No	Yes			0	4	#N/A		
7	Does the household own a chair/ table/ upholstered chair/ sofa/ coffee table?	None	Owns a chair but not any other items	Owns a table, upholstered chair or sofa set but no coffee table (may or may not own a chair)	Owns a coffee table (may or may not own other items)	0	2	5	10	#N/A
8	Does the household own a bicycle/ motorcycle/ scooter/ car?	No	Yes			0	4	#N/A		
9	Does the household own a tape/ CD player/ HiFi	No	Yes			0	6	#N/A		
10	Does the household own an iron for pressing clothes?	No	Yes			0	6	#N/A		

Annexure 2b: Probability Likelihoods for Malawi

Score	<Food	<National	<\$2	<\$2.50	>=\$2.50
0-4	74.0	92.5	100.0	100.0	0.0
5-9	58.8	90.7	97.2	100.0	0.0
10-14	53.0	86.6	96.8	99.3	0.8
15-19	33.1	73.3	90.4	99.6	0.5
20-24	21.3	61.4	83.6	98.9	1.1
25-29	11.6	48.4	77.6	97.8	2.3
30-34	9.5	42.0	65.2	94.6	5.4
35-39	4.4	26.4	52.4	94.4	5.7
40-44	2.1	18.2	37.4	86.1	13.9
45-49	0.0	9.5	24.9	77.8	22.3
50-54	0.0	1.8	13.7	68.7	31.4
55-59	0.0	2.1	6.5	60.5	39.6
60-64	1.5	1.5	5.3	40.3	59.7
65-69	0.0	0.0	0.0	28.1	71.9
70-74	0.0	0.0	9.6	18.0	82.0
75-79	0.0	0.0	0.0	3.9	96.1
80-84	0.0	0.0	0.0	13.7	86.3
85-89	0.0	0.0	0.0	0.0	100.0
90-94	0.0	0.0	0.0	0.0	100.0
95-100	0.0	0.0	0.0	0.0	100.0



**Annexure 3 – Survey format for Client profiling and SPM
Household Survey (to be conducted with recent clients)**

Name of:

Province _____ Branch _____ Place _____

0.1	Type of area	01-Village	02-Market town	03-City	
0.2	Category	01-Remote rural	02-Rural	03-Semi/peri urban	04-Urban

Name of interviewer _____ Interview start (time): _____

End of interview (time): _____ Checked by _____ Date: _____

Q1. About the client

Q. No.	Question	Answer	Code
1.1	Respondent	01 – Client 02 – Other (If other, relationship with client _____)	
1.2	Client's name		
	Client's ID		
1.3	Gender	01 – Female 02 – Male	
1.4	Client's age	01 <17 yrs 02 18-35 yrs 03 36-50yrs 04 > 50	
1.5	Household main activity	Detail: 01-Agriculture 02-Animal husbandry 03-Non-farm self-employment 04-Casual labour 05-Skilled labour 06-Salaried 07-Housework	
1.6	Marital Status	01 Monogamous married or non-formal union 02 Polygamous married or non-formal union 03 Separated 04 Widow or widower 05 Never married	
1.7	Client's education	00-none 01-Neoliterate (read and write) or less than primary 02-Completed primary 03-Completed secondary 04-Completed college/undergraduate 05-Completed post-graduation	
1.8	Time with MFI	01-<6 months 02-6-12 m. 03-12-24 m	
1.9	If group model, status in group	01- Member 02- Group leader 03-Ex group leader 99-NA	
1.10	Type of product	01-MASIKE 02-FUMBA 03-KASUPE	
1.11	Have Entrepreneurship Training	01-Yes 02-No 99-NA	
1.12	Business undertaken with CUMO loan	01-Agriculture 02-Animal husbandry 03-Trade 04-Manufacture 05-Service	
1.13	Business managed by Whom	01 Client 02 Spouse 03 Other (non spouse) female relative 04 Other male relative	
1.14	Loan Cycle	Write number here _____	
1.15	Loan Size (current)	Write amount here _____	

Q2 Microfinance norms, products and services – client awareness

Q. No.	Question	Answer	Code
2.1	Group norms		
a.	What is the Group’s responsibility? Knows?	01-Yes 02-No 03- Partially	
b.	What is the process for selecting a group member? Knows?	01-Yes 02-No 03- Partially	
c.	What is the process for selecting a Group leader? Knows?	01-Yes 02-No 03- Partially	
c.	After what period may a leader change?	01-Yes 02-No 03- Partially	
2.2	Savings (if client has savings)		
a.	Knows own total savings amount?	01-Yes 02-No 99-NA	
b.	Has up to date statement of savings amount?	01-Yes 02-No 99-NA	
c.	What is the rate of dividend earned in the last accounting period? Knows?	01-Yes 02-No 99-NA	
d.	When can savings be withdrawn? Knows?	01-Yes 02-No 99-NA	

2.3	Credit		
a.	What credit products and options are available? Knows?	01-Yes 02-No	
b.	What are the loan fees? Knows?	01-Yes 02-No	
c.	What is the stated interest rate? Knows?	01-Yes 02-No	
e.	What is the collateral requirement? Knows?	01-Yes 02-No 03- Partially	

2.4	Insurance		
a.	What is the premium paid? Knows?	01-Yes 02-No 03- Partially	
b.	What is the coverage under Funeral Benefit Scheme? Knows?	01-Yes 02-No 03- Partially	
c.	How can the family claim the amount if someone in group dies? Knows?	01-Yes 02-No 03- Partially	

2.5	Client services		
a.	How long do meetings take? Minutes		
b.	How long does it take to process a loan application? Days		
c.	What can you do if you have a complaint? Knows?	01-Yes 02-No 03- Partially	

Q3. About the client household – members and main activities

3.1 Other household members (Include members regularly contributing income in the household; children under 5 years of age – write total number only)					
Name	Sex 01-F 02-M	Age (com- pleted years)	Status (main activity) 01-Earning 02-Studying 03-House work 04-Nothing	If earning, please describe the activity	If earning, then: 01- living as part of the household 02- living separately, sending remittances
1.					
2.					
3.					
4.					
5.					
6.					

3.2	Head of HH	01-Male 02-Female: no adult male earner(s) 03-Female: with male earner(s)	
3.3	Education of household head	00-none 01-Neoliterate (read and write) 02-Completed primary 03-Completed secondary 04-Completed college/undergraduate	
3.4	Vulnerability	Does anyone in the household have HIV/AIDS? 01- yes 02- no	

To complete after interview

3.1a	Household members	
i.	Total number of household members	
ii.	Number of earning members – living in the household	
iii.	Number of earning members – living outside, sending income	
iv.	Total earning members	

3.1b	Children in school		
i.	Primary school age (5-12 yrs):		
	Number of girls in family		Number of girls attending school
ii.	Number of boys in family		Number of boys attending school
	Secondary school age (13-18 yrs):		
iii.	Number of girls in family		Number of girls attending school
	Number of boys in family		Number of boys attending school
iv.			

Q4. Enterprise(s) – for which micro-credit has been used

* If there is more than one enterprise for which micro-credit has been used, please complete an additional sheet separately for each of the enterprises

Enterprise 1		Details				Code	
4.1	Sector	01-Agriculture 02-Animals 03-Trade 04-Services 05-Manufacturing					
4.2	Who manages the enterprise?	01- Joint (woman and man) 02-Woman/women 03- Man/men					
4.3	For how many years have you been engaged in this activity? (number)						
4.4	If non-farm, where is the enterprise located?	01- Market centre 02-Roadside 03-mobile/hawking 04-At home 99-Not applicable					
4.5	How many family members work in the enterprise?	Male		Female		Total	
		Full-time	Part-time	Full-time	Part-time	Full-time	Part-time
a.	Adults						
b.	Children (<15 yrs)						
c.	<i>Total (full-time basis) – est</i>						
4.6	How many employees (non family) are hired to work in the enterprise?	Male		Female		Total	
		Full-time	Part-time	Full-time	Part-time	Full-time	Part-time
a.	Adults						
b.	Children (<15 yrs)						
c.	<i>Total (full-time basis) – est</i>						
4.7	{Total workers}	{Calculate on full-time basis after interview:					
	{Family and hired}						

4.8 Some questions about hired employees							
No.	List all hired employees	01- Male 02- Female	01-Full-time 02-Part-time	How long working for you? (completed years)	Amount they are paid	State whether per day or per month	No. of days or months employed in a year
1							
2							
3							
4							
5							
6							
7							
8							

To complete later

4.9 a	Total payment to hired labour:	per month	
b		per year	

Q5. Use of other financial services - by client and/or other household members

5.1	Is anyone in the household a client of any other MFI?	01-Yes	02-No	
a.	If another MFI, please name			
Have you, or anyone else in your household:				
5.2a.	Other bank savings? (non-microfinance)	01-Yes	02-No	
b.	Other post office savings?	01-Yes	02-No	
	<i>Any formal savings (bank or PO)</i>	<i>01-Yes</i>	<i>02-No</i>	
5.3	Savings in a <i>merryground</i> ?	01-Yes	02-No	
5.4	Bank loan - in last 3 years?	01-Yes	02-No	
5.5	Loan from Moneylender/ Pawnbroker in last one year?	01-Yes	02-No	
5.6	If borrowed from moneylender/pawnbroker, what was the reason?	10-Farm 12-Non farm 20-Food/expenses 21-Medical 22-School 23- Debt repayment 24- Family event (marriage, death) Other (_____) 99-NA		
5.7	Current loan liabilities	Amount (98 – not known; 99-NA)		
a	This MFI			
b	Other MFI			
c	Bank			
d	Moneylender/pawnbroker			
e	Other informal			
f	Total			

Q6 Feedback on MFI programme and services

What do you think of the MFI services?

a) What do you like?

b) Is there anything you do not like? Anything you find difficult? Why?

c) Do you have any suggestions to improve services?

Q7. PPI Malawi Indicators

S. No.	Indicator	Value	Points
7.1	How many household members are 14 years old or younger?	1. Five or more 2. Four 3. Three 4. Two 5. One 6. None	0 2 6 9 13 21
7.2	How many household members engage in agricultural activities or own agricultural land of some sort?	1. Seven 2. Four-Six 3. Three 4. Two 5. One 6. None	0 4 8 12 23 6
7.3	What is your main source of drinking water?	1. Communal standpipe, Communal open, unprotected well, Communal hand-pump/ lake/ reservoir/ river/spring 2. Piped into dwelling, piped outside dwelling, personal handpump, personal protected spring or personal well	0 6
7.4	What is your main source of cooking fuel?	1. Collected firewood, Crop residue or animal waste 2. Purchased firewood 3. Paraffin, electricity, gas, charcoal, sawdust or other	8 5 8
7.5	What is your main source of lighting fuel?	1. Collected wood, grass or other 2. Paraffin 3. Purchased firewood, electricity, gas, battery, dry cell, torch or candles	0 6 12
7.6	Does the household own a lantern (paraffin)?	1. No 2. Yes	0 4
7.7	Does the household own a chair/ table/ upholstered chair/ sofa/ coffee table?	1. None 2. Owns a chair but not any other items 3. Owns a table, upholstered chair or sofa set but no coffee table (may or may not own a chair) 4. Owns a coffee table (may or may not own other items)	0 2 5 10
7.8	Does the household own a bicycle/ motorcycle/ scooter/ car?	1. No 2. Yes	0 4
7.9	Does the household own a tape/ CD player/ HiFi	1. No 2. Yes	0 6
7.10	Does the household own an iron for pressing clothes?	1. No 2. Yes	0 6



Q8. Additional Indicators

Q	Indicators	Answer	Code
8.1	Land holding	IRRIGATED (number of acres)	
		UNIRRIGATED (number of acres)	
8.2	Dairy animals (buff/cows excl. calves)	00 -None 01 - One 02 -Two 03 -Three or more	
8.3	Small animals (goats, pigs, poultry)	00 -No 01 -Yes	
8.4	Food Shortage in past year	00 -None 01 -1-2 months 02 -More than three months	
8.5	FSO: your observation of household status		
	01 - very poor 02 -poor – not OK 03 -OK 04 -well off 05 -very well off		