
Social Action and Microcredit Funds in Malawi: A Pilot Study

Richard Moorsom with BMG Ltd.

R 1997: 8

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Summary

This study forms part of the output of a consultancy on Social Development Funds in Zimbabwe and Malawi commissioned from Chr. Michelsen Institute by the African Development Bank. It describes, analyses and evaluates selected microprojects and microcredit schemes in Malawi from the perspective of Social Dimensions of Adjustment programming and poverty alleviation objectives. The study assesses the context and dimensions of poverty in Malawi, especially in its Poverty Alleviation Programme, in particular community based and microcredit components. It evaluates the design, implementation and performance of four recent microcredit schemes: the UNDP pilot microenterprise programme, the Small and Medium Enterprise Development Fund, microenterprise projects funded under the SDA pilot programme and the Malawi Mudzi Fund; and concludes with recommendations on possible forms of follow-up interventions by the ADB.

Richard Moorsom is a historian and development policy researcher specialising on Namibia and southern Africa. A member of CMI's research staff since 1989, he is currently on leave of absence working as a research historian for the Waitangi Tribunal, Wellington, New Zealand.

BMG Ltd., recently renamed *Imani Development (Malawi)*, is one of Malawi's leading business and development consultancy firms. In recent years it has undertaken a wide range of assignments for the government and donor agencies, one area of focus being social policy and poverty issues.

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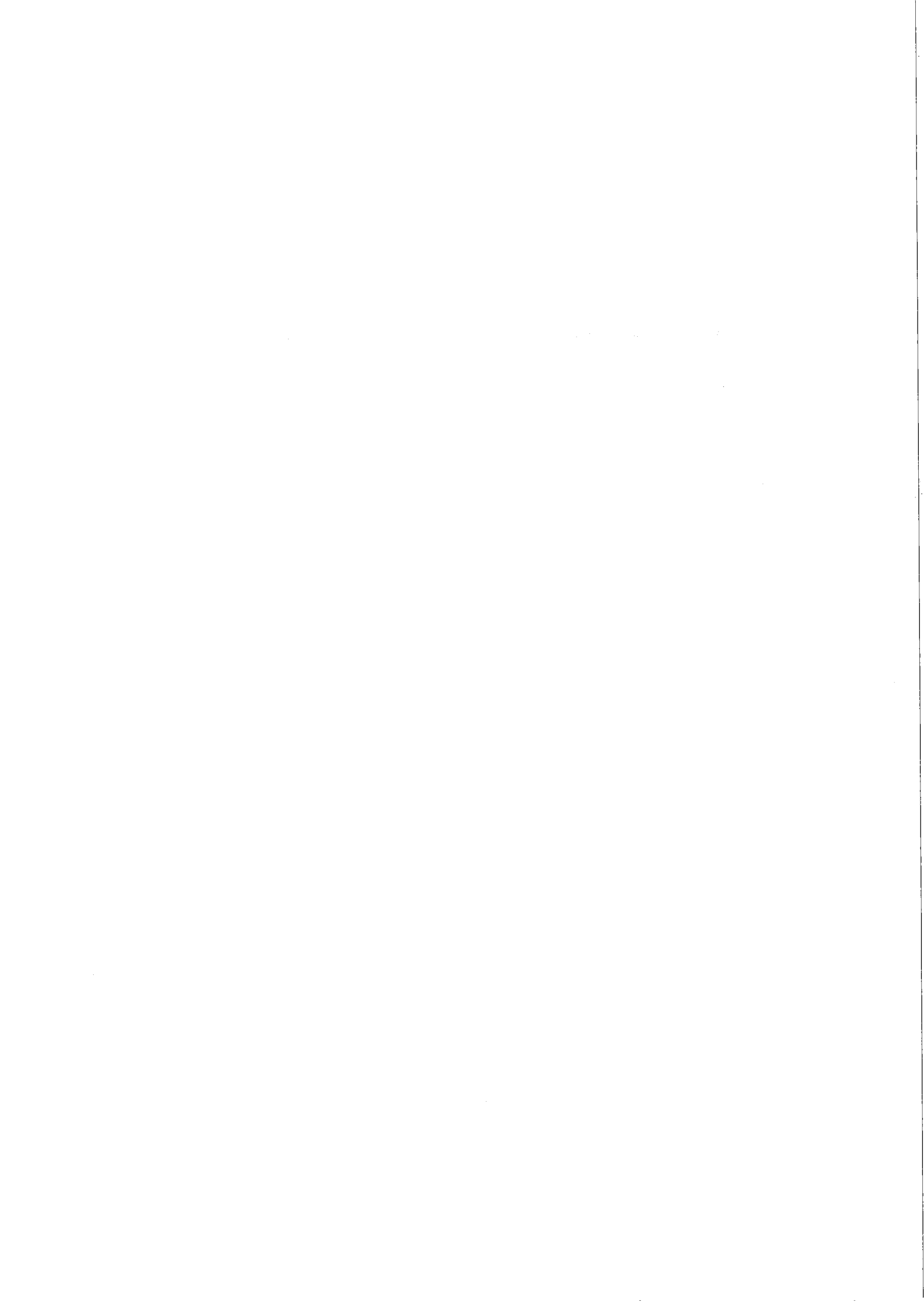
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PREFACE

This study forms part of the output of a consultancy on Social Development Funds in Zimbabwe and Malawi commissioned from Chr Michelsen Institute by the African Development Bank. The review of the SDA, microprojects and microenterprise programmes in Malawi was carried out by a team comprising Richard Moorsom, CMI project leader, and a national consultant, Business Management Group Ltd, whose team was led by their managing director, John McGrath. The study was written by Richard Moorsom incorporating working drafts written by the team members.



ABBREVIATIONS AND UNITS

ADMARC	Agricultural Development and Marketing Corporation
ADB	African Development Bank
ADF	African Development Fund
ADMARC	Agricultural Development and Marketing Corporation
AFO	Apex Financing Organisation
BUA	Bank Unit of Account (ADB)
CBM	Commercial Bank of Malawi
CGAP	Consultative Group to Assist the Poorest
CHAM	Christian Health Association of Malawi
CMI	Chr Michelsen Institute
CONGOMA	Council for Non-Governmental Organisations of Malawi
CSR	Centre for Social Research, University of Malawi
DDC	District Development Committee
DDF	District Development Fund
DEMATT	Development of Malawi Traders Trust
EPD	Department of Economic Planning and Development
ESCOM	Electricity Supply Commission of Malawi
EU	European Union
FINCA	Foundation for International Community Assistance
FSNU	Food Security and Nutrition Unit, EPD
FUA	Financial Unit of Account, ADB
FY	Fiscal (financial) Year
GER	Gross Enrolment Ratio
IDA	International Development Association of the World Bank
IEC	Information, Education and Communication
IFAD	International Fund for Agricultural Development
IHS	Integrated Household Survey
ILO	International Labour Organisation
MASAF	Malawi Social Action Fund
ME	Microenterprise
MEPD	Ministry of Economic Planning and Development
MIRTEC	Malawi Industrial and Research Technology Centre
MIU	EU Microprojects Implementation Unit
MMF	Malawi Mudzi Fund
MOWCACS	Ministry of Women and Children Affairs and Community Services
MRFC	Malawi Rural Finance Company
MSE	Micro or small-scale enterprise
NABW	National Association of Business Women
NER	Net Enrolment Ratio
NSO	National Statistical Office
NSSA	National Sample Survey of Agriculture
ODA	Overseas Development Administration, UK
OPC	Office of the President and Cabinet
PAP	Poverty Alleviation Programme
PHC	Primary Health Care
PIU	SDA Programme Implementation Unit, EPD
PRC	SDA Projects Review Committee
PSF	SDA Policy Studies Fund
PSIP	Public Sector Investment Programme
RMC	Regional Member Country (of the ADB)

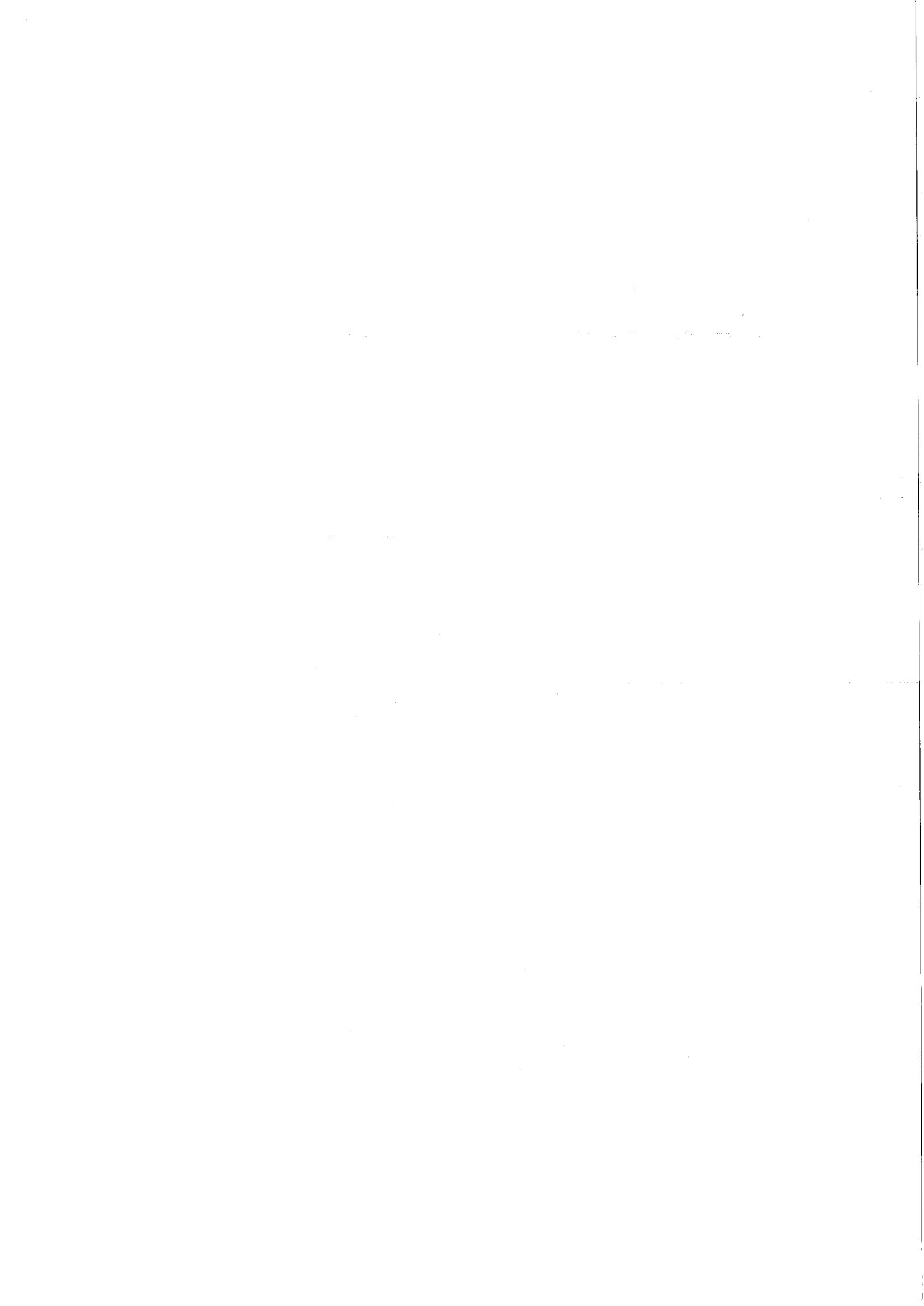
SAF	Social Action Fund
SAP	Structural Adjustment Programme
SDA	Social Dimensions of Adjustment
SDF	Social Development Fund
SEDOM	Small Enterprises Development Organisation of Malawi
SME	Small or medium enterprise
SMEDF	Small and Medium Enterprise Development Fund
SPA	Special Programme of Assistance for Africa
SPSF	SDA Social Programme Support Fund
SSA	Sub-Saharan Africa
SSP	SDA Social Support Programme
SSE	Small Scale Enterprise
SSU	Special Studies Unit, EPD
STF	SDA Task Force
THA	Traditional Housing Area
UA	Unit of Account, ADB (=SDR)
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WWB	Women's World Banking

EXCHANGE RATES

Currency: Malawi Kwacha

Annual averages:

	US\$1 = MK	MK1 = US\$
1990	2.7289	0.3664
1991	2.8033	0.3567
1992	3.6033	0.2775
1993	4.4028	0.2271
1994	8.7364	0.1145
1995	15.3 (approx)	0.0654



OVERVIEW AND RECOMMENDATIONS

1. This study describes, analyses and evaluates selected microprojects and microcredit schemes in Malawi from the perspective of Social Dimensions of Adjustment programming and poverty alleviation objectives.

Dimensions of Poverty

2. Poverty in Malawi is widespread and severe. Its per capita GNP was estimated by the World Bank at US\$200 in 1993, placing it amongst the 10 poorest countries in the world. Only six countries had life expectancies at birth lower than Malawi's 45.6 years in the UNDP's Human Development Index (HDI) list, in which Malawi ranked 157 out of 174 countries in 1992. According to government figures, in 1992 some 60 and 65 per cent of the rural and urban populations respectively were living in general poverty.
3. In 1995 the Government defined eight partially overlapping segments of Malawian society as being 'groups in poverty': smallholder farmers; women in poverty; estate workers; tenant farmers in estate agriculture; *ganyu* or seasonal and casual labourers; children in poverty; youth in poverty; and the urban poor.
4. Women are key workers and producers in the Malawian economy, representing 70 per cent of the full-time farming population. About 30 per cent of Malawi's rural households are headed by women and they belong to the poorest segments of the population. They are severely deprived of land, labour, incomes and other social and economic services.
5. Informal credit has also continued to operate. *Katapila* is an informal credit system whereby credit facilities, mostly in the form of cash, are provided in exchange for deferred repayment at interest, which normally ranges from 50 per cent to 100 per cent over a specified period of time. *Katapila* is closely related to another system called *pinyolo* in which assets are temporarily exchanged for cash. *Kusuma*, short-term labour for lump payments in cash or kind, is normally resorted to by people who do not have enough food and takes place mostly during the seasonal food deficit season.

Structural Adjustment and Poverty Alleviation

6. Structural adjustment is still incomplete in Malawi despite having been in progress for more than 15 years. The transition to multiparty democracy in 1993/94 was accompanied by economic volatility and damagingly high inflation which has placed early priority through 1995-96 on short-term macroeconomic stabilisation. At the same time the new Government committed itself to accelerated structural adjustment and economic reform.
7. A small SDA Programme was started in 1990. After the 1994 elections the new Government raised poverty alleviation to the top of its policy priority list. Following an extensive period of preparation and consultation, in October 1995 it published a comprehensive Poverty Alleviation Programme (PAP). The PAP explicitly linked its sustainability to economic growth, but insisted that 'a major share of that growth be generated by increasing the productivity and incomes of the poor themselves and that

Government's investment programme reflect this orientation'. Both the social costs of adjustment and other short-term impacts, whether from adjustment or other causes, were to be addressed within an integrated policy framework geared to long term poverty reduction.

Microprojects

8. Microprojects, financed by grants to community based projects, have featured more prominently since 1990, first under the SDA Programme, then more recently under the PAP through the Malawi Social Action Fund (MASAF), and also under other schemes such as the European Union's (EU) Microprojects Programme. Given the overwhelmingly rural focus of both social need and programme targeting, social safety nets have been less significant in the overall mix of policy measures.

The SDA Programme

9. In 1990 the Government embarked on a pilot SDA Programme with two main components:
 - Institutional strengthening in data collection and analysis, intended to assist policy formulation and poverty oriented social research; and
 - A Social Support Programme (SSP) comprising both poverty research and a Social Programme Support Fund (SPSF) for pilot projects to test models for replication of support to poor and vulnerable groups.
10. Coordination and operational management of the SDA Programme, including the SPSF, was assigned to a Projects Implementation Unit (PIU) in the Department of Economic Planning and Development (EPD), whose head functioned as the SDA Coordinator. It was part of the original design concept to implement through existing structures as far as possible.
11. There was inadequate SDA advocacy in Government circles before 1994. Little was mentioned by way of making the pilot programme an integral part of the existing development planning process. Consequently, it was seen as an isolated temporary intervention rather than one that needed to look into the fundamental causes of poverty within the framework of national development planning.

The ADF Institutional Support Grant

12. An ADF grant provided part of the donor-financed institutional support on which the SDA Programme relied. The project supplied two-year technical assistance postings in the form of a statistical analyst for the Ministry of Agriculture's Planning Division and a food-for-work expert for the EPD's Food Security and Nutrition Unit, as well as six person-months of short-term consultancies. It also covered local training for food-for-work planners and project managers, vehicles and computer equipment and operating costs.

13. The project was scheduled for implementation over a two-year period between April 1991 and March 1993 with a closing date of 31 December 1994. Yet as of March 1996, five years after the scheduled startup and three years after expected completion, the project was still unfinished. The precedent conditions took more than two years to fulfil and the grant agreement could only be declared effective in February 1993. After completion of the technical assistance postings, a balance of US\$311,000 remained to be utilised and tasks remained unfinished. The PIU identified the principal reason for the underspending as being the fact that 'very little was allocated to the strengthening of nationals' abilities to assimilate the functions of the advisers', although the statistical analyst contributed extensively to training and technical advice. It also indicated that external factors had rendered the impact of the food-for-work adviser's work ineffectual since the adviser 'has left with little or no success in promoting the food-for-work concept'. More active supervision from the ADB might have assisted in speeding up implementation and rendering more effective the achievement of the counterpart training objective.
14. In September 1995 the ADB approved an extension to December 1996 covering external technical assistance for studies and training, a full analysis and report on the 1994 Policy Impact Survey which was not completed during the previous technical assistance, additional training in Participatory Rural Appraisal methods, a policy study on the integration of the food-for-work approach into development policies and projects, and a study on the development of an integrated food security and nutrition prototype based on previous SDA studies. The ADB approval also covered a 'feasibility study on a Poverty Alleviation Project, for possible financing by the ADF and other interested donors'. It does not seem that the Bank's intentions were fully known to the PIU, which in January 1996 was proposing to respond to the 'feasibility study' proposal by inviting further discussion with the ADB. As of January 1996, the follow-up proposals, as approved by the ADB, were in preparation but not yet implemented. It is also not clear how the remaining balance of the grant was to be applied.

SDA Microprojects

15. The SPSF, the first poverty-focused mechanism for channelling resources to the poor, was set up to test, monitor and evaluate innovative approaches to poverty alleviation. The Fund worked largely through NGOs but also through district offices of ministries to implement pilot community-based microprojects that had poverty reduction as a key theme.
16. The 17 projects approved for funding under the SPSF were quite diverse. They were proposed by governmental and non-governmental institutions, submitted to the PIU for appraisal and finally presented to a Projects Review Committee (PRC) for decision. They may be approximately classified as:
 - Primary health care, food security and nutrition (3 projects);
 - Communal water supply and health education (2 projects and parts of others);
 - Training, extension and capacity building (3 projects and parts of others);
 - Revolving credit funds (6 projects).

- Others (3 projects: community afforestation; rehabilitation of handicapped children; crop marketing outlets).
17. The single most serious problem under the SPSF was the lack of staff to give critical appraisal of project proposals, monitor their implementation and solicit new innovative projects from both NGOs and public sector institutions. Furthermore, the accounting system was reported to be 'grossly inadequate in many respects'. Delays in disbursement to projects were found to have seriously affected implementation in a number of cases. Scanty financial record-keeping and reporting was also evident in several projects and field contact between the SPSF account and implementors, which could have improved local performance, was infrequent.
 18. The PIU nevertheless succeeded in establishing a project monitoring system of structured quarterly change reports from all implementors. The feedback reporting system generated valuable information which also fed into the experimental and policy evaluation function of the programme.
 19. Institutional participation varied. The SPSF never succeeded in obtaining the active involvement of government institutions and this affected the investigation as well as the integration of policy lessons generated by microprojects into their sectoral policies and programmes. On the other hand, a number of NGOs played a prominent part. The SPSF has functioned as a simple Apex Financing Organisation (AFO) channelling funds from various donors to a range of poverty-focused NGOs, which have contributed both to implementation and to policy and decision-making.
 20. The experiences of some implementing agencies were quite encouraging. The 1995 evaluation found several with satisfactory records and that most had reasonable prospects of sustainability. But at the same time a number had performed poorly or faced major difficulties from external as well as internal factors. In most of the pilot microprojects, beneficiary involvement was limited. Institutional weakness remained a general problem for many NGOs, especially in project and financial management. Nevertheless, the NGOs appeared to be quite successful in mobilising local communities around the objectives of a poverty-oriented community-based project
 21. A number of issues and problems in project implementation can be identified:
 - The diversity of project types gave a good spread of insights but at the expense of thinness of coverage, making it sometimes difficult to establish comparative yardsticks.
 - Despite the pilot nature of the programme, most projects delivered definite if sometimes limited benefits for their beneficiaries. However, there was a critical lack of representation of beneficiaries in the entire process, which was 'owned' not by them but by the NGOs.
 - Many projects suffered from insufficient knowledge of client contexts and needs at preparation and startup. The assumption that NGOs had greater in-depth knowledge of community contexts than government agencies did not always prove valid. Regional socio-cultural differences affected participation rates, which were generally higher in patrilineal societies and more literate communities.

- Negative external political and economic influences had significant impacts outside the control of any of the actors. At the same time, too little effort was made to draw on the established state agencies and extension services.
 - The relative complexity and formality of project application procedures disadvantaged local against foreign NGOs and beneficiaries against NGOs. The low ceiling on grants (MK0.3 million) is likely to have deterred some of the more effective NGOs from applying.
 - Not all the projects were innovatory, as some NGOs sought to attract extra funding to established operations. Lack of PIU supervisory capacity left many implementors to deviate significantly from their project plans without contest, thereby losing project coherence and direction. Very few implementors kept proper project accounts or financial management, a significant factor in the collapse of at least four projects.
22. In general, on the negative side the SPSF experienced problems originating from low beneficiary involvement in microprojects, staff shortages, and the lack of a monitoring system. On the positive side, the design of the SPSF avoided rigid planning and management. The 'pilot' micro-projects themselves created a process whereby courses of action were shaped from the lessons of past experience and a more realistic understanding of current and emerging conditions was obtained. This approach provided valuable information to define a policy for the implementation of microprojects on a large scale through MASAF.

MASAF

23. The overall objective of MASAF, launched in mid-1995, is to contribute to the goal of poverty alleviation through provision of improved social and economic services and through community empowerment. MASAF will upgrade community infrastructure by rehabilitating existing structures and construction of new ones in education, health, water, transport and other sectors. Capacity building, especially in the technical and managerial fields, is another objective of MASAF.
24. MASAF is a quick disbursing, community responsive facility which channels funds directly to projects that are identified, managed and maintained by communities themselves. The design of MASAF has been built around three principles:
- Community participation in a demand-led process;
 - Direct financing; and
 - Independent management, involving the establishment of the MASAF Management Unit as an autonomous body outside the civil service.
25. MASAF's preparatory phase was implemented during 1994-95 through an extensive programme of familiarisation tours, participatory poverty assessment exercises, consultative workshops, a systematic client consultation of 19 sample communities, and the formulation and testing of detailed operational manuals.

26. The majority of the pilot projects passed appraisal and were launched in November and December 1995. Most are for the expansion of primary school facilities or community water supplies (typically boreholes), but construction of health facilities, a market, an urban access road and a community multipurpose centre are also included in the pilot phase.
27. MASAF underwent appraisal in November 1995 for funding by the World Bank, the sole donor, which will allow it to start full-scale operations in mid-1996. It is expected that the first phase will reach a large scale very rapidly and that several hundred projects will be funded in the first year of full operations. As a stopgap measure MASAF has also agreed to fund public works programmes for direct employment generation among very poor families in rural areas.

EU Microprojects

28. Another of the donor-driven initiatives is the EU/Malawi Government microprojects programme, which is administered through existing line ministries. The programme was reinstated in April 1995 after earlier collapse. The microprojects programme is geared to assisting small community-based projects, principally to develop social assets under community control. Its administration is centrally controlled through a Government/EU Microprojects Implementation Unit (MIU) and there are few linkages to any other similar programmes. By November 1995 projects had been approved for 416 units or structures at 216 sites. Contrary to original expectations the overwhelming community demand has been for school infrastructure.
29. There is potential overlap between the EU Microprojects Programme and MASAF. There appears nevertheless to be no coordination between the two programmes at any level and there is risk of confusion amongst target groups and of local mismatches of project resources. At the macro level, however, this parallelism is less significant in view of the enormous scale of poverty-related needs. There are also sharp differences in approach between the MIU's standalone, top-down methodology and MASAF's bottom-up participatory emphasis combined with inputs from other NGOs and arms of government at local level.

Small and Microenterprises

30. Microenterprise development was one of PAP's 18 strategic sectors and has formed one strand of previous poverty programming, both under the SDA Programme itself and through separate initiatives such as the Malawi Mudzi Fund (MMF). At the official level Malawi has until recently focused only marginally on the MSE sector.
31. It has become apparent to both the Government and the donor community that one of the missing links in Malawian economic policy has been the development of the micro, small and medium enterprise sectors. The new government has together with donors taken initial steps towards formulating and implementing a microenterprise development strategy under the auspices of PAP.

The UNDP Pilot Small Enterprise Development Programme

32. In an exception to the banking sector's general avoidance of microcredit involvements, the Commercial Bank of Malawi (CBM) agreed in May 1995 to administer a UNDP-guaranteed microcredit programme to be implemented through the business extension and training parastatal DEMATT. The guaranteed amount was, however, only 10 per cent of the sum originally planned.
33. The UNDP adopted six districts for the piloting of this programme, which aimed to test the application of group lending methods. In order to apply to DEMATT for a loan the group first had to set up a group savings account in the CBM with a savings record of between one to three months, during which it received training from DEMATT.
34. The credit was targeted at groups of between 10 and 15 but the applicant group could be as low as three if a good project was identified. The group had to save at least 25 per cent of the required loan amount. The loan must fall between MK 5,000 and MK 40,000 (US\$325-2,600). The loan was granted at the prime bank overdraft interest rate, which was more than 50 per cent in late 1995, and was essentially a loan on commercial terms. There was a grace period of 90 days and then a 90-day payback period. A 2 per cent application fee was charged to ensure serious intent.
35. A DEMATT report in March 1996 summarised a number of problems arising from the early experience of the scheme, many of them endorsing the findings of an earlier UNDP evaluation:
 - The low individual loan ceiling effectively excluded new enterprises;
 - Some of the local NGOs contracted as implementing agencies had 'serious management problems which have affected... progress', although their involvement had at the same time expanded the programme's outreach, especially to women;
 - The majority of potential clients were too distant from CBM branches to reach them, especially as four of the six pilot districts did not have CBM branches at all;
36. The UNDP evaluation in late 1995 noted a number of weaknesses but delivered a cautiously positive report on the pilot scheme, especially in outreach to existing micro-traders. In general, the savings and credit groups were sustainable and self-reliant.
37. The launch of the Small and Medium Enterprise Development Fund (SMEDF) a month after startup caused immediate disruption since it was offering credit to the same clientele at a heavily subsidised rate of interest. Following the recommendation of an evaluation report the UNDP suspended the scheme in late 1995 and it is uncertain when and if it will be relaunched.

The Small and Medium Enterprise Development Fund

38. In early October 1995 the President of Malawi set aside MK200 million (US\$13 million) for MSE loans. The Reserve Bank announced that these disbursements would be made through DEMATT, Women's World Banking and the National Association of Business

Women. The loans were to attract a soft interest rate of 15 per cent, far below the bank overdraft rate of more than 50 per cent. MK100 million was to be made available initially of which MK30 million (US\$2.0 million) was for immediate loan disbursement. The balance of MK70 million was to be invested with the Reserve Bank as an endowment fund, the interest of which was to sustain the MK30 million revolving fund.

39. SMEDF's targeting appears to aim mainly at MSEs. The low ceiling of MK10,000 (US\$650) for new enterprises is geared to the informal sector while a much higher ceiling of MK250,000 (US\$16,300) applies to 'existing MSEs', which would appear to include first-time loans to such enterprises.
40. It must be seriously doubted whether DEMATT will be able to cope with either the scale of demand for microcredit or the monitoring and recovery functions essential to establishing the revolving fund. In a March 1996 status report its new small loans department noted several major constraints, including understaffing, delays in Reserve Bank disbursements, lack of basic equipment such as computers, photocopiers and vehicles, and lack of funding for training of staff, delaying loan appraisals and management functions.
41. Nevertheless, the report points to a commendable volume of progress with implementation: 2,014 business plans appraised within six months of startup, 1,460 submitted for consideration and of these 91 per cent approved for lending. Commitments thus amounted to 1,331 loans valued at MK30.1 million. At that point, however, 683 appraised business plans were awaiting decision and another 10,583 were waiting in the queue.
42. However, transaction costs were bound to be high - close to MK1.70 for every MK1 lent according to a DEMATT estimate. A general problem raised by this new credit facility at the micro level is that it may seriously impinge on the viability of other microcredit schemes, as it has done already with the UNDP pilot programme. At the same time, it risks a high failure rate on its own account. Its poverty focus may also be attenuated by the tendency of subsidised credit to crowd out microenterprises and the poorest applicants.

SDA Microenterprise Projects

43. The SDA Programme sponsored six microcredit projects, three through NGOs targeting women (a women's producer cooperative, a number of women's village banks and group lending in six pilot districts), and three through ministry district offices (a community group lending scheme and two projects targeting youth and young adults).
44. The 1995 evaluation found an apparent lack of effort in a couple projects to build the capacity of beneficiaries towards long term sustainability, but considerable success in several of the schemes targeting women. Most of the schemes it considered had reasonable potential for sustainability.
45. Some of the specific problems included:
 - The hardships and disruption caused by the volatile economic environment during much of the programme period.

- The credit provided by three of the NGOs targeting women benefited somewhat better-off individuals and largely failed to reach the poorest households. There was a general lack of a sense of ownership amongst the borrowers, who generally perceived the credit schemes as belonging to the implementing agencies.
 - Inadequate and irregular reporting to the PIU by several agencies, especially NGOs, but rich descriptive detail supporting policy analysis in the change reporting by a couple of the agencies.
 - Weak PIU field monitoring tended to reinforce a tendency for benefits to be concentrated at the NGO level rather than with the beneficiaries. However, the PIU brought pressure to bear to promote a participatory approach to local monitoring, which achieved improvements and in several cases the transmission of a balanced representation of local views.
 - A general lack of knowledge amongst the agencies of community based and participatory approaches affected the relationship between agencies and clients in some cases.
 - Significant departure from the stated project objectives in at least one of the schemes.
 - Major institutional capacity problems in at least three of the agencies.
 - Adverse impacts on at least one scheme from slow disbursements of tranches from the SPSF.
46. Contrary to the 1995 evaluation report, most of the microcredit projects performed adequately and group lending achieved some success. Very small loans, however, tended to benefit traders rather than producers, while local flexibility was important in assisting very poor rural people to survive local climatic and economic setbacks. Exposure to influence by local notables was also evident.

The Malawi Mudzi Fund

47. The MMF was founded in 1988 and started operations in April 1990. It was modelled explicitly on the lines of the Grameen Bank and in its first phase was to run a pilot scheme over five years, establishing two branch offices serving about 2,000 borrowers. The MMF's design prescribed a lean administrative structure.
48. The MMF's central objective was to provide loans, savings instruments and technical assistance to rural Malawians with little or no land for generating self-employment in off-farms activities. Borrowers were organised into groups of five and all groups into centres of 4-5 each. Business loans were sought mainly for local trading and some for services, but few for productive activities. The loan range was MK50-4,000 (worth up to US\$1,470 in 1990, US\$260 in 1995) but had no formal ceiling. Loans carried a simple interest charge of 18.5 per cent per annum and were repayable in fixed weekly instalments over 50 weeks (later 25 weeks) with a two week grace period.

49. The MMF developed five savings instruments: compulsory group savings; a group tax of 5 per cent of the loan value (abolished in 1994); emergency savings as insurance cover to the amount of a quarter of the total interest on the loan; personal savings in an interest-bearing passbook account; voluntary special savings agreed by centre members and including fines for group indiscipline.
50. The initial design of the credit scheme underwent a number of modifications in the light of experience during implementation, particularly its poor start in the first two years. The credit scheme nevertheless achieved an impressive record. Altogether 2,673 members in 561 groups were trained during the five years to April 1995 and a total of 2,676 loans were approved during the period, including repeat loans. Women made up 91 per cent of members trained and 94 per cent of the total loan amount. The credit scheme achieved an overall repayment rate of 85 per cent over the five year period. There was a marked improvement over time, from a poor 52 per cent in the first year to a remarkable 99 per cent in the final year.
51. The MMF's saving instruments were less successful but achieved expansion over the period but particularly in the final year when the total amount nearly tripled.
52. A number of issues and problems were identified during the pilot first phase:
 - Geographical dispersion: DDCs rather than the MMF decided the project areas to be covered within the district and emphasised a broad spread, raising the cost of scheme services.
 - Member selection: insufficient involvement of group leaders in selecting other members allowed the entry of less committed borrowers, especially in the male groups, since project staff doing the selection were strangers. The addition of business experience as a criterion of eligibility tended to exclude the poorest lacking adequate off-farm earning possibilities, a deviation from the scheme's intended targeting.
 - Staff performance: most field staff were at the start inappropriately trained, none having any prior experience of rural credit administration. In the early period this led to some ineffectual screening of applicants and poor technical and financial project appraisals. But frequent contact between field staff and borrowers built up confidence.
 - Transaction costs: mobilisation efforts, screening, group training, compulsory weekly meetings and weekly repayments proved costly in staff time, but helped to build group discipline and achieve high repayment rates. Much lower population density than in Bangladesh made for higher transaction costs.
 - Client ownership: the centres functioned primarily for the administrative benefit of MMF project officers through the compulsory weekly meetings. Groups became subordinated to centres. In the early stages many clients saw the scheme as a government poverty alleviation handout.
 - Employment creation: 85 per cent of clients were already self-employed before joining, while only 5 per cent employed paid workers.

- Group savings: the savings instruments failed to achieve their potential and were relatively unattractive to members because interest was not fully passed on, savings could be used as collateral for other defaulters and there was no confidentiality.
 - Policy and accountability: because most trustees were senior civil servants, membership of the Board changed frequently and its proceedings lacked continuity.
53. The MMF was still far from achieving financial self-sufficiency by the end of FY 1993/94, its fourth year of operations (see tables 9-12). Expenditure under the Technical Assistance Fund, a parallel trust fund that accounted for all operational expenses, exceeded loans granted by a factor of 5-10 times and staff salary costs alone by more than double. The ratio of both client training costs and travelling and vehicle expenses to loans granted remained high. The World Bank evaluation observes further that 'it should be borne in mind that there are probably absolute limits to the commercial viability of schemes such as the MMF'.
54. Since the pilot Malawian districts are amongst the most densely populated in eastern and southern Africa, the MMF experience suggests that replication in other African rural areas will inevitably require long term subsidy of the transport and training costs of the field operation if the very poor and especially the rural women are to be served effectively by microcredit schemes. It also suggests that the replication of Grameen Bank practices to rural African environments needs careful adaptation and costing at the design stage.
55. It must be emphasised that the Mudzi scheme did achieve notable success in realising its internal objectives: a large number of client groups and centres were viably established and the repayment rate reached a highly sustainable level. There is evidence too that centres were becoming more self-reliant and reducing the need for close supervision and technical assistance. The World Bank evaluation turned in a generally positive report and evidence of a commendable performance and adaptation record. The key result is that small resources did succeed in making a significant difference to the livelihood and household economies of a sizeable group of poor rural people, and in a sustainable manner.

Possible Forms of Follow-up Intervention

56. The sheer magnitude of conditions of poverty in Malawi make it probable that SDA interventions can only be effectively designed if they address from the outset both structural and conjunctural dimensions of poverty amongst the target groups. Economic instability and high inflation continue to erode severely the incomes of the poor. Alongside and beyond the stabilisation measures four possible future adjustment impacts on the poor can be identified: civil service retrenchments; job losses during privatisation; insecure marketing and input price rises for smallholders; and expansion of social infrastructure, especially village water and schools.
57. In a very difficult poverty alleviation context, there is clearly a degree of urgency in boosting very low rural incomes and establishing essential social facilities through direct interventions such as labour-intensive public works schemes, building social infrastructure, food-for-work programmes and income-generating activities. But additionally the stimulation of self-sustained growth in smallholder farming and in micro and small enterprises could provide a major impetus to poverty alleviation through labour intensive employment

generation, a more equitable spread of benefits and improved access for women. The reversal of the longstanding policy and regulatory bias in favour of large enterprises and estate farming could of itself have a significant impact by facilitating a broadening the entrepreneurial base.

58. Both SDA and poverty alleviation programming is currently in a state of flux and of transition:

- The earlier social development programmes of the late 1980s and early 1990s all slowed down or ground to a halt during the final phase of the one-party regime. Nevertheless, a considerable bank of policy and practical experience was accumulated from the various pilot schemes.
- Since the change of government there has been strong political backing for both poverty alleviation and poverty reduction initiatives. Poverty alleviation is the centrepiece of the present government's development strategy, expressed principally through the Poverty Alleviation Programme.
- Low capacity in social security delivery structures will severely limit the potential for conventional welfare programmes, whether short or long term. But public works and food-for-work employment programmes can have a rapid impact, especially by meeting the basic needs of poor households and communities in the rural areas. Both are now being activated under the management of MASAF.
- Grant-financed microprojects programmes are now gearing up under both MASAF and the EU. MASAF is likely to achieve a major and rapid impact through 1996 and 1997 both with the large resources committed by the World Bank, with the thorough formulation and consultation on the programme design and with the direct presidential backing. The impact will be mainly in the rural areas and in the form of social infrastructure constructed through community-based projects.
- Credit initiatives are in a state of some confusion and as yet do not constitute an integrated approach. The principal initiative is the new revolving credit fund, SMEDF, which is targeted at both micro and small enterprises. No comprehensive programme design or coordination with other ministries or agencies has been put in place. The major risk is that the disbursements become a de facto entitlement programme, with one-time handouts and few loan recoveries.
- The MMF, on the other hand, has been incorporated as a functioning operation into the MRFC with a view to wider replication nationwide, retaining a microcredit lifeline for very poor rural women.

59. In the present policy and institutional context there appear to be two possible areas of ADB intervention:

- Rural microcredit may offer the strongest option. The transfer of the MMF for expansion under the MRFC secures a scheme with a reasonable track record as well as the hard-won experience of its staff. The MRFC operates as an autonomous, professionally managed parastatal agency with scope for expansion. The 'Mudzi Window' offers an opening for direct targeted impact on a large stratum of the rural

poor, especially women who form the backbone of the poor smallholder household economy. The Mudzi Window is nevertheless unlikely to contribute much to new employment creation as it will finance mainly very small-scale trading activities already under way - its main impact would be on rural household incomes.

- A second potential area of intervention is in small-scale enterprise credit. This area is more challenging because of the higher capital cost and the often high rate of failure of new business startups at the entry level to the formal sector. It also tends to be rather more urban and male biased. On the other hand, it bears much stronger potential for job creation and for broadening the indigenous entrepreneurial base. It offers some scope for SDA self-employment alternatives for retrenched made redundant under state or private sector downsizing. There are also several well established NGO intermediaries such as NABW and FINCA targeting women.
60. There is, however, no easy path towards a soundly established SSE programme. If DEMATT becomes the principal credit delivery agency for SMEDF as appears to be envisaged, it will require major upgrading and further technical assistance. An effective SSE revolving fund cannot be created overnight and will probably benefit from outside inputs from financial and specialist institutions. Here technical and specialised agencies, including ADB, could assist.
61. MASAF offers a possible alternative as a programme delivery vehicle, although precluded in the immediate future by its existing commitments. A joint scheme with DEMATT might offer a balanced combination of management and business training strengths. Whether separately or in combination, the involvement of agencies with an established track record would be preferable to establishing a new agency. Other than these two, no other state agency or NGO has at present a national implementation capacity. Whether SMEDF itself offers an appropriate financial instrument can only be assessed on the basis of further experience.
62. The principal of wholesaling concessional funding through various kinds of financial intermediary, as practised by both the SDA Programme and SMEDF, is soundly based and could be extended. One possibility would be to constitute SMEDF as an independent foundation or Apex Financing Organisation for NGOs engaged in poverty-focussed lending programmes, which might offer a more durable long term institutional framework geared to poverty reduction strategies.
63. The foundation could include the following features:
- Its constitution would set poverty reduction as the principal goal and temporary assistance to the poor and vulnerable groups as a subsidiary goal if consistent with other objectives, covering both structural adjustment stresses and other short-term adverse impacts such as drought.
 - It would only fund projects at the small and micro levels, in other words excluding relief and welfare assistance and excluding also public works except where contracted by local communities. Training would be funded in direct support of projects.

- It would provide funds as credit for small and microenterprises and as grants for community and income-generating projects, disbursed exclusively through partner organisations.
 - Its governance would be exercised through a partnership of stakeholders, including government, parastatals, financial institutions, NGOs, local civic organisations and individuals with expertise or commitment.
 - Its staffing would be small, of strong professional calibre and accountable directly to the Board and its executive committee.
64. It should be emphasised that the concept of an AFO rests on a sharp distinction between funding and implementing functions: it would not be appropriate, for example, to assign such a role to a frontline agency such as MASAF. The mandate of an AFO can also be flexibly defined to reflect the desired mixes of policy priorities, which in the Malawian context might cover financing for a broad range of organisations, including community based projects as well as microcredit schemes and parastatals as well as NGOs.

1. INTRODUCTION

1.1 Background to the Study

1.1.1 This report, forming part of the output of a study commissioned from Chr Michelsen Institute, Bergen, by the African Development Bank (ADB), contains the findings and recommendations of a review of the SDA context for microenterprise and microprojects programming in Malawi.

1.1.2 The ADB has identified microenterprise financing as a probable focus for future interventions through the African Development Fund (ADF) and within the wider framework of the Consultative Group to Assist the Poorest (CGAP)^[1]. However, before expanding the scale of such intervention an assessment of experience gained to date with existing SDF and SAF programmes was considered important. Accordingly^[2],

in September 1993 in Oslo Norway, the Poverty Working Group of the Special Programme of Assistance for Africa (SPA) requested the ADB to undertake the evaluation of SDFs. By September 1994, a methodological framework had already been prepared and was presented to the Poverty Working Group of the SPA. On the basis of this framework, a pilot study will be undertaken to test the methodology.

Two countries, Zimbabwe and Malawi, were selected for the pilot study.

1.1.3 The background to the study is the present context of Social Dimensions of Adjustment (SDA) programmes in Africa. The widespread implementation of Structural Adjustment Programmes (SAPs) in many African countries during the 1980s brought a recognition that their short-term impact on the living standards and welfare of many poor and vulnerable groups was negative. This concern has strengthened in recent years as SAPs have frequently been extended far beyond their originally intended lifespan and as poverty alleviation has assumed greater prominence in the development assistance policy agenda.

1.1.4 Responding to these concerns, a SDA programme was launched in 1987 as a joint initiative of the World Bank, UNDP and the African Development Bank. As SDA programme experience developed, Social Development or Action Funds (SDFs and SAFs) emerged as principal instruments for channelling assistance to poor and vulnerable groups, including retrenched government employees, in countries undergoing structural adjustment processes.

1.1.5 The size and scope of particular SDFs and SAFs has varied widely. They range from small pilot projects to multimodal programmes. Their target groups have been narrowly defined or extended to the majority of the population. Their programme instruments have included any combination of social welfare subsidies, direct food provision, public works employment, social infrastructure projects, training, institutional capacity-building, soft loans to NGOs and credit provision to micro- and small-scale enterprises.

1. See Annex 2: Terms of Reference, para 1.4.

2. See Annex 2: Terms of Reference, para 1.5.

1.1.6 The lengthening of structural adjustment processes and the heightened prominence of poverty alleviation objectives has raised the question whether SDFs and SAFs, although originally conceived as short-term mitigating instruments, could become suitable mechanisms for longer term assistance to poverty reduction, in particular for direct intervention at the grassroots or community level and for empowerment of the poor towards more effective participation in development processes. Where lending to microenterprises forms part of their programme, a related issue is the future disposition of the loan fund if repayments are ploughed back into a revolving fund.

1.2 SDA as a Component of Structural Adjustment in Malawi

1.2.1 Malawi's economy experienced high growth from independence in 1964 to the late 1970s, especially in export-oriented agriculture. However, this rapid growth, averaging 6.8 per cent annually in the 1970s, accrued mainly to the estate sub-sector at the expense of smallholders and with the aid of indirect subsidies. A policy of wage restraint, combined with a tax on smallholder agriculture by keeping a gap between producer and international prices, helped to keep Malawian goods competitive on the world market.

1.2.2 High growth ended abruptly during 1979-81, a time of severe crisis and a large balance of payments deficit. The problems were largely rooted in external factors, in particular the second oil shock, the disruption by war of trade routes through Mozambique, falling commodity prices (tobacco and tea) and export earnings, increasing import prices and high international interest rates.

1.2.3 However, concluding that some of the problems originated from internal structural weaknesses in the economy, in 1981 the Malawi Government started implementing a series of structural adjustment programmes (SAPs) involving economic policy reforms, supported by loans from the World Bank, the International Monetary Fund, the African Development Bank (ADB) and other donors.

1.2.4 The reforms sought to reduce the previous high levels of commercial borrowing and to restore sustained economic growth and development. They were designed to liberalise commodity and factor markets, to balance the national budget, to strengthen key institutions and to improve the efficiency and competitiveness of the economy as a whole. In summary they sought to:

- Align aggregate demand with available resources through stricter fiscal, money and credit policies;
- Increase productivity through addressing policy and investment constraints on performance of the major sectors;
- Strengthen the role of private sector through liberalisation and improved incentives; and
- Enhance efficiency in the use of public resources.

1.2.5 Although the policy reforms were considered necessary in avoiding further deterioration in the economy, they were not sufficient for increasing the incomes and growth potential of the majority of the Malawian population. The overall economic growth rate barely matched the rate of population increase (2.9 per cent) during the 1980s and, affected in part by the impact of severe drought on smallholder farming, fell well behind in the early 1990s, averaging only 0.6 per cent over 1990-94. There was, however, a strong recovery during 1995-96, with GDP growth estimated to

exceed 8 per cent, following good rains and what appeared to be the beginnings of a smallholder supply response to further deregulation measures.

1.2.6 Social impacts were not directly addressed in the SAPs of the 1980s. However, many Malawians were adversely affected by the devaluation and price decontrol policies. The prices of basic commodities, especially food, clothing, housing, energy and transport rose while real wages and employment fell. Recurrent budgetary expenditure was concentrated on the productive and infrastructural sectors, remained below the Sub-Saharan Africa (SSA) average and lagged behind inflation and population growth. Worst affected were the rural and urban poor.

1.2.7 In 1990, following recognition by the Government of the need to intervene to protect the poorest and most vulnerable groups, the Government embarked on a Social Dimensions of Adjustment (SDA) Programme. The Programme had two main components:

- Institutional strengthening in data collection and analysis, intended to assist policy formulation and poverty oriented social research; and
- A Social Support Programme (SSP) comprising both poverty research and funds for pilot projects to test models for replication of support to poor and vulnerable groups.

1.2.8 The SDA Programme was broad in concept but small in size, starting with a planned budget of US\$8.6 million (MK23.5 million in 1990). At the same time, Government budgetary allocations to the social sectors began to rise, increasing from 20 per cent of recurrent expenditure in 1991 to about 25 per cent in 1994. However, drought and low growth were compounded by economic instability immediately preceding and following the May 1994 multiparty elections, with rapid expansion of the money supply, inflation peaking at close to 100 per cent in mid-1995 and a currency depreciation by a factor of 5.5 between 1991 and late 1994. Conditions began to stabilise through 1995 and early 1996 although annual inflation was still high at 72 per cent in February 1996. Compared to the severe consequences of these large-scale changes for the poor, the impact of the small SDA Programme could scarcely be expected to register at the macro level and the Programme is best assessed in terms of its experimental design intentions.

1.2.9 After the 1994 elections the new Government raised poverty alleviation to the top of its policy priority list. Following an extensive period of preparation and consultation, in October 1995 it published a comprehensive Poverty Alleviation Programme (PAP)³, declaring that:

Poverty alleviation is the operative development philosophy of the country. It is both a policy and a strategy that will guide all development activities in the short, medium and long-term perspectives. As such, no public projects or programmes whose impact on poverty has not been justified will be implemented.

1.2.10 The PAP explicitly linked its sustainability to economic growth, but insisted that 'a major share of that growth be generated by increasing the productivity and incomes of the poor themselves and that Government's investment programme reflect this orientation'. Both the social costs of adjustment, now in its 15th year in Malawi, and other short-term impacts were to be addressed within an integrated policy framework geared to long term poverty reduction.

3. Malawi Government, *Policy Framework for Poverty Alleviation Programme*, 1995, p.9.

1.2.11 Microenterprise finance has formed one strand of poverty programming, both under the SDA Programme itself and through separate initiatives such as the Malawi Mudzi Fund (MMF). Microprojects, financed through grants to community based projects, have featured more prominently since 1990, first under the SDA Programme, then more recently under the PAP through the Malawi Social Action Fund (MASAF), and also under other schemes such as the European Union's (EU) Microprojects Programme. Given the overwhelmingly rural focus of both social need and programme targeting, social safety nets have been less significant in the overall mix of policy measures.

1.3 Terms of Reference

1.3.1 The terms of reference for the study are set out in two documents, the texts of which are attached as Annex 1:

- Terms of Reference for Consultancy Services to Evaluate Social Development Funds in Africa (hereafter *TOR*);
- Suggested Methodology for the Proposed Study to Evaluate Social Development Funds, which was attached to the *TOR* (hereafter *Suggested Methodology*);

1.3.2 As set out by the *TOR*:

The objective of this pilot phase is to test the methodology of evaluating the SDF program using two selected case studies in two RMCs (Malawi and Zimbabwe). The study will attempt to identify weaknesses and strengths of the SDF programs and propose ways for improving the performance of the programs.

1.3.3 The study was thus to serve both as a pilot study for a general evaluation methodology and as evaluations of the two country programmes. The *Suggested Methodology* itself provides a comprehensive and detailed framework for assessing the experience of SDF microenterprise programmes in terms of products, technology and organisational structure and institutional performance.

1.3.4 The *TOR*'s list of tasks sets the scope of the country case-studies:

- a) To review the SDF programme 'in its totality', the main aim being to identify successes for replication, problem areas, and ways of resolving the problems.
- b) To review the Poverty Alleviation Plan, determining how best it can be integrated with the current SDF programmes.
- c) To determine ways of accelerating the utilisation of SDF resources and the structure and form of follow-up interventions by the ADB.

1.3.5 The study was carried out by a team of CMI and national consultants and finalised at CMI. The main period of fieldwork took place during September and October 1995. It concluded with a workshop convened in Harare for briefing and consultation of the Advisory Board of the Zimbabwean Social Development, to which Mr Sam Kakhobwe, National Coordinator of MASAF was invited as a participant and to make a presentation of the MASAF programme. A first draft of the

report was submitted in December 1995. Following receipt of comments from the ADB, a follow-up field visit was made during late March/early April 1996 before revision and finalisation of the draft at CMI.

1.3.6 The team faced two principal difficulties in carrying out the TOR for the purposes of this country study. The first was that no Social Development Fund had ever been instituted in Malawi. The second was that the major economic and policy changes following the 1994 election were too recent to have generated much practical new experience on the ground at the time of fieldwork. Thus MASAF was nearing the end of its preparatory phase, the Small and Medium Enterprises Fund was announced in October 1995 and the PAP policy document was published in the same month. In 1990 the ADB had provided a loan to the SDA Programme but its purpose was to finance technical assistance and not credit facilities.

1.3.7 In formal terms, therefore, since a SDF had not been established and since the ADB had not directly contributed to the SDA Programme's pilot credit schemes, there was nothing to evaluate. In view of the lack of further guidance from the ADB on how to adapt the TOR to the Malawian context, it was decided to focus the study on three main areas:

- The SDA Programme, including the ADB loan, looking in particular at the funding of community and microcredit projects;
- The Malawi Mudzi Fund; and
- The design and startup phase of the Malawi Social Action Fund, which forms by far the largest project-based poverty intervention to date.

The social dimensions of poverty in Malawi are reviewed and other institutions and programmes are described more briefly. The new PAP framework and its implications for possible future microcredit interventions are also assessed.

1.4 Outline of the Study

1.4.1 The report is organised into the following sections:

- Chapter 2 reviews the context and dimensions of poverty in Malawi, especially in its rural context, and formal and informal safety nets.
- Chapter 3 reviews the SDA pilot programme which ran from 1990 to 1995, the ADF grant for institutional support to that programme and the design of the Poverty Alleviation Programme, in particular its microcredit component.
- Chapter 4 reviews the community based projects funded under the SDA pilot programme, the design and startup phase of the Malawi Social Action Fund and the EU microprojects programme.
- Chapter 5 reviews the design, implementation and performance of four recent microcredit schemes: the UNDP pilot microenterprise programme, the Small and Medium Enterprise Development Fund, microenterprise projects funded under the SDA pilot programme and the Malawi Mudzi Fund.

- Chapter 6 makes recommendations on possible forms of follow-up interventions by the ADB.

2. DIMENSIONS OF POVERTY AND SOCIAL SECURITY SYSTEMS

2.1 The General Poverty Context

2.1.1 Malawi is densely populated, especially in the south, and economy and settlement remain predominantly rural despite rapid urbanisation in recent years. Its population was 7.98 million at the census of 1987, when about 11 per cent lived in the urban areas, and at the high 3.2 per cent annual rate of growth is projected to have reached some 10.3 million in 1995. In addition, there were more than a million refugees from Mozambique in the far south. However, the return of peace to Mozambique has allowed large numbers to return home, somewhat easing the pressure on environment and social infrastructure. At the same time the impact of the AIDS epidemic has increased the mortality rate in recent years.

2.1.2 The agricultural sector is sharply divided into estate agriculture, which caters mainly for the export of tobacco, tea and sugar; and smallholder farming which caters largely for food production and the domestic market. Agriculture has always been the mainstay of the Malawi's economy at both the macro and micro levels of the economy in terms of employment, production and exports. However, agriculture has faced difficulties over the years due to escalating land pressure, high population growth, drought, falling tea and coffee prices, factors which have been compounded in recent years by the collapse of the rural agricultural credit system.

2.1.3 Malawi is one of the poorest countries in the world. Its per capita GNP was estimated by the World Bank at US\$200 in 1993, placing it amongst the 10 poorest countries in the world. Furthermore, per capita income declined at -1.2 per cent annually over 1980-93. Only six countries had life expectancies at birth lower than Malawi's 45.6 years^[4] in the UNDP's Human Development Index (HDI) list, in which Malawi ranked 157 out of 174 countries in 1992. Poverty is consequently a pervasive problem in Malawi, such that, according to government figures, in 1992 some 60 and 65 per cent of the rural and urban populations respectively were living in general poverty^[5].

2.1.4 For most, poverty remains the root cause of social insecurity. The great majority have to rely on inadequate and unstable incomes to provide for their basic needs. Lack of these basic requirements results in chronic social insecurity as well as risks arising from conventional contingencies. In recent times, chronic insecurity has increasingly affected most Malawians due to:

- Prolonged poor economic performance since the late 1970s and declining average incomes;
- Economic policy reform programmes which have reduced the capacity of the extended family to provide for the distressed and have generally failed to benefit the poor;
- Vulnerability to drought;
- Rapid population growth which has outstripped growth in output and social services and intensified already serious land shortages;

4. 48 years according to the 1992 Demographic and Health Survey.

5. Using the World Bank definition of the poor as 'those who are not able to meet minimum nutritional requirements and essential non-food requirements equivalent to US\$40/capita/per annum' (Malawi Government & UN 1993, p.5, citing World Bank 1990).

- Accelerating environmental degradation, especially of soil fertility and tree cover;
- The rising incidence of HIV/AIDS which has increased the number of orphans; and
- Increasing rural-urban migration, urban unemployment and poor housing.
- Gender imbalances against women in access to employment, resources, services, means of production, credit and safety nets.

2.1.5 The 1993 *Poverty Study* identified six major groups in poverty, whose members partly overlap: the 56 per cent of smallholders cultivating less than 1 ha and especially the 25 per cent cultivating less than 0.5 ha; seasonal casual labourers and estate workers; tenant farmers on estate land; the urban poor; women-headed households; and children.

2.1.6 These categories were adopted with minor revisions and additions in the 1995 PAP policy document to define the segments of Malawian society suffering social insecurity, which are commonly referred to as the 'groups in poverty' rather than the less income-specific 'vulnerable groups':

- Smallholder farmers;
- Women in poverty;
- Estate workers;
- Tenant farmers in estate agriculture;
- *Ganyu* or seasonal and casual labourers;
- Children in poverty;
- Youth in poverty; and
- The urban poor.

2.2 Employment and Labour Force

2.2.1 The majority of Malawians are occupied in subsistence agriculture which employs household labour as well as paid casual and seasonal labour. In 1990, only a small proportion of the labour-force was in off-farm paid employment. Statistics indicate that there were 3.5 million economically active people in 1987 and that the labour force grew at the rate of 4.1 per cent per annum between 1977 and 1987. Each year there were some 145,000 new entrants into the labour market but only about 15-35,000 new places created and only an average 10,600 formal sector jobs per annum during the 1980s. By 1990, about 12 per cent of the labour force were employed in the formal sector. Lack of opportunity is expressed mainly in underemployment and low productivity in the rural areas, but increasingly in open unemployment in the urban areas.

2.2.2 The bulk of the entrants into the labour force thus still join the informal sector and smallholder agriculture. The capacity of the smallholder agriculture sector to absorb the expanding

labour force is becoming increasingly constrained by land shortage owing to rapid population growth. Rural population densities are very high, reaching 171 persons per sq km of arable land nationally and between 230-460 persons per sq km in the south. A recent analysis^[6] found that restricted access to land 'is becoming a fundamental constraint':

The proportion of smallholders cultivating 2 hectares or more dropped from 71 per cent in 1968/69 to 13 per cent in 1987/88. The average holding size declined from 1.6 to 1.1 hectares over the same period. Per capita landholding of smallholders is projected to reach 0.3 hectare by the year 2000.

The plight of smallholders was worsened by the rapid conversion of land under customary tenure into leasehold estates during the 1980s, many of which remained under-utilised.

2.2.3 There is potential for more labour absorption in the informal sector although it is heavily constrained by regulatory Government policies. It was estimated in 1992 that the country had 540,000 micro, small and medium enterprises which employed well over one million people. Growth is limited by lack of access to credit, markets and business training facilities. Nevertheless, informal sector activity is an essential part of the coping strategy of most of the poor.

2.2.4 Women are key workers and producers in the Malawian economy. They engage in farming, trading and household chores. They represent 70 per cent of the full-time farming population. The female labour force participation rate has been estimated at 64 per cent while that of males is 67 per cent.

2.2.5 About 30 per cent of Malawi's rural households are headed by women and they belong to the poorest segments of the population. Most of households are headed by women who are unmarried, widowed, divorced, separated or have husbands who migrated to work in towns and estates both within and outside Malawi. They are severely deprived of land, labour, incomes and other social and economic services. Their productivity has also remained low due to minimal investment in their development, especially in relation to access to maternal and child care, family planning services, education and skills development for gainful employment. Due to all these constraints, women's share in wage employment rose only from 11 per cent in 1980 to about 16 per cent by 1985. Most of them work in low-paying occupations.

2.3 Income and Household Food Security

2.3.1 Minimum wage legislation, which seeks to cushion workers in times of inflation and other economic hardships, has been in force since independence. However, the minimum wage was based on individual rather than household needs. Its real value declined by 42 per cent between 1982 and 1988 and despite increases in 1989 and 1992 was still in the latter year a quarter below its value a decade earlier. From 1994 runaway inflation further eroded the purchasing power of household incomes.

2.3.2 A recent survey conducted in the urban areas of Blantyre, Lilongwe, Zomba and Mzuzu showed that the average monthly household income from all sources was MK136 while the average expenditure was MK169, implying a deficit of MK33 or 24 per cent. About 60 per cent of the total

6. Malawi Government & UN 1993, p.xvi.

income was from formal sector earnings while 30 per cent was from the informal sector. The other sources of income were rent, remittances (70 per cent urban, 20 per cent rural areas and 7 per cent from abroad), crop sales and other sources (see table 1). Much of the income was spent on food (56 per cent), fuel, rent, clothing and transfers (see table 2).

2.3.3 Household food insecurity follows a marked seasonal cycle, especially in the rural areas. Many households start facing food shortages in September which last up to February or March the next year with the beginning of harvesting. As the year progresses and households run down their stocks, purchases from ADMARC, local markets and other households increase and cash resources become more significant.

2.3.4 In 1992 nearly 60 per cent of households were found to be food insecure and per capita production of maize has declined. Malnutrition is widespread: the 1992 Demographic and Health Survey found that nearly half of children under 5 were stunted and a quarter severely stunted, with the rural areas worse affected. The situation has worsened during the recent high inflation with food prices rising faster than other items and the index for low income urban households running well of middle and high income households.

According to a recent study, 'the per capita food production steadily declined, falling by 15 per cent between 1980 and 1990'⁷. National accounts data suggest that smallholders' per capita income declined by around 10 per cent through the 1980s, while wage earners' average income fell more steeply by about 40 per cent.

2.4 Migration and Urbanisation

2.4.1 Labour migration to other countries, especially South Africa, Zimbabwe and Zambia, was a significant demographic and income factor up to the early 1980s. The closing of these regional labour markets ended flows of remittances that were an important source of income for families left in Malawi.

2.4.2 Internal rural-urban immigration is becoming a key phenomenon. The urban population was a comparatively low 11 per cent in 1987 but urbanisation has been estimated at between 5 and 15 per cent per annum and it is projected that about 30 per cent of the population will be urban by the year 2000.

2.4.3 Given the mounting pressure on land in an agrarian society with one of the highest population densities in Africa at 171 persons per square kilometre of arable land, the rate of urbanisation is bound to accelerate. The rapid influx is causing a serious strain on basic social services such as education, health, housing, water, sanitation and transport in the major urban areas of Blantyre, Lilongwe, Zomba and Mzuzu. The consequent degradation of life is conspicuously demonstrated by huge increases in squatter settlements which are estimated to accommodate 70, 50 and 35 per cent of the populations of Zomba, Blantyre and Lilongwe respectively.

2.4.4 There is also considerable rural to rural migration of smallholders from the densely populated Southern Region to the Central and Northern Regions.

7. Chilowa 1990.

2.5 Access to Education

2.5.1 Access to primary education remains far from universal. The gross enrolment ratio, higher because of late starting and widespread repeating of classes, was about 70 per cent at the beginning of the decade and the net enrolment ratio much lower at 53 per cent⁸. Geographically, enrolment was highest in the north while the centre and the south were more closely matched. As compared to other countries in the Southern Africa region, Malawi's primary education enrolment ratios are among the lowest.

2.5.2 Up to 1991, all primary school pupils had to pay school fees and those who failed to pay could not be admitted unless they had bursaries. These bursaries were normally provided by charitable organisations such as the Lions Club. The barrier imposed by school fees was exposed by a 43 per cent increase in enrolments for Standard One in the year of their abolition. The free primary education policy has led to tremendous increases in enrolment. How this increase in enrolment is to be sustained without reducing the quality education provides one the education sector's major current challenges.

2.5.3 Malawi's retarded educational attainment reflects the relatively low emphasis that has been placed on primary education since independence. About 60 per cent of Malawian adults, including 70 per cent of Malawian women and 55 per cent of men, were recorded as illiterate at the 1987 census.

2.5.4 To combat the high illiteracy rates, an adult literacy programme was launched in 1986. The programme sought to instil sustainable literacy and numeracy skills in Malawian adults who had no opportunity to acquire these skills in their youth. It aimed at reaching two million adults, especially women, by the year 2000. However, by 1992 there were only 2,617 literacy classes for 40,243 learners, far short of the planned 10,500 classes for 262,500 learners. Coverage of the programme has actually been declining and the number of learners had decreased. The programme is dominated by women who are the majority of the adult illiterate population. The programme is poorly equipped and the teachers are poorly remunerated. At the same time, not much is provided for out-of-school youth, comprising large numbers of school drop-outs and those who never enrolled in schools.

2.5.5 The numbers proceeding to secondary school are much smaller. The World Bank estimated a gross enrolment ratio of only 4 per cent during the period 1988-93⁹. Low secondary school attendance is largely due to lack of places rather than pupils's failure to make it into the first class of secondary education. While the pass rate in the last primary education class ranged from 63 per cent to 93 per cent between 1989 and 1993, the transition rate ranged from 8 per cent to 12.5 per cent during the same period (see table 3). Malawi's school enrolment was again among the lowest in Southern Africa at the secondary level.

2.5.6 Secondary education has always been fee based and failure to pay leads to expulsion. Since access to secondary education has mostly been limited by lack of school places, the Government established a distance facility which is catering for pupils who are not selected for formal secondary education. This facility catered for 46 per cent of total secondary education enrolment in the 1992/93 school session.

8. The gross enrolment ratio is of all pupils in the official primary age band (6-13 years) to the total population in the age band. The net enrolment ratio excludes pupils outside the age band.

9. World Bank 1995. The official secondary school age band is 14-17 years.

2.6 Access to Health Care

2.6.1 The country's health indicators compare unfavourably with most Sub-Saharan African countries. In 1992, the infant mortality rate was estimated to be amongst the highest in the world at 135 per 1,000 live births and the under-five mortality rate was estimated at 234 per 1,000 live births. Maternal mortality was also very high at between 200 and 420 per 100,000 births.

2.6.2 Coupled with rapid population growth, the poor health status of the population exerts excessive pressure on the health infrastructure. This problem is compounded by the rising incidence of HIV/AIDS, which will require health care workers to spend increasing amounts of their time and other resources on AIDS-related work.

2.6.3 HIV/AIDS is spreading rapidly. Recent indications are that 12 percent of rural adults and 30 percent of the urban adult population are HIV positive. The epidemic will increase the number of orphans, a problem that will further strain the economy. Malawi is ill-prepared to tackle this orphan problem in a context where a youthful age structure, with about half the population aged under 15, implies a high dependency ratio. The AIDS epidemic is expected to cause a steep rise in mortality, in the worst case scenario reducing the annual population growth to 2.1 per cent, at the same time that it increases the dependency ratio by hitting economically active adults the hardest. The elderly are becoming less capable of managing the situation and so the capacity of the extended family system to cater for this problem is weakening. The number of orphans is projected to rise astronomically from about 25,000 in 1990 to about 300,000 by the year 2000.

2.6.4 Health care is provided by central government, local government, religious agencies and various private organisations. About 18,000 traditional health practitioners operate in both rural and urban areas, parallel to modern health care facilities. Government health care is provided mostly free of charge while the other agencies charge fees. The health care network has recently been expanded by allowing more private individuals (paramedics) to run their practices. The health infrastructure comprises community level services run by mobile community health workers, rural health centres, district hospitals and referral hospitals. About 80 per cent of the population live within 8 kilometres of a health facility but many parts of the country continue to have limited access to health care due to lack of qualified health personnel, equipment, drugs and other supplies.

2.6.5 There were about 14,000 hospital beds in the country in 1992 and 52 per cent of them were provided in Government facilities. In the same year, there were 1,000 trained traditional birth attendants. The health system is very short of personnel. Estimated at 1:60,000 in 1990, Malawi has one of the lowest ratios of doctors per head of population in Africa and the service relied heavily on expatriate doctors until recently when the local medical college started producing doctors.

2.6.6 There was a ratio of one registered nurse per 12,000 people and one enrolled nurse per 4,000 people. The ratio between medical assistants per population is 1 to 11,330. Access to professional staff and services is heavily constrained by lack of qualified personnel, equipment and supplies. Most of the health facilities lack essential drugs, which has contributed to the rising mortality. Rapid population growth, the high prevalence of HIV/AIDS and poor funding of the health system are some of the compounding factors. The Government has historically allocated a small proportion of its budget to health care such that it averaged 5 per cent of the total budget in the 1970s and about 7 per cent in the 1980s.

2.7 Social Security

2.7.1 Malawi is one of the poorest countries in the world and has no general social security system. However, the most vulnerable segments of Malawian society have had some access to limited forms of social support. Most are targeted on victims of social, economic and cultural problems associated with low incomes, poor health, low educational attainment and the weakening extended family system. They form part of a limited social welfare system which supports the disabled, needy children, the aged, the destitute poor, young offenders, criminals and drug addicts.

2.7.2 Conventional social insurance is largely provided from contributions made on the basis of progressive taxation, contributions from employees and contributions from employers. It is designed to cater for the modern, organised and formal sectors of the economy. Social insurance is relatively undeveloped. It takes the form of pensions, health insurance schemes, provident funds, personal insurance, and workers' compensation and involves only a small proportion of the population. There are no unemployment benefit schemes, but the Government has been contemplating the establishment of a safety net for workers retrenched under public sector reforms and privatisation policy. These forms of social insurance are available only in a limited form and they cater for workers in the formal, largely urban sectors who are basically non-poor.

2.7.3 Conventional public assistance is normally provided by the state through programmes of short-term social assistance for emergencies such as drought, social upheaval and natural disaster. There is a newly-created Disaster Relief Fund which provides assistance to victims of natural disasters such as earthquakes, floods and droughts and is financed by donations from foreign governments, locally-based private companies and individuals. In addition, limited forms of public assistance has also been provided to the underprivileged, especially orphans and delinquent juveniles.

2.8 Informal Safety Nets and Credit

2.8.1 Many Malawians do not rely on state provided social security which is poorly developed. They are mostly linked to traditional support systems which are not fully institutionalised. The extended family system is often used as a basis for the other elements of social security which are rooted in reciprocity. However, the capacity of such systems appear to be declining owing to growing modernisation and urbanisation. Self-help organisations did not flourish much during the first 30 years of independence when the one-party regime did not allow alternative forms of social organisation other than through the single party structure. Solidarity was thus expressed mostly in relation to party-driven development and social events.

2.8.2 In the almost complete absence of institutionalised welfare, the rural poor resort to traditional social security systems, some of which are discussed below. Generally, men gain access to property and land through lineage inheritance and traditional authority allocations, while the household is the basis on which labour is mobilised for agricultural production and the extended family sustains coping mechanisms.

2.8.3 Malawian society is ethnically, culturally and economically diverse. The social structure of the country is characterised by the patrilineal system which prevails in the Northern Region and the Lower Shire Valley, and the matrilineal system which predominates in the rest of the country. In the patrilineal system, the husband and his relatives dominate decision-making in the households. In the matrilineal system, on the other hand, the husband goes to join the wife's family and has limited

authority over household decision-making processes which are dominated by the wife's brothers and other male relatives. However, as the rural economy has become more monetised and farming land scarcer, change in traditional practices has accelerated and the family patterns of authority, residence and responsibility have followed suit.

2.8.4 In both systems, land is mostly allocated to or inherited by males, restricting women's direct access to this vital means of production and their rights to inheritance of property. In turn, their access to credit facilities is rendered difficult. These and other discriminatory socio-cultural factors continue to affect women's socio-economic status.

2.8.5 The extended family system is the key production unit. It also serves as the main source of social support and security. However, family structures are changing with rapid urbanisation and the trend towards a smaller, more nuclear family is strengthening. Of equal significance is the breakdown of family structures as such with many economically active men absent in the towns, on seasonal estate employment or seeking work in other areas.

2.8.6 Inter-household cooperation is mostly used to cushion household labour shortages in household socio-economic activities. Food would be cooked or sweet beer would be brewed to feed the cooperators. These forms of organisation are variously referred to as *badira* and *kalimalima* (in parts of the central region), *vale* (in Karonga district) and *gumira* (for neighbouring households) in Nsanje.

2.8.7 Although inter-household cooperation continues, especially in times of adversity, its popularity appears to be declining largely due to the increasing food insecurity of individual poor households who then offer their labour for wages. In addition, this institution is increasingly facing challenges from the monetisation of the economy which breaks the economic ties of the traditional society which sustain barter exchange.

2.8.8 The institution of *ganyu*, referring to seasonal or casual labour, has been identified as a key coping mechanism for the various groups in poverty. It caters for the survival of the poorest households whose own production is too low for their subsistence. The wages are paid either in cash or in kind and mostly below the minimum wage level. It caters mostly for households that are either landless or near-landless in both rural and urban areas. However, the demand for *ganyu* is highest when household food stocks have been depleted (December and January), which is also the time when the *ganyu* workers are supposed to be cultivating their own plots. This coincidence of demand perpetuates their low productivity and therefore their vulnerability to hunger and poverty.

2.8.9 In-country migration has become a further coping mechanism, involving the movement of people from low to higher potential areas. In terms of job-seekers, the poor tend to move from such areas as Thyolo, Mulanje and the Misuku Hills in Chitipa to work in tobacco estates in the Central Region, the agricultural schemes in other parts of the country and the urban areas to join both formal and informal sectors.

2.8.10 In some areas, agricultural potential is limited by high population density or poor quality land, inducing households to move to higher potential areas either within regions or between regions. This affects mostly the inhabitants of the southern region which contains about half of the population on one-third of the total land area of Malawi.

2.8.11 Informal credit has also continued to operate. *Katapila* is an informal credit system whereby credit facilities, mostly in the form of cash, are provided in exchange for deferred repayment at

interest, which normally ranges from 50 per cent to 100 per cent over a specified period of time. *Katapila* is usually contracted from lenders by individuals who are badly in need of cash but have some source of income which has failed them temporarily. Because of the high interest rates and the conditions under which it is contracted, *katapila* has been illegal in post-independence Malawi.

2.8.12 *Katapila* is closely related to another system called *pinyolo* in which assets are temporarily exchanged for cash. Under *pinyolo* the owner of the asset falls short of cash and offers his/her assets as collateral for the repayment of the cash borrowed. The lender is allowed to use the asset up to the time the owner repays the money borrowed.

2.8.13 *Kusuma* is normally resorted to by people who do not have enough food (maize, groundnuts etc). It takes place mostly during the seasonal food deficit season, ie December to March. Normally these people work for about three days before receiving the whole payment. This system is found in Kasungu, Dedza and other districts where labour is needed for such tasks as cultivating fields, pounding maize and constructing houses and food stores.

2.8.14 The institution of *katapila* still survives in the Malawian economy. The major factor that sustains it is poverty that originates from low wages. Emergencies such as funerals, food shortages, the need to pay school fees etc, often arise among wage-earners at times when they need cash. In the absence of a developed financial system, they resort to *katapila* when a dire need for cash arises. *Kusuma*, on the other hand, is an institution that reflects the low monetisation of the economy and the problems posed by the underdeveloped food marketing system. This institution is weakening as more wages are paid in cash and as food marketing improves.

2.8.15 Informal credit mechanisms make an important contribution to the rural economy, especially following the withdrawal of the rural credit system formerly run by Asian traders. One study estimated that the total quantity of informal credit exceeded that provided by the financial institutions¹⁰. There is a diverse range of networks extending through relatives, community groups and credit associations.

2.9 The Role of NGOs and Religious Organisations

2.9.1 Self-help mechanisms are used mainly for meeting community or group needs, most of which are in education, health, transport, water and even funeral facilities. Activities that relate to asset creation (infrastructural development) are organised to promote communal access to basic social needs. Certain services such as funeral assistance are largely organised on the basis of reciprocity, in which case social sanctions are applied to those who do not contribute to the services.

2.9.2 In some cases 'group organised labour' is provided by people from one or more villages who work for a person that hires them. The purpose is to raise funds that are needed for community-based or group oriented projects. This form of communal organisation is common in the lower Shire Valley, Rumphi, Mulanje and Chitipa districts.

2.9.3 In the single-party era (1964-94), Malawian society was structured along party lines from the village to the national level through a hierarchy of committees. These committees were used to mobilise communal labour for self-help projects such as the construction of schools, health units,

10. Malawi Government & UN 1993, p.38.

roads, postal agencies, water points and many others. In some cases the infrastructure was created when the government failed to provide it. Communities could also be requested to raise funds to obtain the cash-requiring inputs into the projects. The same committee system was used in collecting the funds. In some cases, communities would produce crops and animals which they sold to raise funds for the maintenance of the infrastructure created such as schools and communal water taps. These efforts were made in order to supplement the development resources that the government would provide to communities.

2.9.4 The party-based self-help system collapsed as single-party control gradually lost its popularity in the early 1990s. The system relied heavily on political coercion. Over time, it lost credibility as some communities acquired social infrastructure without contributing the labour or funds required of others. What remains is the self-help that is organised through traditional leaders such as chiefs and village headmen who still command considerable respect in Malawian society. In the recent past, NGOs have emerged as key promoters of the self-help spirit in the place of government institutions, through community participation.

2.9.5 Religious organisations, particularly Christian churches, have provided basic social services to Malawian communities since well before the colonial period. The churches continue to provide key social services today. Religious organisations are also major providers of health care in Malawi under the umbrella organisation of the Christian Health Association of Malawi (CHAM). The health services offered by the organisation are similar to those provided by government.

2.9.6 CHAM charges users fees for curative care and provides free preventive services. In addition to education and health, religious organisations also offer counselling services to the youth and families. In times of natural disaster, they offer relief services such as distribution of food, clothing, shelter and other necessities of life. The role of churches in development has been concretised in the establishment of the Christian Service Committee which is their development arm. This committee has played an important role in providing education, health, water and agricultural facilities in many parts of the country.

2.9.7 With the ending of the one-party state the NGO community is mushrooming in Malawi. It comprises international as well as local organisations. Most of the international NGOs established themselves in Malawi in response to the in-migration of Mozambican refugees in the 1980s. Most of the NGOs focused on relief activities which were geared to providing the basic needs of the refugee population such as food, clothing, water, education and health care in refugee camps. The repatriation of Mozambican refugees in the early 1990s coincided with severe drought and some of the relief NGOs switched their activities from the refugees to Malawian victims of the droughts.

2.9.8 A second group of NGOs have focussed their efforts mainly on long-term development needs. They include World Vision International, Action Aid, Oxfam, Save the Children (US and Malawi), and the Adventist Development and Relief Association. They are involved in the provision of basic social services and infrastructure such as schools, health units, agricultural services, water and sanitation.

2.9.9 Recently, a number of Malawian NGOs have been established to promote a development agenda. Most of them were established with the financial support of USAID through a project called SHARED. Several are involved in providing credit facilities for income generation to women (eg Women's World Banking, National Association of Business Women). However, most NGOs continue to lack adequate funding and technical and managerial/accounting skills.

3. THE SDA PROGRAMME AND THE POVERTY ALLEVIATION PROGRAMME

3.1 The SDA Programme

3.1.1 Programme Preparation and Design

3.1.1.1 In order to increase the poverty focus of development programmes and projects in line with the 1990 Government/World Bank development strategy statement on *Growth with Poverty Reduction*, the SDA Programme implemented a number of pilot projects and used their results to develop new concepts for poverty oriented projects. Furthermore, the Programme sought to influence the integration of poverty alleviation concerns in general government policies, especially with respect to development planning. It aimed to promote dialogue on the designing of poverty alleviation policies. To maintain and guarantee the sustainability of its activities, the Programme implemented a number of training measures so as to build up institutional capacity in the areas of data collection and analysis for poverty assessment, social policy formulation and development planning.

3.1.1.2 Following the Malawi Government's request to participate in the World Bank's SDA Programme for Sub-Saharan Africa, the World Bank and subsequently the ADB sent project identification missions to Malawi during 1989. The World Bank undertook the lead role in coordinating and mobilising donor support for the initiative. The Programme was scheduled to run for four years from 1990 to 1994.

3.1.1.3 At the time of appraisal in 1989/90 two general types of intervention were envisaged: to improve the participation of the poor in economic growth through access to employment, income-generating activities, more productive use of assets and skills development; and to reduce the transitional costs of adjustment for the poor, including targeted compensation. However, the lack of relevant data and knowledge on the target groups was seen as a major obstacle to designing effective interventions. The SDA Programme was therefore conceived primarily as a capacity-building and experimental preparatory initiative rather than a full-scale SDA intervention as such.

3.1.1.4 The overall objective of the Programme was to strengthening the Government's capacity in its planning process to incorporate poverty alleviation strategies into policy design and investment programmes. A better understanding of poverty issues was to be achieved through nation-wide data collection and statistical analysis as well as through social policy studies carried out together with statistical and research institutions.

3.1.1.5 The two principal programme components were to comprise the collection and analysis of poverty-relevant data and the design and formulation of social programmes:

- Institutional strengthening in the area of data collection and analysis;
- A Social Support Programme (SSP) covering two activities:
 - Social policy studies, under which studies on the causes and effects of poverty and the means to increase the participation of the poor and vulnerable groups in economic growth and social development were to be undertaken;

- Funds for pilot interventions, providing financial and technical resources for initiating, monitoring and evaluating poverty-oriented projects in order to test, monitor and evaluate innovative approaches to poverty alleviation.

3.1.1.6 These components translated in effect into three distinct sub-programmes with differing timetables and modes of implementation:

- The data collection and analysis was to focus on three exercises:
 - An Integrated Household Survey (IHS) to complement the National Statistical Office's (NSO) planned Household Expenditure and Small-Scale Economic Activities survey in 1990;
 - A Household Monitoring Survey, utilising some of the indicators derived from the IHS and running for three years from 1991/92 to 1993/94 alongside the Ministry of Agriculture's annual agricultural survey;
 - In-depth analysis of the survey data as well as data previously collected by the Ministry of Agriculture.
- Social policy studies would be carried out both by Government agencies (the Special Studies Unit (SSU) and the Food Security and Nutrition Unit (FSNU) of the Department of Economic Planning and Development (EPD) under the Office of the President) and by professional research institutions, in particular the Centre for Social Research (CSR) of the University of Malawi. A Policy Studies Fund (PSF) was established to finance the research.
- A Social Programme Support Fund (SPSF) would provide small grants to a maximum of MK0.2 million (US\$75,000 in 1990) for a diversity of pilot interventions extending from for-work and social services to social microprojects and credit for microenterprises.

3.1.2 Funding and Implementation

3.1.2.1 At its inception the SDA Programme was provisionally budgeted at US\$8.6 million (MK23.5 million), divided between US\$4.2 million (MK11.5 million) for the institutional support to data collection and analysis, US\$4.4 million (MK12.0 million) for the SSP, with contingencies in both components adding up to US\$1.2 million (MK3.3 million).

3.1.2.2 Financial and technical assistance support was forthcoming from a number of donors in addition to the World Bank and the ADB, including:

- The UK's Overseas Development Administration (ODA), providing US\$2 million towards technical assistance in the form of a Programme Facilitator for the SSP and local and overseas training;
- The Federal Republic of Germany, through GTZ and the Munich Centre for Advanced Training and Applied Statistics;
- UNDP/FAO, supporting the NSO surveys;

- USAID, with local counterpart funds raised from balance of payments support.

3.1.2.3 Difficulties were experienced with respect to funding the statistical component and the policy studies. These two elements were critical in the identification of policy issues relating to poverty alleviation. Funding was required for the establishment of a system for monitoring poverty trends and patterns over time.

3.1.2.4 Four studies were funded under the PSF and draft reports completed between October 1992 and December 1993. The topics were:

- A literature review of poverty in Malawi;
- An assessment of targeted nutritional programmes with a view to investigating possible low-cost interventions;
- A community study based on a literature review and a field survey.
- A study of the impact of development projects in agriculture, health and education on the poor.

3.1.2.5 After criticism and revision of several of the preliminary drafts, the studies were reviewed, on the whole favourably, at a Poverty Task Force Forum in December 1993. However, funds for further policy studies ran out, leaving many issues still to be investigated, including the detailed follow-up recommendations of the workshop. In order to develop a clear understanding of the nature and causes of poverty in the country more funding had to be found to continue this initiative. In particular, there was need to investigate gender issues and the design of targeted interventions for the poor and vulnerable groups.

3.1.2.6 The Programme seemed to rely almost wholly on donor support with little national commitment as evidenced by the gross under-staffing of programme implementation and little or no local funding made available for the pilot interventions of the SPSF. This contrasted with the support provided to advanced programmes such as PAMSCAD in Ghana and PAPSCA in Uganda.

3.1.2.7 Coordination and operational management of the SPSF and effectively of the whole SDA Programme was assigned to the EPD's Special Studies Unit, later also described as the Projects Implementation Unit (PIU), with the support of a wide variety of governmental and non-governmental organisations (NGOs). The head of the PIU functioned as the SDA Coordinator. It was part of the original design concept to implement through existing structures as far as possible.

3.1.2.8 Overall programme responsibility was vested in an SDA Working Group comprising representatives of interested ministries and donors and chaired by the Principal Secretary, EPD. The coordination of activities was, however, assigned to two technical working groups covering the respective sub-programmes. In 1991 they were merged into a single SDA Task Force (STF) with membership including the NSO, EPD, the Ministries of Finance, Agriculture, Community Services, Health, Education and Local Government and the CSR.

3.1.2.9 It was generally assumed in the design of the SDA Programme's sub-components that adequate staff would be made available. For much of the period, however, the PIU was manned by only one professional, the SDA Coordinator, whose appointment was not made full-time until March

1993. The Coordinator was assisted by an ODA programme facilitator and the only other staff were to be an assistant and an administrative secretary.

3.1.2.10 The ODA-financed programme facilitator for the SSP started in December 1990, but far too much time elapsed before the rest of the technical assistance was put in place. The Food-for-Work Adviser did not assume duties until February 1993, the Statistical Analyst until March 1993 and the Social Policy Adviser until July 1993. Adequately qualified understudies for the advisers, where such were available, were not employed. This situation weakened the ability of the PIU to document experiences being encountered in the various components of the Programme and thereby improve its efficiency and policy advice.

3.1.2.11 The lack of domestic funding also placed the continuation of the Programme in jeopardy. The capacity that was being strengthened in Government circles - the SDA Programme's PIU for instance - ran the risk of not being sustained once donor support expired. This was largely due to lack of specificity in defining its institutional mandate and timeframe. Because avoidance of additional recurrent budget commitments took priority in the original design, the new functions and responsibilities tended to be added onto existing staff commitments.

3.1.2.12 The three components of the SDA Programme were expected to function in a coordinated manner and be interdependent such that the outputs of one would be inputs into another. However, after the Programme was launched, delays in data collection and analysis resulted in a delay in undertaking the analysis of the nature and causes of poverty in the country. While policy learning was expected to be done through the microprojects, failure by certain agencies to provide analysts to investigate policy issues generated by them led to a delay in the social policy learning exercise.

3.1.2.13 Similarly, the policy issues uncovered by the Policy Studies Fund and the other components of the Initiative did not make a significant impact on the thinking in the Department of Economic Planning and Development, which housed the SDA Programme, and other ministries. In this setup, a problem in one component would create knock-on effects in the others.

3.1.2.14 There seems to have been inadequate SDA advocacy in Government circles before 1994. The SDA Programme suffered particular institutional problems arising from its short expected lifespan. In the original design, the Programme was conceived as a limited project with the objective of mitigating the ill effects of adjustment policies on the vulnerable groups in society, eg the landless and near landless, female-headed households, households with under-five children and lactating mothers and the unemployed. Little was mentioned by way of making it an integral part of the existing development planning process. Consequently, the SDA Programme was seen as an isolated temporary intervention rather than one that needed to look into the fundamental causes of poverty within the framework of national development planning.

3.1.2.15 It was the Programme's priority to involve more government institutions in the Fund. However, the tendency was to see it as having a limited scope; hence it achieved only a minor level of commitment in official circles. The Programme thus made little or no input into the macro-economic policy dialogue. However, efforts were made in the later stages to change this conception, largely by broadening the issues and institutions involved in the Programme's activities.

3.1.2.16 The Programme's lack of input into the Government's biggest poverty policy initiative, the 1993 *Situation Analysis of Poverty in Malawi*, which later strongly influenced the 1995 PAP policy document, may serve to illustrate its relative marginalisation. The proposed IHS, which was to run alongside the 1990 Household Expenditure Survey (HES), was intended to provide essential data

on a range of poverty-related factors. Yet it appears that little was actually done since the Statistical Analysis Adviser commented in his quarterly report for April-June 1994 that 'preliminary results have only just been made available' and that 'unfortunately, the survey is difficult to use for the analysis of poverty'. Not surprisingly, therefore, there is no discernable reference in the *Situation Analysis* to poverty data or research generated by the SDA Programme, there is no reference to experience from the pilot projects and the PIU is not listed amongst the Working Group members, although it may have made indirect inputs into the process.

3.1.2.17 In its pilot form the SDA Programme was not designed to make a significant direct impact on poverty. However, in the long-term its impact on poverty was expected to be strong by generating much interest in poverty alleviation approaches from government and NGO agencies:

- By providing for the study of the nature and causes of poverty, the Policy Studies Fund was expected to generate much interest in this subject matter.
- The statistical component, through the National Sample Survey of Agriculture (NSSA) and the four 'core' surveys replacing the Annual Surveys of Agriculture, which were discontinued in 1989, was expected to contribute to the construction of a poverty profile which would be a useful instrument for identifying the poor and possible measures for assisting them.
- Under the SPSF, the little that had been done in selected communities, especially the health and food subsidies, the income generating activities and the support to Zomba Municipality Mobile Clinic and Blantyre Cheshire Homes, made some impact on the beneficiaries. This was reflected in compliments from the project holders as well as some beneficiaries.

3.1.3 The ADF Grant to the SDA Programme

3.1.3.1 The ADB was one of the original group of donors financing the SDA Programme and provided a grant of FUA0.81 million (US\$1.03 million) from the African Development Fund's (ADF) Technical Assistance Fund for institutional support to the agricultural sector under its auspices. The grant was approved in August 1990 and signed in January 1991. Counterpart funding of local costs by the Malawi Government was to amount to US\$62,000 of 6 per cent of the total cost.

3.1.3.2 The ADF grant was designed both as support to the SDA Programme and as a self-contained project in its own right. It was intended to provide technical assistance to two implementing structures:

- The Ministry of Agriculture's Planning Division, where the chief weakness was identified as 'the lack of an effective linkage between data collection and policy formulation';
- The Food Security and Nutrition Unit (FSNU) in the Agricultural Section of the EPD's Economic Planning Division, with the objective of improving capacity for planning for-for-work projects.

3.1.3.3 The project had four components:

- Technical assistance in the form of
 - A statistical analyst for the Ministry of Agriculture's Planning Division (24 person-months);
 - A food-for-work expert for the FSNU (24 person-months);
 - Short-term consultancies (6 person-months).
- Local training for food-for-work planners and project managers.
- Vehicles and equipment in the form of
 - A car for the statistical analyst's fieldwork;
 - A four-wheel-drive vehicle for the food-for-work expert's fieldwork;
 - PCS and software for both experts and the analyst's counterpart;
 - Office equipment for the Planning Division.
- Operating costs covering two drivers and the operating costs of vehicles and office equipment.

3.1.3.4 The Special Studies Unit/PIU would be responsible for procurement and for project coordination, while a consulting firm would be contracted to supply the two experts.

3.1.3.5 The project was scheduled for implementation over a two-year period between April 1991 and March 1993 with a closing date of 31 December 1994. The ADB staff appraisal considered that 'the only possible risk to the project could be that of lack of coordination between the two executing agencies over procurement of goods and services... However, the risk is actually considered minimal given the size and simplicity of the project'. The only conditions precent to entry into force were submission of the CVs of the experts' local counterparts; selection of a consultancy firm to supply the experts; and designation of the Special Studies Unit as responsible agency.

3.1.3.6 Yet as of March 1996, five years after the scheduled startup and three years after expected completion, the project was still unfinished. Despite the 'simplicity' of the precedent conditions, they took more than two years to fulfil and the grant agreement could only be declared effective in February 1993. The two-year technical assistance postings started at the same time, the food-for-work specialist from February 1993 and the statistical analyst from April 1993.

3.1.3.7 The late start to the technical assistance made an overrun unavoidable, since the final instalment of the consultancy fees fell due after the completion date. However, adding the US\$60,000 required to the US\$611,000 disbursed to December 1994 still left a balance of US\$311,000 to be utilised. Following an ADB supervision mission in March 1995, the Malawi Government submitted a request for an extension to December 1996, which was approved by the ADB in September 1995 after delays located, it appears, at the Ministry of Finance.

3.1.3.8 The PIU extension request identified the principal reason for the underspending as being the fact that 'very little was allocated to the strengthening of nationals' abilities to assimilate the functions of the advisers'. It also indicated that external factors had rendered the impact of the food-for-work adviser's work ineffectual since the adviser 'has left with little or no success in promoting the food-for-work concept'. The ADB's staff appraisal in 1990 had indeed noted that 'the Government is wary of engaging in what would be for it a new area of operations' but did not note this factor in its risk analysis. The importance of the commitment to skills transmission was,

however, stressed since 'the long-term effectiveness of technical assistance is to a large extent dependent on whether the experts work alongside local staff'. The conditionality inserted into the grant agreement, that the ADB approve the CVs of the proposed counterparts, was nevertheless too weak to assure attainment of the objective.

3.1.3.9 In one respect the technical assistance turned out to be badly timed since it coincided with the period of political turmoil preceding and following the 1994 multiparty elections. But even though the total sum involved was small, more active supervision from the ADB might have assisted in speeding up implementation and rendering more effective the achievement of the counterpart training objective. The first supervision mission, 'to assist in clearing bottlenecks leading to start-up delays', did not visit until March 1993 and there was a two-year gap before the next in March 1995, by which time it was too late to rectify any problems in the application of the technical assistance. Nor is there any mention in the ADB and PIU reports of assistance from the ADB's Regional Office in Harare, which was operative up to early 1995.

3.1.3.10 Several of the statistical analyst's periodic reports point to operational problems affecting implementation:

- Delays in ADB approvals: 9 months after taking up his duties the adviser reported that his revised TOR were still awaiting ADB approval. Awaiting ADB endorsement of the order for computer equipment delayed acceptance of the bid for several months.
- Delays in supplying equipment: computer hardware was only delivered in October 1993 and software in December.
- Failure to supply a vehicle: the adviser's vehicle was placed under the EPD, not the Ministry of Agriculture, and in the car pool, making it available for non-project use. This rendered the adviser immobile and his coordination of project fieldwork 'extremely difficult'.
- Schedule mismatch: the late start to the National Sample Survey of Agriculture (NSSA), a key source of data for SDA analytical purposes, allowed the adviser to assist with technical advice and training inputs but was likely to preclude his contribution to the analysis of results as originally intended¹¹.

3.1.3.11 The reports do nevertheless indicate extensive contributions in training and technical advice, in particular to the NSSA, and the carrying out during 1994 of the first Policy Impact Survey on the effects of structural adjustment on smallholders, one of the four 'core' surveys to be undertaken by the Ministry of Agriculture's Planning Division.

3.1.3.12 Following the ADB supervision mission in March 1995 the disposition of the balance of grant funds was the subject of further correspondence continuing into late 1995. The PIU proposal was reformulated by the ADB and certain items were excluded (US\$60,000 towards the operating costs of the PIU) or drastically cut (cost of photocopier, microcredit scheme). The programme approved by the ADB in September 1995 included the following main components, most of which were in line with the new priorities set by PAP in October 1995, especially regarding institutional strengthening and training for bottom-up poverty programming:

11. It might be noted that there was no sign of NSSA output in the list of NSO publications as of October 1995; indeed, the only listed NSO publication since 1990 relevant to social analysis was the 1992 Demographic and Health Survey.

- External technical assistance for studies and training (UA60,000 = US\$94,000), covering
 - A full analysis and report on the 1994 Policy Impact Survey which was not completed during the previous technical assistance;
 - Additional training in Participatory Rural Appraisal methods.
- Local consultancies (UA50,000 = US\$79,000), to be procured from the Bunda College of Agriculture, covering
 - A policy study on the integration of the food-for-work approach into development policies and projects;
 - A study on the development of an integrated food security and nutrition prototype based on previous SDA studies.

3.1.3.13 The ADB approval also covered a 'feasibility study on a Poverty Alleviation Project, for possible financing by the ADF and other interested donors' (UA25,000 = US\$39,000). It is not immediately clear to what this refers but it could be a response to the more detailed PIU proposal for a preparation phase towards a 'Project for the Economic Empowerment of the Poor (PEEP)', for which a total of US\$119,000 was requested for client consultations, local and foreign study tours, a comprehensive study of successful Malawian credit schemes, meetings of experts on the scheme's design and 'pilot credit/infrastructural facilities'.

3.1.3.14 It appears that a credit scheme was proposed in its Aide-memoire by an ADB project preparation mission on PAP in November 1994. Following the multi-purpose ADB mission in March 1995, a follow-up letter from the ADB indicated that the PAP then in preparation was 'an area of great interest to the Bank' and that 'it is planned to appraise a Poverty Alleviation Project during the second half of 1996'. It does not seem that the Bank's intentions were fully known to the PIU ^[12], which in January 1996 was proposing to respond to the 'feasibility study' proposal by inviting further discussion with the ADB.

3.1.3.15 As of early January 1996, 9 months after the ADB supervision mission and 21 months after the departure of the technical advisers, the follow-up proposals, as approved by the ADB, were in preparation but not yet implemented. It is also not clear how the remaining balance of the grant was to be applied or indeed the size of that balance, since the PIU's statements in US dollars of previous disbursements and proposed costs do not relate directly to the ADB's disbursements in UA. It appears that US\$100,000 or more could be available and as of January 1996 there were no proposals from either party on how to apply it.

12. It must be recorded that the ADB's interest in the PAP and in particular a credit project was also not made known to the study team, although it was part of the TOR. Information was only discovered during wrap-up consultations with the PIU Coordinator in March 1996, by which time it was too late to accommodate it adequately in this study.

3.2 The Poverty Alleviation Programme

3.2.1 When the new government came to power through the multiparty elections in May 1994, one of its first tasks was to address the problem of poverty by means of a number of policies and programmes to benefit poor and vulnerable groups. In this connection, a national Poverty Alleviation Programme was launched in August 1994. Following extensive consultations, in October 1995 the Malawi Government published a PAP policy framework, which attempted to tackle the issue in a comprehensive manner, addressing both short and long term needs and amongst the short term needs, transitional adjustment costs as well as other impacts such as drought.

3.2.2 The PAP policy statement identified as 'key causes of poverty' rapid population growth, limited access to productive assets such as land, low agricultural production, limited employment opportunities, low non-farm income, low levels of education, rapid environmental degradation, poor health and limited credit facilities. It also listed weak institutional structures, associated with inadequate resources, socio-political and cultural factors, divergent donor influence and ineffective donor coordination.

3.2.3 The policy statement set poverty alleviation^[13] as the Government's central policy commitment. Amongst its general aims were a view of poverty alleviation as a process of empowerment of the poor, a commitment to decentralisation of initiative and participatory approaches, combination with the private sector and target groups in a national effort, integration into the development planning process, and creating a conducive environment. It set out four leading goals:

- To raise the productivity of the poor;
- To promote sustainable poverty reduction;
- To enhance participation of the poor in the socio-economic development process;
- To increase income and employment opportunities for the poor.

3.2.4 PAP's overall poverty reduction strategy encompassed seven main components targeted on the poor and those serving the poor:

- Safety nets to cushion those adversely affected by policy changes or natural disasters;
- Economic empowerment through increased employment opportunities;
- Improved access to credit;
- Stronger economic, social and political participation through the provision of basic services;
- Greater self-reliance through decentralisation and participatory approaches;

13. The statement appears to use 'alleviation' and 'reduction' interchangeably, but commonly to mean 'alleviation' in short run contexts and 'reduction' in long run contexts.

- Strengthening poverty consciousness amongst planners, administrators, politicians and the general public;
- A poverty monitoring and evaluation system.

3.2.5 PAP's aim was to link both the centralised medium and long term planning system based on sectoral plans and the short term coping system based on community inputs through district and local structures to the PAP framework. This would be achieved partly by replacing the previous top-down approach with strengthened community participation in the planning process itself as well as community ownership of the project cycle with appropriate technical assistance from state, NGO and commercial agencies. At the national level, all sector plans and projects would be assessed for poverty focus by EPD before entering the Public Sector Investment Programme.

3.2.6 The policy statement envisages a dual track approach. From the bottom, project proposals conceived by communities would feed through Village, Area and District Development Committees (DDC) to line ministries for inclusion in the PSIP. The sectoral ministries will also have responsibility for formulating projects. A National Steering Committee chaired by the PAP National Coordinator will review the PSIP and call in DDC chairpersons at its discretion. A Presidential Council chaired by the President will give overall direction on policy and strategy.

3.2.7 A PAP Coordinating Unit established in the Ministry of Economic Planning and Development (MEPD) is assigned a key coordinating and monitoring role and acts as Secretariat to both the Steering Committee and the Council. The allocation of specific functions within the Ministry is not clearly laid down but they include major planning review, coordination, policy analysis, poverty monitoring and donor coordination functions. The policy statement acknowledges the need to strengthen the Ministry's capacity to perform these tasks.

3.2.8 The list of 'specific priority interventions' is geared to 'promoting and enhancing management, institutional capacities and linkages' but includes a new financial institution:

Establishing revolving social development fund to target the poor with decentralised mechanisms for financing community projects and programmes.

PAP's short-term implementation matrix also includes the 'creation of a Social Development Fund to target the poor', with district level feasibility studies. It is not clear whether this SDF is intended to refer to MASAF, which is grant-based and not a revolving fund, or to a separate initiative.

3.2.9 The policy statement featured the informal sector and micro and small enterprises (MSE), defined as employing 1-3 people, as one of PAP's 18 sector strategies. The main objective was set as empowerment through employment creation and a number of sub-strategies were outlined:

- Finance:
 - improved access to more credit as a short term priority;
 - establish credit guarantee and revolving fund schemes.
- Infrastructure and technology:
 - industrial estates, village centres and flea markets;
 - greater use of appropriate technology through local specialist institutions and the private sector.

- Institutions and human resources:
 - improve market access through cooperatives, associations and clubs;
 - sub-contracting by commercial enterprises;
 - substitute restrictive with enabling legislation, policies and practices;
 - assistance to institutional strengthening;
 - management, entrepreneurial and technical skills training.
- Gender:
 - targeted interventions by support institutions, such as credit and training.

3.2.10 The financial sector was also addressed in the sectoral strategies:

- Access to credit:
 - a national credit guarantee scheme;
 - 'unorthodox' collateral criteria and group guarantees;
 - linking credit to savings;
 - information on lending policies and civic education on borrowers' obligations;
- Targeting:
 - remove barriers against women
 - preferential interest rates over short periods in favour of specific beneficiary groups;
 - special funding schemes for groups in poverty;
 - lending to financial intermediaries at deposit interest rates for onlending.

3.2.11 The MSE credit sub-strategies are diverse and well intentioned but not fully integrated. There is no reference, for instance, to the 'Social Development Fund' described briefly in the matrix of PAP activities for 1995-96. Nor is there specific reference to credit-giving NGOs except, rather vaguely, as financial intermediaries, or to existing schemes such as the MMF. Nevertheless, the sub-strategies clearly call for additional MSE credit, for reformed terms of access, for delivery through formal and NGO channels, and probably for new institutional mechanisms targeting the poor.

3.2.12 The positioning of MASAF is also unclear. It appears only briefly in the PAP programming structure as a funder of short term projects and nowhere in the institutional framework and sectoral strategies. However, the strong thrust in favour of community based projects implies a clear need for an institution delivering grant finance to small community projects.

3.2.13 There is, finally, a striking absence of specific proposals on formal safety nets, the emphasis being placed instead on social infrastructure and self-help schemes. In the Malawian context of a predominantly rural smallholder society and mass poverty, the absence of conventional social security obligations can only be realistic. However, neither food-for-work nor temporary employment schemes through public works, both of which were in active planning at the time, appear to be fully integrated into the sectoral strategies. Nor does assistance to retrenched feature in the MSE sectoral strategy although it has been the subject of public debate in respect of public sector redundancies.

4. COMMUNITY BASED PROJECTS

4.1 The Social Programme Support Fund

4.1.1 Programme Implementation and Outreach

4.1.1.1 Malawi has implemented a number of poverty-oriented activities such as the Malawi Mudzi Fund, the SHARED Project, certain women-focused projects, the disaster and relief fund, and a number of social welfare activities. However, the first poverty-focused mechanism for channelling resources to the poor was established under the Social Programme Support Fund, one of the three components of the SDA Programme. The SPSF was set up to test, monitor and evaluate innovative approaches to poverty alleviation. The Fund worked largely through NGOs but also government agencies to implement pilot community-based microprojects that had poverty reduction as a key theme.

4.1.1.2 Total funding for the SPSF came to US\$1,262,000, nearly all provided by three donors, 43 per cent each from the IDA of the World Bank, the lead donor, and the ODA (US\$545,000), 12% from Germany. The Malawi Government provided the remaining 2 per cent (US\$20,000). The SPSF was designed as a pilot programme and the funding it attracted did not permit it to expand to a larger scale. The funds were allocated to pay the operating costs of project administration and the grants to the implementing organisations.

4.1.1.3 The preparation of the programme began in 1990. Its formulation was finalised in October 1991 and the programme became operational in April 1992 with the approval of the first project proposals. It was supposed to run until 1994 over a four-year project cycle but the 2-3 year period of funding agreed for most projects would have taken some into 1995.

4.1.1.4 Initially ten broadly defined sectors were identified covering agriculture, education, health, water and sanitation, housing, income and employment generation, integrated area-based projects, social mobilisation and self-help, environment and appropriate technology. These were drastically narrowed down to four and more closely defined as food security and nutrition, water supply and health education, institutional support and capacity building, and credit schemes. SPSF allocations were to be to implementation agencies rather than direct to beneficiaries and the ceiling was set at MK200,000 (approx. US\$55,000 in 1992) over a maximum period of three years.

4.1.1.5 In practice the 17 projects approved for funding under the SPSF^[14] were quite diverse and several were multimodal, cutting across conventional sectoral boundaries. They may be approximately classified as:

- Primary health care, food security and nutrition (3 projects);
- Communal water supply and health education (2 projects and parts of others);
- Training, extension and capacity building (3 projects and parts of others);
- Revolving credit funds (6 projects).

14. Given as 18 projects in some sources. This section relies in part on an evaluation of the SPSF undertaken in mid-1995 which unfortunately has many data gaps and factual inconsistencies (Kazembe 1995).

- Others (3 projects: community afforestation; rehabilitation of handicapped children; crop marketing outlets).

The microcredit schemes are discussed in section 5.4 and the remainder of this section briefly reviews the non-credit microprojects and the general performance of the SPSF.

4.1.1.6 Projects funded by the SPSF were proposed by governmental and non-governmental institutions, submitted to the PIU for appraisal and finally presented to a Projects Review Committee (PRC) for decision. The Committee was composed of representatives from the PIU, social sector ministries, the University of Malawi, NGOs and an independent member who was familiar with projects of this type. In practice the evaluation of projects was split between initial screening by the PIU programme facilitator, who also played an important advisory and intermediary role between proposers and the PRC, and appraisal by the Committee itself, which worked to a set TOR giving priority to:

- The approach to poverty targeting;
- The extent of beneficiary participation at the various stages of project preparation;
- Innovation in the project concept or methodology;
- Replicability in the project's approach;
- Sustainability beyond the period of SPSF funding;
- The implementing organisation's Institutional capacity for planning, managing and monitoring.

4.1.1.7 While well articulated on paper, the appraisal criteria lacked operational precision, affecting expectations on the part of both the applicants and the PRC. Most proposals were well written and sometimes facilitated by consultants, but it could be difficult to assess the degree of beneficiary involvement. It appears that the PRC did not interview the proposers and that beneficiaries were not involved in the appraisal, shifting the weight of emphasis towards the proposer's institutional capacity. Nevertheless, the broad representation on the PRC and its independence of government influence, despite allowing proposals from public sector agencies, were effective: 'the projects were considered on their own merit and good presentation according to criteria'.

4.1.1.8 The single most serious problem under the SPSF was the lack of staff to give critical appraisal of project proposals, monitor their implementation and solicit new innovative projects from both NGOs and public sector institutions. Although the SDA coordinator's belated appointment in March 1993 was reported to be on a 'full time' basis, the 1995 evaluation found that he was 'required to do other government duties in addition to handling the SPSF functions', leaving the programme facilitator to fill the gap. The only other assigned staff member was a project accountant/administrator. The 1995 evaluation found that performance was commendable within the constraints, which however caused delays and obstructed essential tasks such as regular site visits, with serious knock-on effects on project performance in a number of cases.

4.1.1.9 A proper accounting system was specified as a principal management tool at both the project implementor and PIU ends and was also important for effective cooperation with the various

donors. However, the 1995 evaluation 'revealed that systems and procedures were grossly inadequate in many respects':

At SPSF's level, no set of books of accounts were kept. No ledger, cash book, cash flow statements and financial statements were kept... Because of unavailability of key books of accounts, it was difficult to ascertain project financial impact and weighting of expenditure.

4.1.1.10 Delays in disbursement to projects, sometimes protracted, were found to have seriously affected implementation in a number of cases. Scanty financial record-keeping and reporting was also evident in several projects and field contact between the SPSF account and implementors, which could have improved local performance, was infrequent.

4.1.1.11 The PIU had to conform to the reporting requirements of its principal backer, the World Bank, and other donors as well as accommodate periodic supervision missions from the World Bank and other donors, which could also require site visits. In the other direction, it established, with consultant support, a project monitoring system of structured quarterly change reports from all implementors covering significant changes (access to benefits, beneficiary participation, beneficiary activity, relationships with government, impact of services, management, sustainability), most important changes, project changes, future plans and financial reports.

4.1.1.12 The feedback reporting system generated valuable information which also fed into the experimental and policy evaluation function of the programme. Although it seems from the project files to have been irregular, no doubt due to pressure of staff shortages, the reporting system led to interaction with implementors, usually requesting more information on aspects from which lessons could be drawn¹⁵. However, field visit contacts were less frequent than required for effective monitoring, especially because the reports reflected the view of the implementors and not necessarily those of the beneficiaries. From its own field visits, the 1995 evaluation team identified 'many cases' in which timely corrective action by the PIU could have averted later project problems. Again, lack of staff time prevented the PIU from carrying out its mandate properly.

4.1.1.13 The SPSF never succeeded, despite early efforts, in obtaining the active involvement of government institutions and this affected the investigation as well as the integration of policy lessons generated by microprojects into their sectoral policies and programmes. While the SDA Programme involved NGOs in its activities, it was not particularly successful in soliciting microprojects from the social sector ministries.

4.1.1.14 Similarly, the appraisal of the SDA Programme does not seem to have taken into account the possibility that some of these social sector ministries, especially MOWCACS, had already started implementing poverty-oriented micro-projects that could be studied for policy purposes. The result was limited participation by them in the SPSF pilot programme. As a consequence, the policy lessons learnt from the older poverty related activities in Government did not make much of an input into the SDA Programme.

4.1.1.15 The pilot projects were meant to be replaceable and sustainable. They were also expected to generate policy lessons regarding possible approaches for the effective participation of the poor

15. It is not true, as stated in the 1995 evaluation, that 'monitoring reports submitted by PIAs were never followed up by the PIU'.

in development activities. However, the limited funding committed to the SPSF narrowed the range of experimentation. The government and other agencies could have tried the approach with their own funding. As a poverty alleviation programme, the lessons that innovative interventions had generated needed to be translated into appropriate policy actions with the necessary funding. Such funding could have assisted in early testing of the replicability of the several successful pilot microprojects.

4.1.2 *Project Implementation, NGOs and Beneficiary Involvement*

4.1.2.1 The prominent role played by NGOs has been a hallmark of the SPSF programme. In a sense, the SPSF has functioned as a simple Apex Financing Organisation (AFO) channelling funds from various donors to a range of poverty-focused NGOs, which have contributed both to implementation and to policy and decision-making at the PRC level.

4.1.2.2 The place of NGOs in Malawi's development process has long been recognised and is largely due to the long-established roles played by church-based NGOs in supplementing government efforts to provide education and health services. This recognition was underlined by the formation in 1985 of the Council for Social Welfare Services, now called the Council for Non-Governmental Organisations (CONGOMA). The Council has since emerged as the national coordinator of NGOs.

4.1.2.3 When the SDA Programme was being appraised, the role of NGOs was emphasised and CONGOMA was incorporated into the SDA Working Group which functioned as the Programme's board of directors. Furthermore, the role of NGOs in the Programme was underlined by holding an introductory seminar for them in 1990. This seminar proved useful as NGOs took much interest in participating in the Programme. Subsequently, 12 of the 17 projects approved and funded under the SPSF were administered by NGOs. Of the other five, one was under a Municipal Council and four belonged to government departments.

4.1.2.4 Several NGOs that participated in the early consultations later played an important role in the identification of projects for the underprivileged. The involvement of community-based volunteers in the Livingstonia and Ekwendeni PHC Projects ensured a satisfactory incorporation of the most underprivileged numbers of the community using local indicators of poverty and deprivation. Their experiences were quite encouraging. The 1995 evaluation found several others with satisfactory records and that most had reasonable prospects of sustainability. But at the same time a number had performed poorly or faced major difficulties from external as well as internal factors.

4.1.2.5 In most of the pilot microprojects, however, beneficiary involvement was limited. NGOs tended to propose projects without adequate consultation with the intended beneficiaries. This appeared to be in order as it was assumed that the NGOs knew the problems that the poor faced without have to investigate them. It emerged in some of the microprojects that not much benefit filtered down to the intended beneficiaries due to the difficulties in penetrating local power structures. Targeting of interventions to the poorest segments of the society proved to be one of the crucial design problems experienced^[16]. However, where the interventions were driven by community-based volunteers who identified the intended beneficiaries and communicated with them (eg at

16. SDA PIU, Monitoring Visit Report, January 1993.

Ekwendeni), the community participation was high and the project activities appeared to be sustainable beyond donor funding.

4.1.2.6 Institutional weakness remained a general problem for many NGOs, especially in project and financial management. From a January 1993 report on a monitoring visit by the PIU, it was evident that most NGOs that participated in the fund lacked technical skills in project design, financial management, technical knowledge in agricultural principles, and the identification of beneficiary needs, a situation which resulted from a lack of capacity to carry out exercises in project identification, monitoring and evaluation.

4.1.2.7 A related problem was the failure by NGOs to distinguish between projects that addressed community needs and those that addressed individual needs. For instance, the inability of a skills-training NGO to distinguish between the community and individual needs of the target group resulted in the implementation of communal projects that failed to address individual felt needs such as food, shelter and clothing. Nevertheless, the NGOs appeared to be quite successful in mobilising local communities around the objectives of a poverty-oriented community-based project¹⁷.

4.1.2.8 Drawing on the 1995 evaluation and other sources, a number of issues and problems in project implementation can be identified:

- The diversity of project types gave a good spread of insights but at the expense of thinness of coverage, making it sometimes difficult to establish comparative yardsticks.
- Despite the pilot nature of the programme, most projects delivered definite if sometimes limited benefits for their beneficiaries.
- Many projects suffered from insufficient knowledge of client contexts and needs at preparation and startup. The assumption that NGOs had greater in-depth knowledge of community contexts than government agencies did not always prove valid.
- Negative external political and economic influences had significant impacts outside the control of any of the actors.
- Far too little effort was made to draw on the established state agencies and extension services.
- Regional socio-cultural differences affected participation rates, which were generally higher in patrilineal societies and more literate communities. In both respects the Northern Region benefitted.
- The relative complexity and formality of project application procedures disadvantaged local against foreign NGOs and beneficiaries against NGOs.
- There was a critical lack of representation of beneficiaries in the entire process, which was 'owned' not by them but by the NGOs. On the other hand, the formidable difficulties of finding workable modalities for the representation of the very poor and marginalised meant

17. SDA PIU, Monitoring Visit Report 1993.

that the NGOs succeeded in reaching more of them by direct intervention through their projects.

- The low ceiling on funding is likely to have deterred some of the more effective NGOs from applying. The weaker ones that did affected the programme's performance by their more limited capacity. The limited number of well-established indigenous NGOs involved meant that projects depended on very few people who had to spread themselves to many other activities. Church organisations tended to prove well adapted to sustaining community based projects.
- Not all the projects were innovatory, as some NGOs sought to attract extra funding to established operations.
- Lack of PIU supervisory capacity left many implementors to deviate significantly from their project plans without contest, thereby losing project coherence and direction.
- Very few implementors kept proper project accounts or financial management, a significant factor in the collapse of at least four projects.

4.1.2.9 In general, on the negative side it was notable that the SPSF had experienced problems originating from low beneficiary involvement in microprojects, staff shortages, and the lack of a monitoring system. On the positive side, the design of the SPSF avoided rigid planning and management. The 'pilot' micro-projects themselves created a process whereby courses of action were shaped from the lessons of past experience and a more realistic understanding of current and emerging conditions was obtained. This approach provided valuable information to define a policy for the successful implementation of microprojects on a large scale through MASAF.

4.2 The Malawi Social Action Fund

4.2.1 The Poverty Alleviation Programme and MASAF

4.2.1.1 The 1993 *Situation Analysis of Poverty*, the first major official poverty study to be published, concluded that poverty in Malawi was both widespread and severe^[18]. Whereas previously poverty issues had been accorded low political priority, following the 1994 elections the incoming government raised poverty alleviation to centre stage in its policy framework. The study and the changed political environment triggered various initiatives both within Government and amongst the donor community, including a review of the potential for social funds to contribute to poverty alleviation. This led to the birth of MASAF as a key component of PAP, despite its inadequate presentation in the PAP policy statement.

4.2.1.2 The design of MASAF is a result of a long series of consultations on experience both inside and outside Malawi, including study tours to the Zambian and Ethiopian Social Funds, review of selected projects in Malawi such as the earlier SDA Programme, two participatory methods workshops, two consultative workshops, and other meetings. MASAF is still in its pilot phase. It has 19 pilot community projects under design or implementation in 17 districts. Full scale implementation

18. Malawi Government & UN 1993.

is scheduled to start in June 1996. Although MASAF is still in its pilot phase, the overall objectives, scope, procedure and initial experiences of MASAF can be described.

4.2.2 MASAF Objectives and Key Principles

4.2.2.1 The overall objective of MASAF is to contribute to the goal of poverty alleviation through provision of improved social and economic services and through community empowerment. MASAF will upgrade community infrastructure by rehabilitating existing structures and construction of new ones in education, health, water, transport and other sectors. Capacity building, especially in the technical and managerial fields, is another objective of MASAF.

4.2.2.2 The majority of the Malawian population belongs to poor communities and as such are included in the target groups for the project. The exception is private or cooperative businesses, which are not a target group at this stage. Although entire communities select, apply for and are funded for projects, the most common expected types of projects are in primary education and in water and sanitation, which mainly have women and children as their direct beneficiaries.

4.2.2.3 MASAF is a quick disbursing, community responsive facility which channels funds directly to projects that are identified, managed and maintained by communities themselves. The design of MASAF has been built around three principles:

- Community participation in a demand-led process;
- Direct financing; and
- Independent management.

4.2.2.4 Community participation entails involving communities in the initiation of project ideas and making decisions on their own project plans. Communities also participate directly in project implementation, monitoring and maintenance. This aims at empowering communities to influence the allocation of public resources in their favour.

4.2.2.5 Direct financing entails entrusting communities with the responsibility of managing project budgets and funds through the community's own project bank account. Direct financing will ensure rapid disbursement of financial resources to meet community demands in a timely manner.

4.2.2.6 There are three other positive aspects of direct financing:

- It reduces administrative costs, allowing more resources to reach the intended beneficiaries.
- It enhances community ownership of the project which will improve the sustainability of the project.
- It avoids diversion of resources from funded communities to other, better positioned interest groups or parties.

4.2.2.7 As part of the empowerment process, the community will work as partners with MASAF. The community will manage its own funds and follow mechanisms for ensuring accountability and

transparency. This includes recording all payments, financial reporting, and a strong community role in monitoring the activities of the project committee and the progress of the project. MASAF will assist by setting basic book-keeping and reporting standards, providing communities with standard designs, bills of quantities and price lists to make detailed budgeting and planning easier, disbursing funds in tranches after justification of prior expenditures and providing guidance on community procurement of goods and services.

4.2.2.8 Independent project management entails giving autonomy to the Project Committees in the management of the projects. That is, the decision-making for project implementation matters is vested in a popularly elected committee. This committee is responsible on behalf of the communities to manage the operations of the project up to completion.

4.2.2.9 Independent management also applies to the MASAF Management Unit, which is set up as an autonomous body outside the civil service with staff recruited directly for the project, paid competitive salaries and having greater flexibility in direct community financing procedures than a typical government ministry.

4.2.3 MASAF Formulation and Design Phase Activities

4.2.3.1 Project preparation was a long process which started in August 1994 under the Chairmanship of MEPD. The first step was to set up of an inter-ministerial Project Preparation Team. This consisted of representatives of the ministries of :

- Economic Planning and Development (Chair)
- Finance
- Education
- Agriculture
- Health and Population
- Irrigation and Water Development
- Local Government and Rural Development
- Women and Children Affairs, Community Services and Social Welfare.

4.2.3.2 Through the assistance of a Japanese grant made available through the World Bank for project preparation, the PPT held a number of consultative workshops and seminars and studies with all the key stakeholders.

4.2.3.3 Familiarisation tours: In September 1994, some members of the team went to Zambia and Ethiopia to study their social fund projects. The remaining PPT members made a familiarisation tour within Malawi aimed at learning from organisations and projects in the country which have the experience and capacity to work in a community-based participatory way with people.

4.2.3.4 Participatory Poverty Assessment: Towards the end of September, the Ministry of Economic Planning and Development organised a workshop which looked at participatory approaches to development which included participants from various sectors of government and NGOs. After the workshop, one group of participants continued with the formulation of a concept for MASAF under the guidance of the project preparation team. The other group was trained in a Participatory Poverty Assessment (PPA) exercise in 12 communities. A workshop in mid-October incorporated the findings of the PPA into a MASAF operations manual.

4.2.3.5 Consultative Group Workshops: In October 1994, the concept paper was presented to a consultative workshop. The workshop had representation from Government, NGOs, individuals, members of the Project Preparation Team and the World Bank. This workshop involved serious discussions in the sub-groups on the concept and operations of MASAF in relation to various sectors.

4.2.3.6 In early November 1994, MASAF was presented for discussion to a meeting of Principal Secretaries and NGO representatives. The product of this consultation was the transformation of the operation manual into a broader project concept document.

4.2.3.7 Systematic Client Consultation: In December 1994 and January 1995, the project preparation team arranged for a systematic client consultation in 19 communities throughout the country in order to establish whether the communities themselves agreed with and supported key features of the project design.

4.2.3.8 Development of manuals: The preparation of a detailed financial and administrative procedures manual, a training guide for facilitators and draft technical manuals for standard project designs was carried out from January through April 1995 by consultants hired by the Project Preparation Team.

4.2.4 MASAF Project Management and Institutional Relations

4.2.4.1 Project Steering Committee: The overall accountability of the MASAF project is to a MASAF Project Steering Committee, which is chaired by the Principal Secretary of the Ministry of Economic Planning and Development. The Committee members consist of the Principal Secretaries of various sector ministries and representatives of the national Poverty Alleviation Programme Coordination Unit, NGOs and others. The functions of the Steering Committee include:

- Provision of policy guidelines with respect to management, interpretation of government and sectoral policies;
- Approving of new projects and suspension or cancellations of projects upon receiving recommendation of MU;
- Ensuring that sectoral ministry budgets accommodate recurrent expenditures relating to projects being approved for funding and approving management unit annual/quarterly plans.

4.2.4.2 MASAF Management Unit: MASAF activities are coordinated by a Management Unit which consists of a central office based in Lilongwe and nine Zone Offices throughout the country, operating at district level. The Management Unit is headed by a Project Manager. The head office has four divisions for Technical Services, Field Operations, Finance, and Administration. In addition, the Manager is assisted by a Management Information Systems Officer and an Information, Education and Communications Officer.

4.2.4.3 Districts: The staff of the MASAF Management Unit is relatively small in comparison to the number of projects expected at any one time. It will not be possible for MASAF staff to provide direct technical assistance or intensive supervision to community projects. Therefore, the design of the project incorporates substantial participation by the sectoral ministry representatives at the district

level. A District Executive Committee (DEC) exists in each district which is responsible for the technical aspects of all development projects within a district. Under MASAF, the DEC must assist the Zone Officer in the technical appraisal of a proposed project, agree to support of any recurrent costs to the government, and assist supervision of its implementation.

4.2.4.4 Facilitators: In addition, although communities are to make maximal use of their existing capacity in project formulation and management, it is expected that most will need assistance from outside in one or more areas in order to successfully apply for and carry out a MASAF assisted project. MASAF will provide detailed guidelines on project application and implementation for the most common project types and train large numbers of government extension workers, NGO field staff and other groups in how to 'facilitate' a MASAF project. Communities, however, are responsible for selecting and working with their own facilitator, if needed.

4.2.5 Start-up Implementation and Plans

4.2.5.1 After the basic written designs for MASAF were completed in April 1995, the Management Unit was formally constituted in June 1995 with recruitment of the manager and the first few staff. Even prior to this, pilot testing of MASAF procedures was started by contacting the 19 communities that had participated in the systematic client consultation and inviting them to submit projects. Community Development Assistants living in the area of the 19 communities were trained by Project Preparation Team members as potential facilitators.

4.2.5.2 A number of problems were discovered as part of this process, including difficulties with the initial version of the community project application form, the understanding of the role of facilitators, poor understanding at the district level of the MASAF project, and lack of adequate staff at the Management Unit. These have been addressed from July through October 1995 through the following measures:

- A comprehensive plan for Information, Education and Communication (IEC) was drawn up for the pilot phase and implemented with the help of consultants. This included mass media information on MASAF to give communities an independent source of accurate information on MASAF principles and procedure. It also included reorientation of District Executive Committees, training of a wider variety of project facilitators, at least some of whom were selected by the communities themselves, and training of the project committees at the community level.
- The community project proposal form was substantially revised to be more user-friendly and focused.
- The initial draft of the technical manuals were found to be inadequate and were redesigned, giving the communities a clear basis on which to budget and plan their proposed projects.

4.2.5.3 As a result, several pilot projects have passed appraisal at the district level and have been approved by the Project Steering Committee and are starting implementation. The majority of the remaining pilots passed appraisal and were launched in November and December 1995. Most pilot projects are for the expansion of primary school facilities or community water supplies (typically boreholes), but construction of health facilities, a market, an urban access road and a community multipurpose centre are also included in the pilot phase.

4.2.5.4 Initial experience has been very positive. Communities are eager for projects and quite willing to provide bricks or other self-help contributions. They appear to be capable of managing the financial and procurement aspects of the projects themselves. The greatest limitation on the speed of implementation has been MASAF's need to refine its own procedures and guidelines.

4.2.5.5 MASAF underwent appraisal in November 1995 for funding by the World Bank, the sole donor, which will allow it to start full-scale operations in mid-1996. Prior to that time lessons learned from the pilot experience need to be incorporated into revisions of the project procedures, forms and training materials.

4.2.5.6 Due to the improved performance of the pilot community projects, to the success of the IEC campaign in generating widespread knowledge of MASAF and enthusiasm for community projects, and to the desire of the government for early action, it is expected that the first phase will reach a large scale very rapidly and that at least several hundred projects will be funded in the first year of full operations. The first 18 months of full scale operations will be considered phase one of the project, with a review and revision as needed prior to the second phase.

4.2.6 Limits and Extensions of Scope and Functions

4.2.6.1 MASAF is designed as a vehicle for funding small projects conceived and managed by communities, mainly in the rural areas. In determining its priorities and the scope of its programme, it has been necessary to define its relationship to other types of poverty programme currently in preparation or being launched, in particular welfare, microcredit and public works.

4.2.6.2 The MASAF project at this time does not include support for the long term recurrent costs of operating improved social and economic infrastructure or support to other social welfare programmes. While this poses important limitations on the potential impact of MASAF, it is considered to be the best course under the current circumstances.

4.2.6.3 As indicated, the most common MASAF projects are expected to be primary schools and water supplies. The Government has already removed all educational charges and greatly increased the number of teachers beyond the number of classrooms available, so that in the education sector the lack of infrastructure is a serious limitation in itself. Lack of safe or accessible water is a very serious problem in rural Malawi and the currently available pump technology allows communities themselves to take primary responsibility for maintenance, again avoiding the recurrent cost problem.

4.2.6.4 The problems of food subsidies, health charges and other subsidies for the poor are acute in Malawi but are handled under other programmes.

4.2.6.5 MASAF has agreed to fund public works programmes for direct employment generation among very poor families in rural areas. This is in recognition that the community projects will address long term causes of poverty, but not the most immediate needs of the poor for subsistence. A pilot public works programme is currently being implemented in three districts focusing on labour intensive road works.

4.2.6.6 The design of the public works programme is quite different from MASAF's community projects in that the areas for these works are pre-selected from above based on poverty criteria

rather than arising from the communities. Their principle aim is income transfer rather than infrastructure creation and ownership, and communities are not expected to make a partial 'self-help' contribution. It is still unclear how the approach to poverty-related public works in Malawi will evolve and what the administrative structure will be.

4.2.6.7 Although many social funds internationally provide support for credit schemes and income generating activities, MASAF, at least in its initial phase, does not. This has been a difficult decision, since consultations show that these are often the highest priorities of the communities themselves. Unfortunately, the design and successful implementation of such activities is much more complex and often requires a much longer term commitment than the support of social and economic infrastructure. Credit schemes, both within and outside Malawi, have a history of difficulties and failures.

4.2.6.8 It appears from information obtained that donor influence was a significant factor in this decision. The World Bank had cooperated with other donors as lead agency in funding the SDA Programme, which had included pilot credit schemes. Yet in respect of MASAF its funding was apparently conditional on being sole donor and the initial Government proposal to include credit was rejected, despite the fact that in the systematic client consultations conducted in early 1995, 17 out of the 19 communities placed self-managed credit schemes at the top of their priority list.

4.2.6.9 There is a great deal of interest in support of MSE credit schemes in Malawi outside of MASAF, through agencies such as the Malawi Rural Finance Company and through projects funded by NGOs and others. Some of these projects may be better suited than MASAF for attempting this task. Finally, if MASAF is successful in its initial operations, it may be willing to consider funding a wider variety of activities in the future.

4.3 EU Microprojects Programme

4.3.1 Another of the donor-driven initiatives is the EU/Malawi Government microprojects programme, which is administered through existing line ministries. In 1986 the European Community, now the European Union (EU), set up a programme for funding microprojects. Unlike the later credit programmes geared to creating revolving loan funds, this early initiative was grant-based. The funds were committed on a matching basis of 25 per cent from the Government and 75 per cent from the EU. The programme targeted the rural areas in four sectors: education, health, communications and rural development.

4.3.2 The project subsequently collapsed. One reason was that not enough preparatory research was carried out, while administrative controls were inadequate. But the main factors were that the unit administering the programme was placed directly in the OPC (Office of the President and Cabinet) District Office. There was no accountability and no records were kept. MK4 million (approx. US\$1.5 million) could not be accounted for. Without receipts these funds could not be drawn down from the EU. Later, project funds were frozen along with most other donors funds in 1992 during the period of international pressure for domestic political reform.

4.3.3 The programme was reinstated in April 1995. The original targets were expanded to include water projects and income generating activities. The total new funding was ECU3 million (US\$7.9 million) which was divided into two tranches: ECU1.5 million for 1995/96 and ECU1.5 million for 1996/97 and into the first quarter of 1998. The 1995/96 budget is MK28 million and the funds have been fully committed.

4.3.4 The microprojects programme is geared to assisting small community-based projects, principally to develop social assets under community control. Its administration is centrally controlled through a Government/EU Microprojects Implementation Unit (MIU) and there are few linkages to any other similar programmes.

4.3.5 There is a standardised application procedure. Priority is on a first come first serve basis. Applications must be made on the project appraisal form and submitted to the MIU. The guidelines require that the community must demonstrate a real need for the project and that the intended beneficiaries must be identified. Other criteria taken into account are:

- That the structure financed is between the stipulated limits of MK65,000 and MK135,000 (US\$4,250-8,800 in early 1996);
- That the community must be able to provide not less than 25 per cent of costs of the project, generally in the form of labour and/or materials;
- Whether the site is accessible by motor vehicle to supply needed raw materials;
- Whether the project can be completed within the maximum 12 months allowed;
- That the community can provide for future maintenance to keep the project operational without drawing on additional government or donor funding;
- That the project has the support of the District Development Committee and is endorsed with the signature of the chairperson, although in late 1995 the MIU was also accepting direct submissions from communities;
- That the project is assessed to be independent of political pressure, ie the community and not politicians or civil servants must want the project.

4.3.6 Projects are considered at monthly meetings of a Steering Committee consisting of the OPC District Administration office, MEPD, the Ministry of Finance (chair), the Ministry of Local Government, the EU Delegation and the MIU. Following approval, the final go-ahead is only given for the materials to be delivered and the projected to commence when the MIU is satisfied that the community is in a position to start and sustain the project.

4.3.7 By November 1995 projects had been approved for 416 units or structures at 216 sites, valued at MK27.4 million (US\$1.8 million) with 41 per cent of the funding going to the Southern Region. The average grant per project was thus just under MK66,000 (US\$4,300). The regional distribution of the units is 118 in the Northern Region, 134 in the Central Region and 164 in the Southern Region. Another 1,080 applications were in the pipeline awaiting appraisal, valued at MK76 million (US\$5.0 million), of which 71 per cent was for education projects.

4.3.8 Contrary to original expectations the overwhelming community demand has been for school infrastructure and the total of 166 two-classroom school blocks and 199 teachers' houses accounted for 88 per cent of all units and 96 per cent of the funding. It is common for more than one structure to be sponsored per site; for instance, a school and a teacher's house at the same site would count as two units. This also has the effect of raising the upper threshold above the MK135,000 per project.

4.3.9 The supply of the raw materials is given by the unit to the lowest quote from a list of three accredited suppliers, which were identified by their ability to supply the materials to site no matter how remote. Payment is only made to the supplier on the presentation of the signed delivery note. This signature on the delivery note must be from the chairperson, the secretary or the treasurer.

4.3.10 The supply of raw materials has not been going very smoothly owing to there only being three suppliers. The suppliers have been in a position to liaise and have therefore controlled the prices and have shown some inefficiency in getting supplies to the sites. Hardware and general dealers have recently been added to the above list of suppliers in order to try to circumvent the rigging of prices.

4.3.11 There are often shortages of the required materials for the building of structures. No other suppliers have either the desire or the ability to supply goods to the remote areas. This limits the MIU's ability to maintain a source of competitively priced goods, causing unnecessary time delays.

4.3.12 The Unit itself monitors the implementation of the project. It does this through project officers who must visit each of the existing 216 sites at least twice during the construction phase of the project. The officer will notify the District Commissioner of the date of his visit and that he must meet with the committee chairperson.

4.3.13 The programme has only been on line since June 1995 and it is too early to make any general assessment of its success or failure to date. Only one site had actually been completed by late 1995, a girls school in the Salima area. Progress with soliciting and processing community applications has all the same been very rapid and project implementation should escalate sharply during 1996.

4.3.14 There is a clear potential for overlap between the EU Microprojects Programme and MASAF. The two programmes have shared sector priorities in social infrastructure, especially schools and water, a similar targeting of rural communities, a similar emphasis on community-based projects, and parallel schedules, both gearing up during 1996 and running to a 2-3 year medium term timetable. They also operate as single national centres connecting directly with the beneficiary communities and both assign a key role to the District Development Committees.

4.3.15 There appears nevertheless to be no coordination between the two programmes at any level and there is risk of confusion amongst target groups and of local mismatches of project resources. The general point was emphasised forcefully in a MIU presentation in December 1995, which pointed to state and NGO donor territorial competition, multiple funding of projects and incapacity at DDC level to coordinate and appraise projects effectively. At the macro level, however, this parallelism is less significant in view of the enormous scale of poverty-related needs. There are also sharp differences in approach between the MIU's standalone, top-down methodology and MASAF's bottom-up participatory emphasis combined with inputs from other NGOs and arms of government at local level.

5. MICROENTERPRISE SCHEMES

5.1 Small and Microenterprises and the Informal Sector

5.1.1 Malawi has until recently only focused marginally on the MSE sector. Until 1994 the previous government concentrated on macroeconomic development that focused on industrial and private sector reform and the creation of large scale enterprises. The rationale behind this was that there would be a trickle down effect in terms of income distribution, employment and a general increase in the level of economic development. Malawi's industrial base and commercial economy is small and concentrated in the few urban areas and has done little to alleviate poverty. In fact the previous policy environment actually discriminated against MSEs.

5.1.2 It has become apparent to both the Government and the donor community that one of the missing links in Malawian economic policy has been the development of the micro, small and medium enterprise sectors. In the light of this the new government has together with donors taken initial steps towards formulating and implementing a microproject and microenterprise development strategy under the auspices of PAP, the principal institutional vehicles being MASAF and the Small and Medium Enterprise Development Fund (SMEDF) respectively, both of which were launched in the second half of 1995.

5.1.3 A microenterprise in Malawi has been officially defined as one that employs 1-4 people, has capital investment of up to MK5,000 or has a turnover of up to MK12,000, whereas a small enterprise is one that employs 5 to 20 people, has an investment of up to MK200,000 or a turnover of MK400,000. The massive devaluation of the Malawi Kwacha over 1993-94 requires an updating of the thresholds by approximately a factor of four:

- Microenterprise ceiling: capital MK20,000 (US\$1,300), turnover MK50,000 (US\$3,300);
- Small enterprise ceiling: capital MK0.8 million (US\$52,000), turnover MK1.6 million (US\$105,000).

5.1.4 It must be noted that operational definitions of enterprise categories vary markedly and that the above criteria may be considered to set the upper boundaries too high in the Malawian context. A UNDP report defined microenterprises as usually one-person businesses and small-scale enterprises as employing 2-5 persons, criteria that tend to fit the findings of the Gemini study reported below. They are therefore adopted in this study.

5.1.5 The informal sector of Malawi has been totally ignored in terms of government economic policy over the last thirty years. There has therefore been little formal research done on the sector until recently and it is difficult to assess its actual size without formal research. The Gemini study estimated MSEs together with medium scale businesses to number approximately 570,000 enterprises in 1993 employing more than one million people. The overwhelming majority were MSEs, most run by the proprietor alone, and average employment was 1.8 persons per enterprise. Of the total, more than half were in simple retail trading and 90 per cent were located in the rural areas. It was estimated that approximately two-thirds of the MSEs contribute 50 per cent or more to household income in urban and rural areas¹⁹.

19. Daniels & Ngwira 1993.

5.1.6 MSEs have had virtually no access to institutional funding and there are no private sector support mechanisms for MSEs. The financial institutions have not been prepared to handle small-scale credit because of the high costs of administration, the history of poor loan recovery rates and the general lack of profitability in lending to this sector.

5.1.7 One exception has been a joint private sector/UNICEF initiative, started in April 1995. This initiative focuses on the microproject level where the private sector and UNICEF provide matching funds for the implementation of microenterprise projects in a similar manner in which MASAF provides grant funds to community microprojects. The scheme is too recent to permit any useful review of its experience to date.

5.1.8 Nevertheless, MSEs currently face formidable problems:

- Inadequate access to credit: Access to credit is the single biggest barrier facing the rural poor, who lack adequate means of creating wealth without external resources to empower them. The only organisation that has provided credit to MSEs in Malawi in the past ten years has been SEDOM (Small Enterprises Development Organisation of Malawi) This was an underfunded organisation that virtually collapsed in 1991.
- Unequal distribution of income to the rural poor: In Malawi as in other developing countries the per capita income is skewed towards the urban population which means that the actual rural per capita income is less than indicated.
- Difficulty in obtaining cost effective inputs: It is virtually impossible for this sector to arrange its own imports.
- Lack of managerial skills especially in the financial areas: Even though the microenterprises are on low budgets the failure to meet their financial obligations has been a frequent inhibitor.
- High interest rates and massive devaluation in the Malawi Kwacha: The present commercial rate of interest is above 50 per cent. Although well below the current rate of inflation and thus yielding negative returns to depositors, this rate is still prohibitively high and will put up a major barrier to entry under a tighter fiscal policy aimed at reducing fiscal deficits, inflation and the growth of the money supply. The floating exchange rate introduced under the SAP caused a devaluation from MK4.3 to MK15.3 to the US dollar, although the rate has stabilised since early 1995.

5.1.9 The proliferation of new schemes and the paucity of microcredit experience before 1994 together present particular difficulties for assessing the prospects of small scale business credit in Malawi. Accordingly, this chapter reviews the design and early implementation of a couple of the newly started schemes, the UNDP Pilot Microenterprise Programme and the Small and Medium Enterprise Development Fund, the performance of the microcredit components of the SDA Programme and finally the experience of the longer established Malawi Mudzi Fund.

5.2 The UNDP Pilot Microenterprise Programme

5.2.1 In an exception to the banking sector's general avoidance of microcredit involvements, the Commercial Bank of Malawi (CBM) has agreed to administer a UNDP microcredit programme which was fully secured by a US\$0.3 million (MK4.6 million) credit guarantee removing all financial risk from the bank itself. The guaranteed amount was, however, only 10 per cent of the sum originally planned.

5.2.2 The UNDP's 5th Country Project (Programme II) provided funding for MSEs from the UN Capital Development Fund (UNCDF) as one component of an integrated Small Enterprise Development Programme (SEPD). In its pilot phase the project comprised a small revolving credit guarantee fund targeted on six districts. The UNCDF agreement was signed only in May 1995 after considerable delay and disbursement of the funds started in August 1995.

5.2.3 This MSE credit programme is part of the UNCDF strategy which stresses the development of 'capital' in a broader sense, ranging from small scale infrastructure to institutional capacity. The new strategy emphasises the importance of the multisectoral support approach to development, in which social and economic investments contribute towards both poverty alleviation and economic growth. UNCDF's approach emphasises the importance of decentralisation for such funds and democratic institutional arrangements for such funds, both as a means of enhancing sustainability and as a means of empowering the communities they serve^[20].

5.2.4 The procedures and mechanisms were split into five components: policy aspects, administered by a unit in the Ministry of Works; entrepreneurial and skills development, administered by the Development of Malawi Traders Trust (DEMATT); credit administration (DEMATT); marketing information services (DEMATT); and dissemination of appropriate technology, administered by the Malawi Industrial and Research Technology Centre (MIRTEC).

5.2.5 UNDP decided to adopt six rural areas as trial target zones for the piloting of this programme. The areas selected were:

Area	Region	Population 1987
Nkata Bay	Northern Region	138,831
Dedza	Central Region	411,787
Mchinji	Central Region	249,843
Nsanje	Southern Region	204,374
Thyolo	Southern Region	431,157
Mangochi	Southern Region	496,578

Source: NSO Population and Housing Census.

5.2.6 The areas chosen were associated with the parallel development of the UNDP's assistance to the District Development Fund (DDF). They were also representative of the distribution of population on a density and need basis.

20. UNCDF, *Support to GOM/UNDP 5th Country Programme*, January 1995.

5.2.7 Loans were targeted at a group and not an individual entrepreneur and fell under the philosophy of group credit. A principal underlying concept of group credit was that the dynamics of group accountability in a close knit poverty environment would greatly increase accountability and therefore the chances of success at both the business level and in the area of loan recoveries, thus improving the sustainability of the revolving fund.

5.2.8 A MSE project was to be selected after a rural business group applied for a loan through the DEMATT offices. In order to apply for a loan the group must have set up a group savings account in the CBM with a savings record of between one to three months. During this three month period DEMATT helped to train the MSE group in how to fill in the application forms; assessing the viability of the project; basic procurement; basic sales and marketing; credit systems and control, in particular how they were to repay the loan; how to deal with the commercial bank; and technical skills if required.

5.2.9 A joint team from the Ministry of Works, DEMATT and MIRTEC would then go into the area and assess the group's project. DEMATT had the final authority to approve the loan on their assessment of the applicant's creditworthiness. Owing to the careful preparation of the MSE loans 70 per cent of applications were accepted.

5.2.10 It was estimated that the credit would be targeted at groups of between 10 and 15 but the applicant group could be as low as three if a good project was identified. The main thrust of the programme was, however, group dynamics, accountability and sustainability. Not all of the group would run the enterprise. They would decide among themselves who were the most competent and the selected individuals would become the entrepreneurs, who would use the group's savings to run the business.

5.2.11 The group must save at least 25 per cent of the required loan amount. The loan must fall between MK 5,000 and MK 40,000 (US\$325-2,600). The loan was granted at the prime bank overdraft interest rate, which was more than 50 per cent in late 1995, and was essentially a loan on commercial terms. There was a grace period of 90 days and then a 90-day payback period. A 2 per cent application fee was charged to ensure serious intent. Within the group, the maximum loan per individual was set at MK3,000 (US\$200), repayable within six months without a grace period, and individuals could access loans only through the group.

5.2.12 For a group to withdraw funds from their account there must be at least two signatories. The group appoints a chairman, a secretary and a treasurer. Any two of these three could sign. The project was monitored by the DEMATT loans officer to ensure that the loan repayments remained on schedule. This system was tried by GTZ in the late 1980s on a very small scale with women and had close to a 95 per cent success rate.

5.2.13 The launch of the Small and Medium Enterprises Development Fund (SMEDF) a month after startup caused immediate disruption since it was offering credit to the same clientele at a heavily subsidised rate of interest. Following the recommendation of an evaluation report the UNDP suspended the scheme in late 1995 and it is uncertain when and if it will be relaunched.

5.2.14 As at 31 August, soon after the beginning of lending operations, 90 groups had been formed of which 43 had savings accounts. The 20 groups which had taken out loans had 132 members between them or an average of 6.6 per group. Three-quarters of the loans were to existing rather than new businesses and to micro traders rather than producers.

5.2.15 A DEMATT status report covering the period to March 1996 indicated that up to December 1995 40 groups from four of the districts had borrowed a total of MK206,131 against total savings of MK179,305, which would presumably include those prequalifying for a loan. The average size of loan liability per group was thus MK5,153 (US\$340). The number of clients was given as 135, an average of little over three per group, which implies that the design intention of establishing group dynamics was not being fulfilled.

5.2.16 The DEMATT report summarised a number of problems arising from the early experience of the scheme, many of them endorsing the findings of the earlier UNDP evaluation:

- The low individual loan ceiling effectively excluded new enterprises;
- Some of the local NGOs contracted as implementing agencies had 'serious management problems which have affected... progress', although their involvement had at the same time expanded the programme's outreach, especially to women;
- The majority of potential clients were too distant from CBM branches to reach them, especially as four of the six pilot districts did not have CBM branches at all;
- Clients who had become used to the faster application processing time of the CBM were obliged to queue in the SMEDF waiting line when UNDP suspended the pilot scheme, despite the fact that baseline surveys revealed that access to credit was the key constraint rather than its cost;
- The lack of a 'package' approach was depriving clients of other essential support such as skills upgrading, marketing and appropriate technology.

5.2.17 The UNDP evaluation in late 1995 noted a number of weaknesses but delivered a cautiously positive report on the pilot scheme, especially in outreach to existing micro-traders. In general, the savings and credit groups were sustainable and self-reliant. The business training had also effectively targeted micro traders and especially women, who formed 59 per cent of the 2,311 persons trained. Particular weaknesses not mentioned above included a complicated and ineffectual management structure, a failure to address the needs of small as opposed to micro enterprises and of new enterprises generally, and limited impact due to the small capital funds provided.

5.3 Small and Medium Enterprise Development Fund

5.3.1 In early October 1995 the President of Malawi set aside MK200 million (US\$13 million) for MSE loans and then announced that these disbursements would be made through DEMATT. The loans were to attract a soft interest rate of 15 per cent, far below the bank overdraft rate of more than 50 per cent. MK100 million was to be made available initially of which MK30 million (US\$2.0 million) was for immediate loan disbursement. The balance of MK70 million was to be invested with the Reserve Bank as an endowment fund, the interest of which was to sustain the MK30 million revolving fund.

5.3.2 Although DEMATT was the principal organisation charged with administering the Fund, two other NGOs were advertised by the Reserve Bank of Malawi in September as being authorised to process loan applications for the Fund: Women's World Banking, and the National Association of Business Women (NABW). The implied aim was to ensure specific targeting on women, a priority

objective of PAP. However, these organisations are at present ill equipped to handle loan capital even on a small scale.

5.3.3 The Reserve Bank also stated that 'additional institutions will be announced as and when they are qualified [to] participate in the administration of the Fund', but which organisations might qualify and by what criteria is not at present apparent.

5.3.4 This initiative was a response to the growing pressure for short term measures aimed at facilitating the access of the poor to credit in a general context of rapidly falling urban and rural living standards under the latest phase of structural adjustment. Adequate warning was not given to DEMATT to prepare for the reaction such an announcement was bound to have. It caused an immediate run on DEMATT, which could not even begin to cater for the demands. On 20 September 1995, following a radio announcement by the DEMATT general manager that loan application forms would be issued that day, a crowd of thousands congregated outside the Southern Regional Office of DEMATT in Blantyre. The forms were, however, not immediately available, since they were intended for use only at the second stage of the application procedure. The net result was confusion over procedures and dissatisfaction amongst would-be applicants^[21]. In an apparent attempt to ease the public pressure, however, DEMATT officials were reported to be giving informal assistance to groups of applicants on how to formulate their business plans.

5.3.5 Clarifications by DEMATT officials at the time indicated their intention to adopt a two-stage application procedure. In the first stage applicants would prepare and submit a business plan on a standard DEMATT form, which were intended primarily for 'consultants' assisting the applicants. In the second stage, after scrutiny and evaluation approved applicants would complete a loan application. In September 1995 DEMATT established district loans committees and a National Loans Committee to process the applications. The district committees are mandated to approve loans up to a ceiling of MK5,000 (US\$325) per borrower. It was not clear, however, how far these committees would overlap the district loans committees set up in the six districts in which the UNDP pilot scheme, also administered by DEMATT, had just started operating. A UNDP report in late 1995 found that in fact staff administering the UNDP scheme had been swamped by SMEDF applications.

5.3.6 The DEMATT application form for existing businesses is quite detailed and separates personal information from business details. In both sections it requires a full breakdown of assets and liabilities. The stated assets, including moveable household items, can serve as collateral and the individual loan agreement makes provision for seizure of the assets of defaulters.

5.3.7 SMEDF's targeting appears to aim mainly at MSEs despite the inclusion of 'medium' in the title announced by the Reserve Bank. The low ceiling of MK10,000 (US\$650) for new enterprises is geared to the informal sector while a much higher ceiling of MK250,000 (US\$16,300) applies to 'existing MSEs', which would appear to include first-time loans to such enterprises.

5.3.8 It must be seriously doubted whether DEMATT will be able to cope with either the major new functions suddenly thrust upon it or the scale of demand for microcredit already manifested in dramatic fashion. Although DEMATT's mandate was extended in 1993 to include microcredit, it is primarily a monitoring and training organisation with a mandate to provide business, technical and advisory services and training in the manufacturing, trade and service sectors to small and medium as well as micro enterprises. Up to September 1995 it had little past experience in banking or credit

21. Daily Monitor, 21/09/95.

and no in-house capacity in financial services except for the small UNDP pilot scheme. It also has nowhere near the number of staff required to cope with a task of this magnitude.

5.3.9 In an apparent attempt to address the situation, in mid-October DEMATT placed advertisements with a short return date for a large number of new posts which would in effect create an entire small loans department from scratch. The implied staff establishment of 10 comprised senior credit officers and credit officers under a loans manager^[22] (see table 5). The manager is based in Blantyre and the remaining staff split equally between Blantyre, Lilongwe and Mzuzu. It appears that this establishment, essentially three regional offices each with three officers, will be expected to run a nationwide small credit programme covering both micro and small enterprises.

5.3.10 Given the likelihood that applications would rapidly run into thousands, it was unlikely that there would be sufficient capacity in what will in any case constitute a completely new structure. A rapid build-up of backlogged applications would damage the fund's credibility as a quick-action support facility providing broad credit access to the poor. The resulting pressure to speed up approvals for disbursement would carry the real risk of shortcutting the time and effort needed for adequate project preparation and appraisal, shifting its character from revolving credit towards a welfare entitlement programme with diminished expectations of loan recoveries.

5.3.11 A summary status report as at mid-March 1996 noted several major constraints, including understaffing, delays in Reserve Bank disbursements, lack of basic equipment such as computers, photocopiers and vehicles, and lack of funding for training of staff, delaying loan appraisals and management functions. Nevertheless, the report points to a commendable volume of progress with implementation:

- By that date, 6 months after the scheme's sudden launch, 2,014 business plans had been appraised, including direct contact with the client.
- Of these 72 per cent (1,460) had been submitted for consideration and of these in turn 91 per cent had been approved for lending. Commitments thus amounted to 1,331 loans valued at MK30.1 million.
- Actual disbursements were only just over half that at MK16.65 million, but funds received from the Reserve Bank were only MK18.22 million, leaving a small balance of MK1.57 million.
- The average loan size was thus MK22,609 (US\$1,480). The average size of loan was slightly larger in the Southern Region (MK25,409) than in the Central and Northern Regions. The regional distribution of loan funds was 51, 28 and 21 per cent respectively.

5.3.12 But the data also indicate the extent of the mismatch between client expectations and the resources actually provided. Given that the capital originally provided by the Reserve Bank was stated as MK30 million, the total allocation had nominally been committed already by March 1996. At that point, however, 683 appraised business plans were awaiting decision and another 10,583 were waiting in the queue, plus 667 received in the post and not yet registered. In practice the number of outstanding applications was estimated by DEMATT in early April at nearer 15,000 with applications still arriving. If the average loan size is an accurate indication, the total value of these

22. Daily Monitor, 16/10/95.

applications can be estimated at roughly MK250 million (US\$16.6 million), far beyond the capacity of SMEDF to satisfy with the funds allocated. Applications to other participating organisations are of course excluded from these figures.

5.3.13 For administering the scheme DEMATT was allowed by the Reserve Bank to retain 10 per cent out of recoveries of the 15 per cent charged on SMEDF loans, returning the remaining 5 per cent to the Reserve Bank. However, DEMATT's early estimate was that transaction costs were high at MK1.70 for every MK1 lent.

5.3.14 A general problem raised by this new credit facility at the micro level is that it may seriously impinge on the viability of other microcredit schemes, as it has done already with the UNDP pilot programme. Its soft loan status makes it eminently more attractive: terms of 15 per cent provide a strong inducement when set alongside commercial interest rates above 50 per cent and current inflation near to 90 per cent. If a quick action plan is not devised, SMEDF could derail already planned and operational MSE programmes for Malawi before they start.

5.3.15 At the same time, it risks a high failure rate on its own account. This type of poverty alleviation and economic empowerment tool requires careful preparation, implementation and monitoring if it is to have significant and sustainable effects on the poverty of the targeted groups. If the programme fails radically it may be difficult to revive as a future option retaining credibility amongst the poor.

5.3.16 Subsidised credit may tend to crowd out microenterprises and the poorest applicants in two ways. First, the demand for cheap loans may advantage the already better off and more influential applicants. Second, enforcement against defaulting local notables may not be actively pursued, particularly if political influence is involved, leading to a higher default rate and worsening sustainability of a fund already depending on subsidies.

5.4 Microenterprise Projects under the SDA Programme

5.4.1 The assessment of the microcredit projects sponsored by the SDA Programme is hampered by data gaps and lack of systematic reporting. Consequently it is possible to make only incidental comments on the projects themselves. Many of the observations on the SPSF sub-programme can be taken to apply to the microcredit projects as well.

5.4.2 In line with the basic design concept of the Programme, the SPSF did not directly disburse loans to clients but allocated funds to pilot schemes proposed by implementing agencies. Three of the six agencies were ministries, two were branches of foreign NGOs and one was a national membership association (see table 4). The projects were quite specific in their targeting: three focused exclusively on women, two on youth and younger adults and one on members of a village group scheme. In addition, one community development project had a small credit component.

5.4.3 In summary the credit schemes comprised:

- Women's World Banking (Malawi Affiliate): US\$64,610, of which US\$58,250 to be disbursed via NGO intermediaries to women borrowers, the main implementing agency being the Litemakers Association at Balaka with several other organised groups of women also participating. The SPSF grant was concluded in January 1994 to be disbursed over two years, and was the subject of protracted difficulties and dispute over apparent

accounting discrepancies between the PIU and WWB. The 1995 evaluation judged the Limemakers Association project to be near to 'total collapse', in which the withdrawal of a project officer and lack of timely PIU supervision were held to be significant factors.

- Foundation for International Community Assistance: US\$75,000 over two years, approved September 1993. The SPSF funds, together with a Rotary International grant, were applied to promote the women's village banking concept. By September 1995 MK1.05 million of SPSF funds had been disbursed in loans through 36 village banks on the group banking model with 1,093 members, giving an average loan size of MK956 (US\$63) and an average group of 30 women. The usual loan cycle was 4-6 months at an interest rate just above inflation. Accumulated savings amounted to MK0.48 million or 46 per cent of the total loan amount. FINCA's claim to a near 100 per cent repayment rate appears to be borne out by the near absence of delinquency before or after maturity as recorded in its monthly returns.
- National Association of Business Women: US\$52,000/MK297,392, of which MK192,996 for a revolving fund disbursed between June 1993 and April 1995. Implemented in six pilot districts on a group lending basis, the credit scheme made loans ranging from MK500-3,000 to 121 businesses benefiting 213 women at an average loan size of MK1,595 (US\$104) per business. The repayment period of 3 months was extended to 6-9 months for later borrowers. The claimed repayment rate was 87.5 per cent, with only one district much lower than that. 64 per cent of microenterprises were in trading and 17 per cent in food processing; and 75 per cent were still operating at the end of the period.
- Chikondano Village Community Development Small Scale Business Group: Administered by MOWCACS, the initial grant of MK27,769 had grown to MK37,717 by December 1995 and the number of beneficiaries had more than doubled to 40, of whom 25 were women. The loan sizes varied between MK500 and MK1,930 with an average MK943 (US\$62), at a total interest rate of 20 per cent on each loan. Total recovery of the original loan were 47 per cent.
- Youth Enterprise Development Project, Mulanje: Administered by the District Youth Officer, the grant of MK 26,000 had been disbursed through seven groups in loans to 81 beneficiaries, plus individual loans to another 15. Of the 96, 60 were women. The average loan size was MK270 (approx. US\$40). Recoveries varied greatly between groups but were increasing in the first half of 1994.
- Youth Enterprise Development Project, Thyolo: Like Mulanje, targeting 100 unemployed persons aged 16-39 years over three years. Out of the grant of MK35,000, MK33,970 had been disbursed to 60 individual beneficiaries by March 1994, averaging MK566 (approx. US\$80).

5.4.4 The 1995 evaluation found an apparent lack of effort in a couple projects to build the capacity of beneficiaries towards long term sustainability, but considerable success in several of the schemes targeting women. Most of the schemes it considered had reasonable potential for sustainability.

5.4.5 The 1995 evaluation report commented adversely on a number of aspects concerning the implementation and supervision of SPSF projects, often covering the credit components in its general remarks but also entering a few observations on specific credit projects. The evaluation

team conducted an extensive field investigation on which it is beyond the scope of this study to make any direct assessment. However, a review of project reports and other documentation on file at the PIU office suggests that the judgements made were too severe on several questions and inaccurate on several others.

5.4.6 Some of the specific problems noted in the 1995 evaluation, modified in the light of documentary information where appropriate, include:

- The hardships and disruption caused by the volatile economic environment during much of the programme period.
- The credit provided by three of the NGOs targeting women benefited somewhat better-off individuals and largely failed to reach the poorest households.
- Inadequate and irregular reporting to the PIU by several agencies as required by their contracts. From the records, the NGOs come out generally much less informative than the ministry district officers. Although variable in depth and frequency, the change monitoring by a couple of the agencies contained rich descriptive detail supporting policy analysis.
- Weak monitoring tended to reinforce a tendency for benefits to be concentrated at the NGO level rather than with the beneficiaries. However, the PIU brought pressure to bear to promote a participatory approach to local monitoring, which achieved improvements.
- The lack of regular PIU field monitoring left the perceptions and experiences of beneficiaries to be indirectly represented in the reports from the agencies, with an understandable bias towards their own concerns. But the change monitoring did in some cases transmit balanced representation of local views and again the local ministry officers on the whole reported much more effectively than the NGOs.
- Significant departure from the stated project objectives in at least one of the schemes.
- Major institutional capacity problems in at least three of the agencies.
- Adverse impacts on at least one scheme from slow disbursements of tranches from the SPSF.
- A general lack of knowledge amongst the agencies of community based and participatory approaches affected the relationship between agencies and clients in some cases, for example making collections difficult in one project where the terms of lending were not properly communicated to the borrowers.
- The lacking of a sense of ownership amongst the borrowers, who generally perceived the credit schemes as belonging to the implementing agencies.
- Somewhat rudimentary financial reporting from the ministry projects, but full financial details from the foreign intermediary NGOs except for WWB.

5.4.7 With the probable exception of WWB, the records do not appear to bear out the 1995 evaluation report's attribution of poor performance to most of the microcredit projects. Ostensibly, the NABW and FINCA schemes performed well financially and group lending achieved some success. Very small loans, however, tended to benefit traders rather than producers, while local

flexibility was important in assisting very poor rural people to survive local climatic and economic setbacks. Exposure to influence by local notables was also evident.

5.5 The Malawi Mudzi Fund

5.5.1 The MMF was founded in 1988 and started operations in April 1990. It was modelled explicitly on the lines of the Grameen Bank and was to run a pilot scheme over seven years in two phases of five and two years respectively, establishing in each phase two branch offices serving about 2,000 borrowers. Thus by the end of 1996 it was planned to have four branches with 4,000 members. The International Fund for Agricultural Development (IFAD) provided startup capital of US\$0.95 (MK2.6 million in 1990). USAID provided additional grant funding in 1993-94 together with smaller amounts from several other donors.

5.5.2 The MMF's central objective was to provide loans, savings instruments and technical assistance to rural Malawians with little or no land for generating self-employment in off-farms activities. The core beneficiary unit was to be a registered group of five. In order to assure effective targeting on the rural poor and tight group dynamics, the criteria of eligibility were more tightly defined than in many similar schemes:

- Ownership of less than 1 ha of land or assets worth 5 bags of maize, generally poor and of similar socioeconomic status;
- Malawian, permanent residents of the area, living close together, not closely related, same sex and knowing each other well;
- Aged 20-60 years and of trustworthy character.

5.5.3 The MMF's design prescribed a lean administrative structure. It was organised into:

- A central Management Unit (scheme administrator, accountant) answering to a seven-member Board of Trustees appointed by the Government;
- Branch offices (branch manager, bookkeeper) in Chiradzulu and Mangochi in the Southern Region, managing four project areas, each run by a project officer who was expected to build up a clientele of 250 in 50 registered groups, thus 1,000 members and 200 groups per branch;
- A total staff at the outset of 27 and only one vehicle at the Management Unit, with branch managers and project officers using motorcycles.
- All clients were combined into centres of 4-5 adjacent groups, thus 20-25 clients with a centre executive comprising a centre chief, secretary, treasurer and deputies.

5.5.4 Setting up groups of members involved a two-stage process of screening and training:

- Once five clients had formed a group and registered, each was individually screened for eligibility using a questionnaire and for accuracy of information and good character by consultation with other community members and village leaders.

- All members received orientation training one day a week for eight weeks and then given a group recognition test. The topics included MMF principles, the need for group solidarity, members' and leaders' roles, loan and savings procedures, marketing and business management. The training helped staff assess commitment and clients develop a relationship with MMF.

5.5.5 The application procedure for a business loan relied heavily on peer group evaluation. The business requirements were first reviewed by the applicant's own group but then also by the other members of the centre, exposing them to scrutiny by members with less strong personal links and also drawing on their experience and knowledge. After modification, the final step was submission to the centre executive. Endorsed applications then went up the chain from recommendation by the project officer through the branch manager up to the Management Unit for final approval and disbursement.

5.5.6 Business loans were sought mainly for local trading and some for services, but few for productive activities. The loan range was MK50-4,000 (worth up to US\$1,470 in 1990, US\$260 in 1995) but had no formal ceiling. Loans carried a simple interest charge of 18.5 per cent per annum and were repayable in fixed weekly instalments over 50 weeks with a two week grace period. Members received loans individually but in a staggered rotation separated by a few weeks, with the group leader being the last to receive.

5.5.7 In 1992 a second type of loan with a ceiling of MK300 was introduced to pay for farm inputs. This was at the request of borrowers to strengthen their food security. Only applicants having business loans and a good profit achievement could qualify.

5.5.8 At the outset the MMF developed five savings instruments:

- Compulsory group savings fund starting in the third week of training, raised to MK1 per person per week by 1994/95, to provide for group members' investment or consumption needs but in fact used mostly as extra insurance against default;
- A group tax of 5 per cent of the loan value, usually raised as an extra loan amount (abolished in 1994);
- Emergency savings as insurance cover to the amount of a quarter of the total interest on the loan;
- Personal savings in an interest-bearing passbook account with a minimum initial deposit of MK2, offered as a service for those too far from a bank or post office;
- Voluntary special savings agreed by centre members and including fines for group indiscipline, the funds being used at centre level, commonly for welfare purposes.

5.5.9 The initial design of the credit scheme underwent a number of modifications in the light of experience during implementation, particularly its poor start in the first two years:

- The questionnaire method of screening was found to be inadequate, for example verification of ownership of household assets and the size of land holding. The questionnaire was simplified and then largely abandoned in practice in favour of cross-checking with other local people, especially on character and reliability. This seems,

however, to have led to significant top-down interference by project officers and local headmen in the formation of about 30 per cent of the groups.

- Training one group of five alone was found to be wasteful of staff time and groups were combined into 4-5 numbering 20-25 members. Except for new trainers, the recognition test was dropped as unnecessary as trainers could assess clients during the training. Training was usually by rote learning and lacked participatory techniques and audiovisual aids.
- The loan processing chain built up a bottleneck at the Management Unit and both approvals and disbursements for loans of MK1,000 or less were decentralised to branch level, also reducing the unit administrative cost.
- In 1992 the repayment period was halved to 25 weeks and to cater for seasonal fluctuations, members were encouraged to repay more than the standard instalment when their profits were good so as to cover for later periods of low income when they might not afford the repayments. The early emphasis on targeting the poor was found to provide borrowers with an alibi for defaulting and was refocused on group self-reliance and borrowers' obligations. Refunds of interest were introduced in 1993/94 as an incentive to borrowers to repay faster than their schedule.
- Group sizes were made more flexible within a range of 3-6 and centres increased to 15-30. In 1994 centres were strengthened in their executives, a written constitution and powers to fine members. Executives were delegated the power to hold the weekly meetings without a presence of a project officer.
- In 1992 MMF made a major switch in emphasis from external sanctions on defaulters to getting mutuality principles understood and peer group pressure operational.

5.5.10 Implementation of the MMF credit scheme achieved an impressive record. Altogether 2,673 members in 561 groups were trained during the five years to April 1995, making an average of 4.8 members per group. This was well above the phase 1 target of 2,000. In fact the project concept was so popular that the scheme was over-subscribed within its first year, more than 2,000 groups registering^[23]. The initial demand, as well as an anxiety to show results to the donor that partly compromised the quality of screening, shows up clearly in the pattern of training: 180 groups were trained in 1990/91, only 208 in the next three years combined, then another 173 in the final year.

5.5.11 A total of 2,676 loans were approved during the period, including repeat loans. Their total value was MK0.84 million (worth approx. US\$55,000 in early 1995) and the average loan thus MK314 (US\$21). The pace of lending shows a roughly similar pattern to the training with an initial burst followed by two slow years and then a steep escalation with 44 per cent of loans and 58 per cent of the total loan amount being disbursed in the final year 1994/95. The average loan size ranged between MK190-280 over the first four years and rose above MK400 in the final year as the currency depreciated sharply. However, in dollar terms the average value declined steadily and in the final year was worth less than half its first year equivalent (US\$47 to US\$100).

23. The number registered to end 1994 is given as 3,354.

5.5.12 Women made up 511 of the 561 groups, 91 per cent of members trained and 94 per cent of the total loan amount. Only in the first year did a significant number of male groups register, accounting for 27 per cent of all groups in 1990/91 when their average loan size was also rather higher than for women's groups (MK333 to MK251). No male groups were trained after 1991/92. The male groups returned a high rate of default and many failed to plough back their income into household needs.

5.5.13 The credit scheme achieved an overall repayment rate of 85 per cent over the five year period. There was a marked improvement over time, from a poor 52 per cent in the first year to a remarkable 99 per cent in the final year.

5.5.14 The MMF's saving instruments all achieved expansion over the period but particularly in the final year when the total amount nearly tripled. The breakdown of savings types in 1994/95 was 46 per cent in the group fund, 24 per cent in the emergency fund, 28 per cent in personal savings and 3 per cent in the special account. The 1994/95 total of MK76,000 was equivalent to 16 per cent of total lending in that year.

5.5.15 A number of issues and problems were identified during the course of implementation:

- Geographical dispersion: DDCs rather than the MMF decided the project areas to be covered within the district and emphasised a broad spread, raising the cost of scheme services. Some selected areas lacked markets or transport.
- Member selection: insufficient involvement of group leaders in selecting other members allowed the entry of less committed borrowers, especially in the male groups, since project staff doing the selection were strangers. The addition of business experience as a criterion of eligibility tended to exclude the poorest lacking adequate off-farm earning possibilities, a deviation from the scheme's intended targeting.
- Staff performance: most field staff were at the start inappropriately trained, none having any prior experience of rural credit administration. This led to some ineffectual screening of applicants and poor technical and financial project appraisals. But frequent contact between field staff and borrowers built up confidence. The lack of performance-related pay and group rather than individual accountability for the motorcycles lessened the motivation of field staff.
- Transaction costs: mobilisation efforts, screening, group training, compulsory weekly meetings and weekly repayments proved costly in staff time, but helped to build group discipline and achieve high repayment rates. Much lower population density than in Bangladesh made for higher transaction costs.
- Client ownership: the centres functioned primarily for the administrative benefit of MMF project officers through the compulsory weekly meetings. Groups became subordinated to centres. In the early stages many clients saw the scheme as a government poverty alleviation handout.
- Employment creation: 85 per cent of clients were already self-employed before joining, while only 5 per cent employed paid workers.

- Group savings: the savings instruments failed to achieve their potential and were relatively unattractive to members because interest was not fully passed on, savings could be used as collateral for other defaulters and there was no confidentiality.
- Policy and accountability: because most trustees were senior civil servants, membership of the Board changed frequently and its proceedings lacked continuity.

5.5.16 The World Bank evaluation attempts little in the way of financial analysis. It is apparent from the audited accounts, however, that the MMF was still far from achieving financial self-sufficiency by the end of FY 1993/94, its fourth year of operations (see tables 9-12). Expenditure under the Technical Assistance Fund, a parallel trust fund that accounted for all operational expenses, exceeded loans granted by a factor of 5-10 times and staff salary costs alone by more than double. Such a disproportion is scarcely surprising for a new scheme aimed at the very poor and equally for what was designed as a small pilot experiment. Much of the Technical Assistance Fund expenditure can be classified as developmental and included, for example, grant-funded staff training in 1993/94.

5.5.17 The ratio of both client training costs and travelling and vehicle expenses to loans granted nevertheless remained high. The chief problem in respect of the first was the unavoidably high cost of investment in human capital to entrench the group borrowing culture amongst a sufficient critical mass of rural people in the target areas to render it near to self-reproducing. In respect of the second, the close field contact between project officers and clients proved essential to establish the Mudzi centres but at much higher transport costs - the use of bicycles was discarded early on as simply impracticable given the terrain and distances to be covered.

5.5.18 Since the pilot Malawian districts are amongst the most densely populated in Africa, the MMF experience suggests that replication in other eastern and southern African rural areas will inevitably require long term subsidy of the transport and training costs of the field operation if the very poor and especially the rural women are to be served effectively by microcredit schemes. It also suggests that simple transplantation of Grameen Bank and Bangladesh practices to rural African environments need careful planning and costing at the design stage in order to give both pilot programmes and full-scale microcredit schemes a realistic chance of achieving their aims.

5.5.19 It must be emphasised that the Mudzi scheme did achieve notable success in realising its internal objectives: a large number of client groups and centres were viably established and the repayment rate reached a highly sustainable level. There is evidence too that centres were becoming more self-reliant and reducing the need for close supervision and technical assistance.

5.5.20 According to the 1995 World Bank evaluation^[24]:

MMF has been obliged during the last four years to come to terms with the classic structural difficulties of providing cost-effective, sustainable financial services to poor rural clients. Essentially, [such an] agency... is faced with high overheads and high risks of default because its customers require only relatively small loans; may be dispersed over relatively large areas which are difficult to reach; may have few technical or managerial skills; operate in a poorly integrated local economy; and have no collateral.

24. Jones, Nyanda & Chirwa 1995, p.54.

It observes further that 'it should be borne in mind that there are probably absolute limits to the commercial viability of schemes such as the MMF'. Within these limitations, the evaluation turned in a generally positive report and evidence of a commendable performance and adaptation record.

5.5.21 At the same time it must be borne in mind that as befits a pilot scheme the scale of MMF operations was tiny. Lending to the value of MK0.84 million spread over five years hardly registered on the macro scale in terms of poverty alleviation and even at the district level would have made a marginal impact. The key result is that small resources did succeed in making a significant difference to the livelihood and household economies of a sizeable group of poor rural people, and in a sustainable manner.

5.5.22 At the end of the five-year first phase the MMF was incorporated in August 1995 as one of the two divisions of the newly established Malawi Rural Finance Company (MRFC), the other being the Small Agricultural Credit Agency from the Ministry of Agriculture, for expansion and replication on a national scale as the Mudzi Window. The budget for the microcredit loan scheme was set at MK7-8 million for 1995/96. A new type of credit was also offered under the Mudzi Window in the form of seasonal agricultural loans without upfront collateral, the Mudzi Tikolore loan scheme. The organisation and terms of the Mudzi Window were similar to the MMF pilot scheme apart from some on the whole minor differences and the expectation that other organisations, especially NGOs, would take the lead in forming groups and Mudzi Centres.

6. POSSIBLE FORMS OF FOLLOW-UP INTERVENTION

6.1 The sheer magnitude of conditions of poverty in Malawi make it questionable whether it can be realistic to restrict SDA targeting to structural adjustment impacts and short timeframes. The great majority of citizens living in or on the edge of absolute poverty are highly exposed to major changes in economic policy and macroeconomic stability as well as, amongst the dominant rural population, to climatic and environmental fluctuations. This is not to argue that specific adjustment impacts cannot be specified and target groups identified, but it is probable that SDA interventions can only be effectively designed if they address from the outset both structural and conjunctural dimensions of poverty amongst the target groups. The actual implementation of the SDA pilot programme during the first half of the 1990s proceeded more or less within such a general poverty alleviation framework.

6.2 Structural adjustment is still incomplete in Malawi despite having been in progress for more than 15 years. The principal reason is that previous programmes were never more than limited and partial. The transition to multiparty democracy in 1993/94 was accompanied by serious economic volatility and damagingly high inflation which has placed early priority through 1995-96 on short-term macroeconomic stabilisation. Alongside and beyond the stabilisation measures four broad adjustment impacts on the poor can be identified:

- Civil service retrenchments: the Government's intention to reduce the size of the civil service was one factor in the public sector labour conflict during 1995. A census of the civil service was taken to establish actual numbers and 'ghost' employment. The scale of possible downsizing was unresolved as at March 1996.
- Privatisation: both the commercialisation of state enterprises and the outright privatisation of some has been part of the Government's agenda and preparatory steps were being taken during 1995. The consequences are likely to be some shedding of jobs but also the indirect creation of formal sector employment through efficiency gains, the lifting of restrictive monopolies and a wider range of services, but the benefits may well be slower in arriving than the initial adverse impacts.
- Smallholder agricultural production: the collapse of the strong party supervision of the smallholder agricultural cycle contributed to a shrinkage in areas cultivated when combined with steep rises in input prices and insecure marketing infrastructure. However, Government projections of crop outputs for 1995/96 tend to suggest a strong recovery. The shift towards a freer market-based rural economy and the ending of the structural bias in former state policy favouring estate farming may both have complex effects, improving returns to small producers, especially cash cropping, but accelerating internal differentiation within rural farming society.
- Social infrastructure: the change in Government priorities has generated large-scale demand for new physical infrastructure, especially for rural schools and community water supplies.

6.3 But notwithstanding the obvious recent hardships brought about by short term factors such as drought, inflation and the removal of input subsidies, it is conditions of structural poverty that predominate:

- Poverty is widespread, affecting the majority of the population in both rural and urban areas;
- The incidence of poverty is severe amongst most of the affected population, worsening survival chances, vulnerability to disease and exposure to social insecurity;
- The structural causes of poverty are multiple and mutually reinforcing, raising high barriers to poverty reduction initiatives;
- Poverty is concentrated in the rural areas and affects all regions of the country; however, rapid urbanisation is expanding the pool of urban poverty very fast;
- AIDS is making a major impact and will significantly alter the social structure in poor communities, increasing the number of dependents, especially orphaned children;
- The formal commercial sector is small and cannot generate large resources for poverty alleviation either by direct employment creation or indirectly through taxation, and there has been little recent inward investment;
- The domestic economic environment has deteriorated over the past 15 years and sharply over the last two years, with the severest impact being on low-paid wage-earners in the formal sector and the rural poor;
- The ending of the 30-year period of one-party rule has weakened institutional capacities but strengthened popular participation in development initiatives.

6.4 Within this general poverty framework several general past and future adjustment stresses can be identified:

- In the most recent phase of structural adjustment, adverse impacts on the poor have arisen mainly from economic instability rather than adjustment measures and have been severe in both urban and rural contexts, including inflation and higher consumer prices; and higher costs of rural inputs, leading to a reduction in smallholder planting and output.
- There has probably been a reverse movement from towns to rural areas of relatives and dependents seeing better survival chances in rural communities, but it has only partly offset the long term urbanisation process.
- If civil service and parastatal retrenchments proceed, it is difficult to see where formal sector employment creation will come from in the short term to absorb the conjunctural unemployment, let alone the inexorable structural increase in the unemployed and underemployed labour-force. Some retrenched will be non-poor, however, and have the financial resources and skills to find private sector alternatives in employment or self-employment.

6.5 In this very difficult poverty alleviation context, there is clearly a degree of urgency in boosting very low rural incomes and establishing essential social facilities through direct interventions such as labour-intensive public works schemes, building social infrastructure, food-for-work programmes and income-generating activities. But additionally the stimulation of self-sustained growth in smallholder farming and in micro and small enterprises could provide a major impetus to poverty alleviation through labour intensive employment generation, a more equitable spread of benefits and improved access for women. The reversal of the longstanding policy and regulatory bias in favour of large enterprises and estate farming could of itself have a significant impact by facilitating a broadening the entrepreneurial base.

6.6 Both SDA and poverty alleviation programming is currently in a state of flux and of transition:

- The earlier social development programmes of the late 1980s and early 1990s all slowed down or ground to a halt during the final phase of the one-party regime. Limited political recognition of poverty issues was a major factor. So too was the starvation of donor funding. SEDOM and the EU microprojects scheme collapsed. The SDA and UNDP pilot programmes were slow in implementation. Both they and the MMF were implemented on a pilot scale and could achieve marginal poverty impact on the macro level. Nevertheless, a considerable bank of policy and practical experience was accumulated.
- Since the change of government there has been strong political backing for both poverty alleviation and poverty reduction initiatives. Poverty alleviation is the centrepiece of the present government's development strategy, expressed principally through the Poverty Alleviation Programme.
- Low capacity in social security delivery structures will severely limit the potential for conventional welfare programmes, whether short or long term. But public works and food-for-work employment programmes can have a rapid impact, especially by meeting the basic needs of poor households and communities in the rural areas. Both are now being activated under the management of MASAF.
- Grant-financed microprojects programmes are now gearing up under both MASAF and the EU. MASAF is likely to achieve a major and rapid impact through 1996 and 1997 both with the large resources committed by the World Bank, with the thorough formulation and consultation on the programme design and with the direct presidential backing. The impact will be mainly in the rural areas and in the form of social infrastructure constructed through community-based projects.
- Credit initiatives are in a state of some confusion and as yet do not constitute an integrated approach. The principal initiative is the new revolving credit fund, SMEDF, which is targeted at both micro and small enterprises. Its subsidised interest rates have attracted massive demand for what are still modest capital resources, which are already oversubscribed. Capacity to administer the loans once granted and to secure recoveries remains problematic. The UNDP has suspended its pilot microcredit scheme as a direct consequence. No comprehensive programme design or coordination with other ministries or agencies has been put in place. The major risk is that the disbursements become a de facto entitlement programme, with one-time handouts and few loan recoveries.

- The MMF, on the other hand, has been incorporated as a functioning operation into the MRFC with a view to wider replication nationwide, retaining a microcredit lifeline for very poor rural women.

6.7 In the present policy and institutional context there appear to be two possible areas of ADB intervention:

- The MASAF microprojects programme is not one of them. It is adequately funded by its sole donor, which also seems to have imposed conditionality excluding other funders and credit-based interventions. MASAF's main programme is exclusively grant-funded investments in community social assets with no recoveries anticipated; and its supplementary programmes in public works and for-for-work are Government initiatives to increase short-term incomes and employment for hard-pressed rural communities.
- Rural microcredit may offer the strongest option. The transfer of the MMF for expansion under the MRFC secures a scheme with a reasonable track record as well as the hard-won experience of its staff. Several of the SDA microcredit projects also offer significant and on the whole positive experience of village-based group lending. The MRFC operates as an autonomous, professionally managed parastatal agency with scope for expansion. The 'Mudzi Window' offers an opening for direct targeted impact on a large stratum of the rural poor, especially women who form the backbone of the poor smallholder household economy.
- The Mudzi Window is nevertheless unlikely to contribute much to new employment creation as it will finance mainly very small-scale trading activities already under way - its main impact would be on rural household incomes. A second potential area of intervention is in small-scale enterprise credit. This area is more challenging because of the higher capital cost and the often high rate of failure of new business startups at the entry level to the formal sector. It also tends to be rather more urban and male biased. On the other hand, it bears much stronger potential for job creation and for broadening the indigenous entrepreneurial base. It offers some scope for SDA self-employment alternatives for retrenched made redundant under state or private sector downsizing. There are also several well established NGO intermediaries such as NABW and FINCA targeting women.

6.8 There is, however, no easy path towards a soundly established SSE programme. In the first place there is little established experience to go on, since SEDOM has proved ineffective and little public or private sector funding has been committed through alternative channels, commercial or otherwise. Second, the recent launch of SMEDF complicates the issue since it is clearly geared to SSE as well as microenterprise financing. SMEDF was launched with little institutional planning and while it appears to be succeeding in its aim of rapid disbursement, it risks a high default rate and a longer struggle to make the fund revolve. Other credit structures and expertise are seriously lacking in both state and NGO sectors.

6.9 If DEMATT becomes the principal credit delivery agency as appears to be envisaged, it will require major upgrading and further technical assistance. An effective SSE revolving fund cannot be created overnight and will probably benefit from outside inputs from financial and specialist institutions. Here technical and specialised agencies, including ADB, could assist.

6.10 MASAF offers a possible alternative as a programme delivery vehicle, although precluded in the immediate future by its existing commitments. The MASAF community projects programme

is medium term in scope and once the disbursements scale down it will either follow suit or have spare and competent institutional capacity which could be applied to other programmes. A joint scheme with DEMATT might offer a balanced combination of management and business training strengths. Whether separately or in combination, the involvement of agencies with an established track record would be preferable to establishing a new agency. Other than these two, no other state agency or NGO has at present a national implementation capacity.

6.11 Whether SMEDF itself offers the most appropriate financial instrument can only be assessed on the basis of further experience. It has been launched as an Apex Financing Organisation with a minimum of bureaucracy and began with the stated intention of wholesaling its funds through both the parastatal DEMATT and the NGOs NABW and WWB. On the other hand, its imposition of heavily subsidised interest rates at the retail end of the operation has ignored field and survey findings that availability is more important to serious borrowers than cheapness and has compromised other intermediaries which have to operate at or near to commercial terms. If cheap funds are interpreted by beneficiaries as tantamount to cash handouts, the revolving fund is likely to have severely reduced resources for lending within a couple of years, since the invested capital component will suffice little further than subsidising the interest rate.

6.12 The principal of wholesaling concessional funding through various kinds of financial intermediary is nonetheless soundly based and could be extended. One possibility would be to constitute SMEDF as an independent foundation or Apex Financing Organisation for NGOs engaged in poverty-focussed lending programmes^[26], which might offer a more durable long term institutional framework geared to poverty reduction strategies. On a small scale the SDA Social Programme Support Fund went some way towards development the concept in practical terms by financing a diverse mixture of grant- and credit-based projects run mainly by NGOs.

6.13 The foundation could include the following features:

- Its constitution would set poverty reduction as the principal goal and temporary assistance to the poor and vulnerable groups as a subsidiary goal if consistent with other objectives, covering both structural adjustment stresses and other short-term adverse impacts such as drought.
- It would only fund projects at the small and micro levels, in other words excluding relief and welfare assistance and excluding also public works except where contracted by local communities. Training would be funded in direct support of projects.
- It would provide funds as credit for small and microenterprises and as grants for community and income-generating projects, disbursed exclusively through partner organisations.
- Its governance would be exercised through a partnership of stakeholders. *Ex officio* representation on the Board would come from government, parastatals, financial institutions, NGOs, local civic organisations and individuals with expertise or commitment.

26. Proposed in a UNDP-financed consultancy to the Zimbabwean Social Development Fund (M.F. Kader, *Report on Redesigning of the Micro-lending Programme of the Social Development Fund (SDF), Zimbabwe, 1995*).

- Its staffing would be small, of strong professional calibre and accountable directly to the Board and its executive committee.

6.14 It should be emphasised that the concept of an AFO rests on a sharp distinction between funding and implementing functions: it would not be appropriate, for example, to assign such a role to a frontline agency such as MASAF. The mandate of an AFO can also be flexibly defined to reflect the desired mixes of policy priorities, which in the Malawian context might cover financing for a broad range of organisations, including community based projects as well as microcredit schemes and, as does SMEDF, parastatals as well as NGOs.

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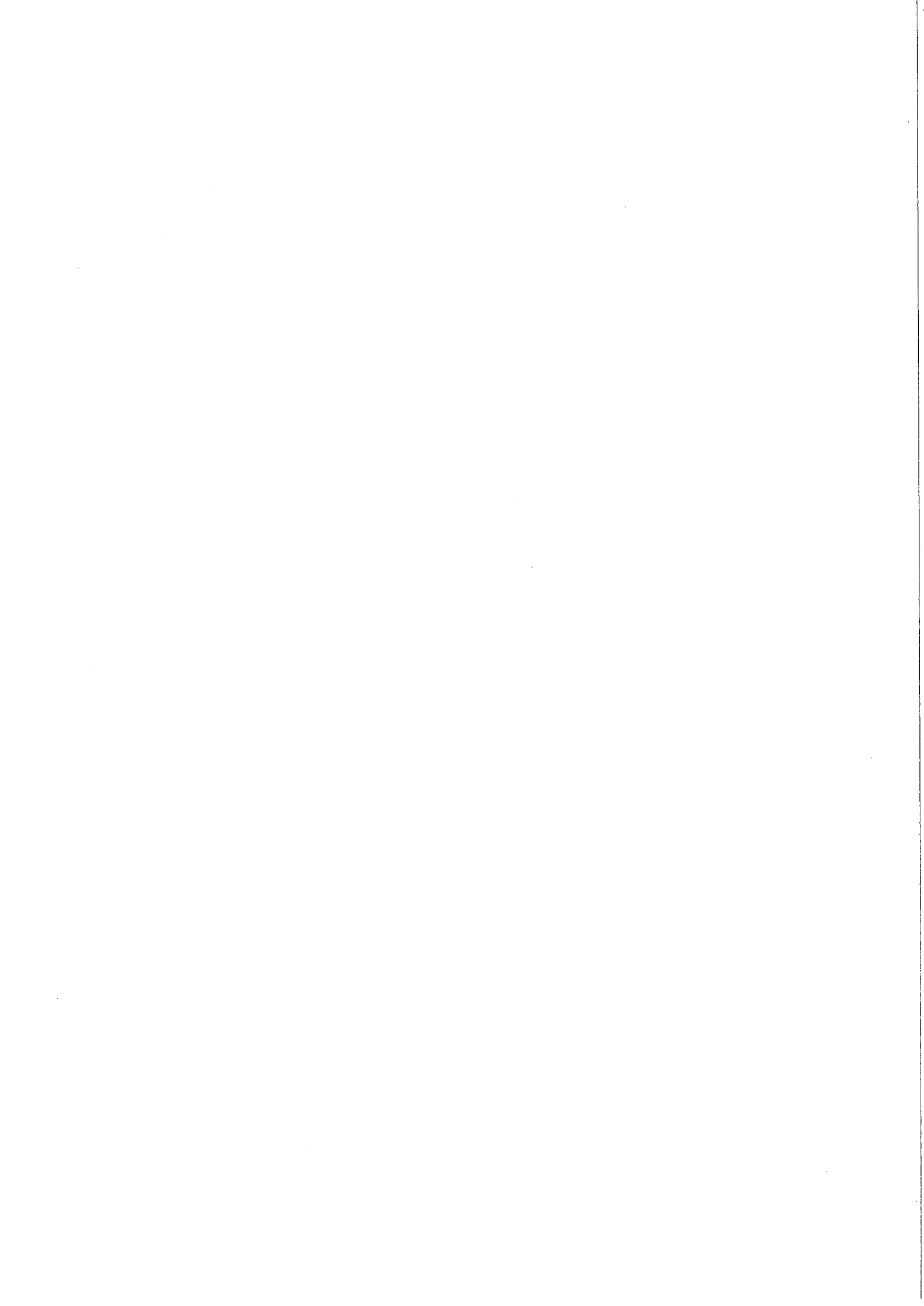
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TABLES

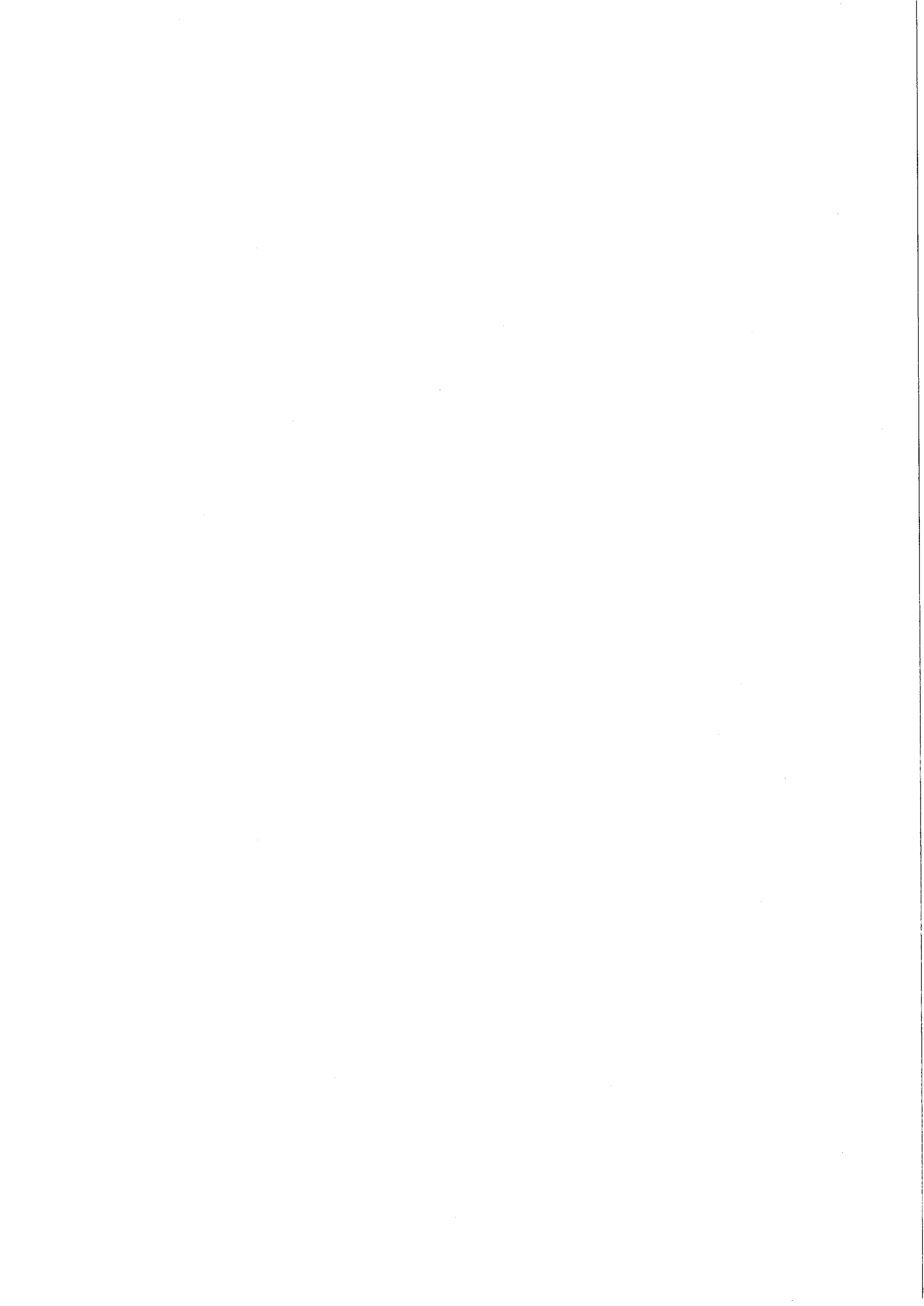


Table 1. Sources of Household Income in Urban Areas

Source of Income	Per Cent of Income
Formal Employment	59.9
Informal Employment	30.2
Rent	4.5
Remittances	2.1
Crop Sales	1.2
Others	2.1
Total	100

Source: Msukwa, Bamusi & Konyani 1994.

Table 2. Composition of Urban Household Budgets

Expenditure Item	Share of Budgets (%)
Food	56
Fuel	9
Rent/ Lease	6
Clothing	4
Soap	4
Transfers	4
Water	2
Transport	2
Education and Health	2
Others	11
Total	100

Source: Roe 1992

Table 3. School Examination Pass and Transition Rates, 1989-1993

Year	No. Entered Exams	No. Passed Std 8 Exams	Pass Rate (Per Cent)	Formal Form 1 Places	Transition Rate (Per Cent)
1989	110,987	73,179	65.9	7,046	9.6
1990	115,737	78,149	67.5	6,330	8.1
1991	99,161	92,613	93.4	7,410	8.0
1992	96,434	60,418	62.7	7,550	12.5
1993	97,600	65,535	67.1	7,550	11.5

Source: Ministry of Education 1993

Table 4. SDA Microproject and Microcredit Schemes

Organisation	Area	Project Activity
Water Department, Ministry of Works	Nkhota-kota, Mzuzu	Community water points
Municipality of Zomba	Zomba	Homecraft and under 5 clinic shelters
Africaire	Chiradzulu	Community development project
Cheshire Homes	Blantyre	Residential rehabilitation, handicapped children
Christian Service Committee	Dedza	Training extension multipliers
Ekwendeni Mission	Ekwendeni	Food/health/fertiliser subsidies
Evangelical Alliance for Relief & Development		Afforestation
Livingstonia Mission	Khondowe	Community Development Project/demonstration farm/microcredit
Malawi Red Cross Society	Thuchila	Community-based health care
Malawi Mission for Evangelical Training & Development	Mchinji	Training and craftsmanship project (Dwamu & Likuni development and learning centres)
Women's World Banking	Balaka	Limemakers Association/Tiyende Women Group (microcredit)
	Chapanga	Malawi Association of Spices & Herbs
National Association of Business Women	Karonga, Liwonde	Credit funds and training
Foundation for International Community Assistance	Blantyre	Women's village banking project
Ministry of Women & Children Affairs & Community Services	Mulanje	Chikondano Community Development Small-scale Business Group (microcredit)
Ministry of Youth, Sports & Culture	Mulanje	Youth and young adult microcredit
Ministry of Youth, Sports & Culture	Thyolo	Youth and young adult microcredit

Source: SDA PIU files.

Table 5. Administrative Structure of DEMATT's New Credit Department, October 1995

Post	Number	Job description
Loans manager (departmental head)	1	a) Developing, managing, implementing and monitoring the functions and strategies of DEMATT's credit dept. b) Ensuring financial sustainability. c) Achieving broad outreach to micro and small entrepreneurs.
Senior credit officers	3	a) Designing, implementing, monitoring and managing the credit programmes. b) Ensuring efficient service delivery.
Credit officers	6	a) Appraising business plans and loan applications. b) Conducting interviews and on-site inspections. c) Documenting and administering loan contracts.

Table 6. Malawi Mudzi Fund: Credit Groups Trained, April 1990-March 1995

Year	Groups Trained		
	Groups	Members	% Women
1990/91	180	900	73
1991/92	34	170	94
1992/93	89	337	100
1993/94	85	419	100
1994/95	173	847	100
Total	561	2673	91

Source: Kumwenda 1996, table 1.

Table 7. Malawi Mudzi Fund: Lending Operations, April 1990-March 1995

Year	Loans Disbursed			Average size		Loans Collected	
	No.	Amount MK 000	% Women	MK	US\$	MK 000	Repayment rate %
1990/91	478	131	67	273	100	77	52
1991/92	168	33	89	197	70	25	65
1992/93	223	49	100	222	62	49	89
1993/94	621	143	100	231	52	156	92
1994/95	1186	484	100	408	47	316	99
Total	2676	841	94	314		623	85

Source: Kumwenda 1996, tables 2-3.

Table 8. Malawi Mudzi Fund: Savings Schemes, April 1990-March 1995

Year/MK	Group Fund	Personal	Emergency	Special	Total
1990/91	7455	1259	*	*	8714
1991/92	10509	2189	330	207	13235
1992/93	4250	4379	1948	231	10808
1993/94	11141	9543	5234	654	26572
1994/95	34782	21035	18012	2086	75915
Total	68137	38405	25524	3178	135244

* Incomplete.

Source: Kumwenda 1996. table 4.

Table 9. Malawi Mudzi Fund: Trust Fund Accounts for the Year to 31 March 1990-94

MK	1989/90	1990/91	1991/92	1992/93	1993/94
Revolving Credit Fund:					
- Brought forward		-	500000	515000	530000
- Loan		500000	-	-	-
- Interest		-	15000	15000	15000
End of year	0	500000	515000	530000	545000
TAF:					
Brought forward	-	66816	204388	204574	147233
- Surplus/deficit	66816	137572	186	-57341	199023
End of year	66816	204388	204574	147233	346256
EDPCF:					
- Brought forward				-	402000
- Surplus/deficit				-	-
- Staff training				-	-212670
- Grant				402000	-
End of year	0	0	0	402000	189330
Income/expenditure:					
- Brought forward	-	66816	704388	719574	1079233
- Surplus/deficit	66816	137572	186	-57341	199023
- Staff training	-	-	-	-	-212670
- EDPCF Grant	-	-	-	402000	-
- Loan	-	500000	-	-	-
- Interest				15000	15000
End of year	66816	704388	704574	1079233	1080586

TAF = Technical Assistance Fund.

EDPCF= Enterprise Development Project Counterpart Funds.

Source: MMF balance sheets, reproduced in Jones, Nyanda & Chirwa 1995, Attachment 2.

Table 10. Malawi Mudzi Fund: Balance Sheet at 31 March 1990-1994

MK	1989/90	1990/91	1991/92	1992/93	1993/94
Trust funds:					
- Revolving Credit	-	500000	515000	530000	545000
- Technical Assistance	66816	204388	204574	147233	346256
- Enterprise Development	-	-	-	402000	189330
Sub-total	66816	704388	719574	1079233	1080586
Fixed assets:					
- Office furniture/equipment	61150	64566	98917	90827	76528
- Motor vehicles	87457	87878	56737	42299	5590
Sub-total	148607	152444	155654	133126	82118
Current assets:					
- Loans granted	-	97880	77800	112800	163148
- Provision for bad debts	-	-	-	9189	88506
- Debtors	7950	16528	28874	46316	64084
- Cash and bank	3293	531943	531162	925363	1025135
Sub-total	11243	646351	637806	1075290	1163861
Current liabilities:					
- Creditors	68023	94407	83090	129183	165393
- Overdrafts	25011	-	5826	-	-
Sub-total	93034	94407	88916	129183	165393
Net current assets	-81791	551944	548920	946107	998468
Balance	66816	704388	704574	1079233	1080586

* Interest on the Credit Fund was included in the 1993/94 accounts for the first time and has been added into the two previous years for consistency.

Source: MMF balance sheets, reproduced in Nyanda & Chirwa 1995, Attachment 2.

Table 11. Malawi Mudzi Fund: Source and Application of Funds for the Year to 31 March 1990-1994

MK	1989/90	1990/91	1991/92	1992/93	1993/94
Source of funds:					
- Surplus/deficit on TAF	66816	137572	186	-57341	199023
- Exchange gain adjustment	-	4429	-	-	-
- Depreciation	5700	39455	44966	51396	50890
- Provision for bad loans	-	-	9189	-	79317
- Sale of fixed assets	-	-	-	-	1930
- Credit Fund interest*	-	-	15000	15000	15000
- Repayments of loans	-	32655	43980	46054	99491
- USAID grant	-	-	-	402000	-
- Revolving fund grant	-	500000	-	-	-
Total funds generated	72516	714111	113321	457109	445751
Application of funds:					
- Training expenses (EDPCF)	-	-	-	-	212670
- Purchase of fixed assets	154307	47721	48176	28867	1912
- Loans granted	-	130535	33089	71866	149839
Total funds applied	154307	178256	81265	100733	364421
Net funds generated	-81791	535855	32056	356376	81330
Movement in working capital:					
- Debtors	7950	8578	12346	17442	17768
- Creditors*	-68023	-26384	26317	-61093	-36210
- Net liquid funds	-21718	553661	-6607	400027	99772

* Interest on the Credit Fund was included in the 1993/94 accounts for the first time and has been added into the two previous years for consistency.

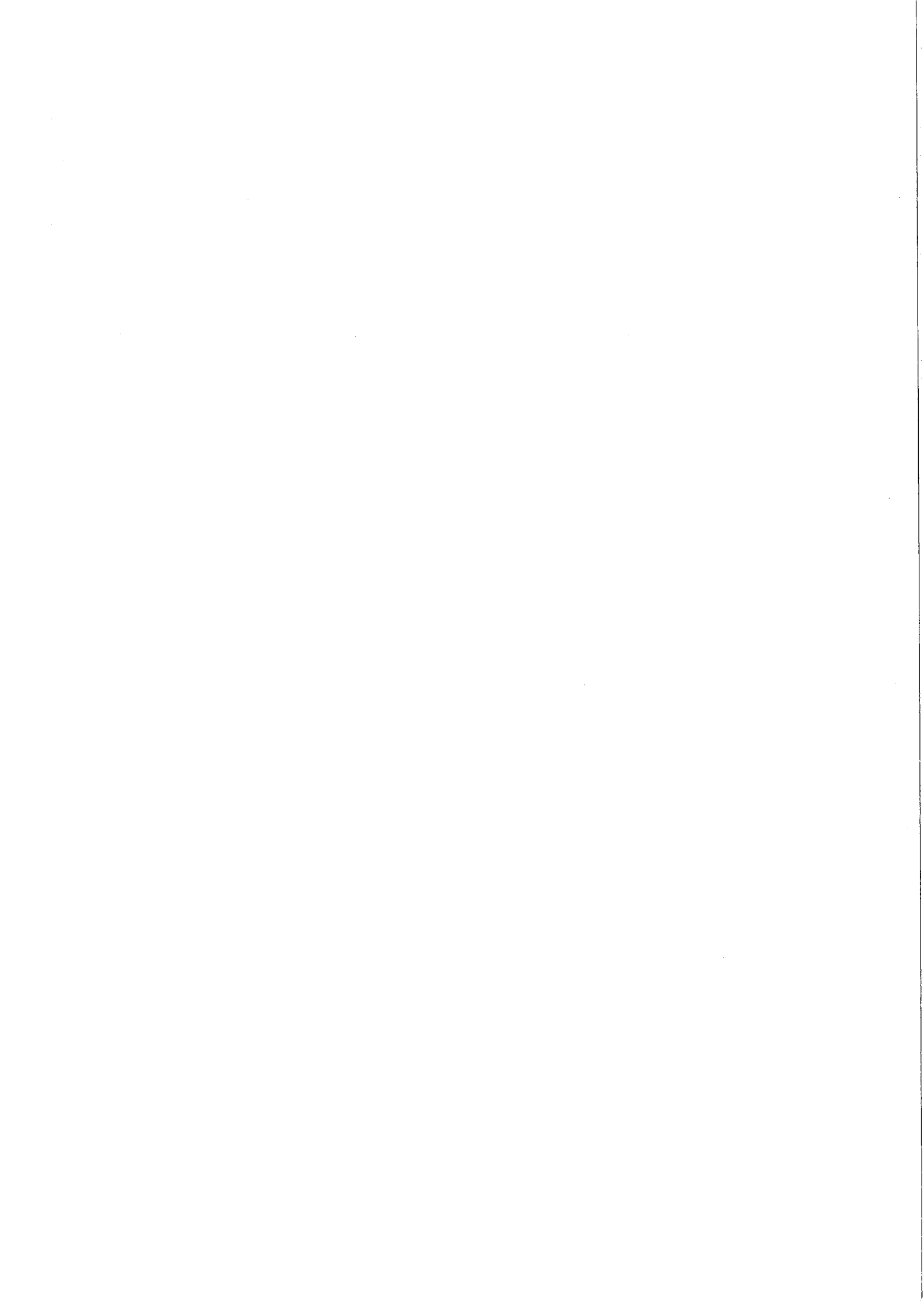
Source: MMF balance sheets, reproduced in Nyanda & Chirwa 1995, Attachment 2.

Table 12. MMF Technical Assistance Trust Fund: Income and Expenditure Account for the Year to 31 March 1990-1994

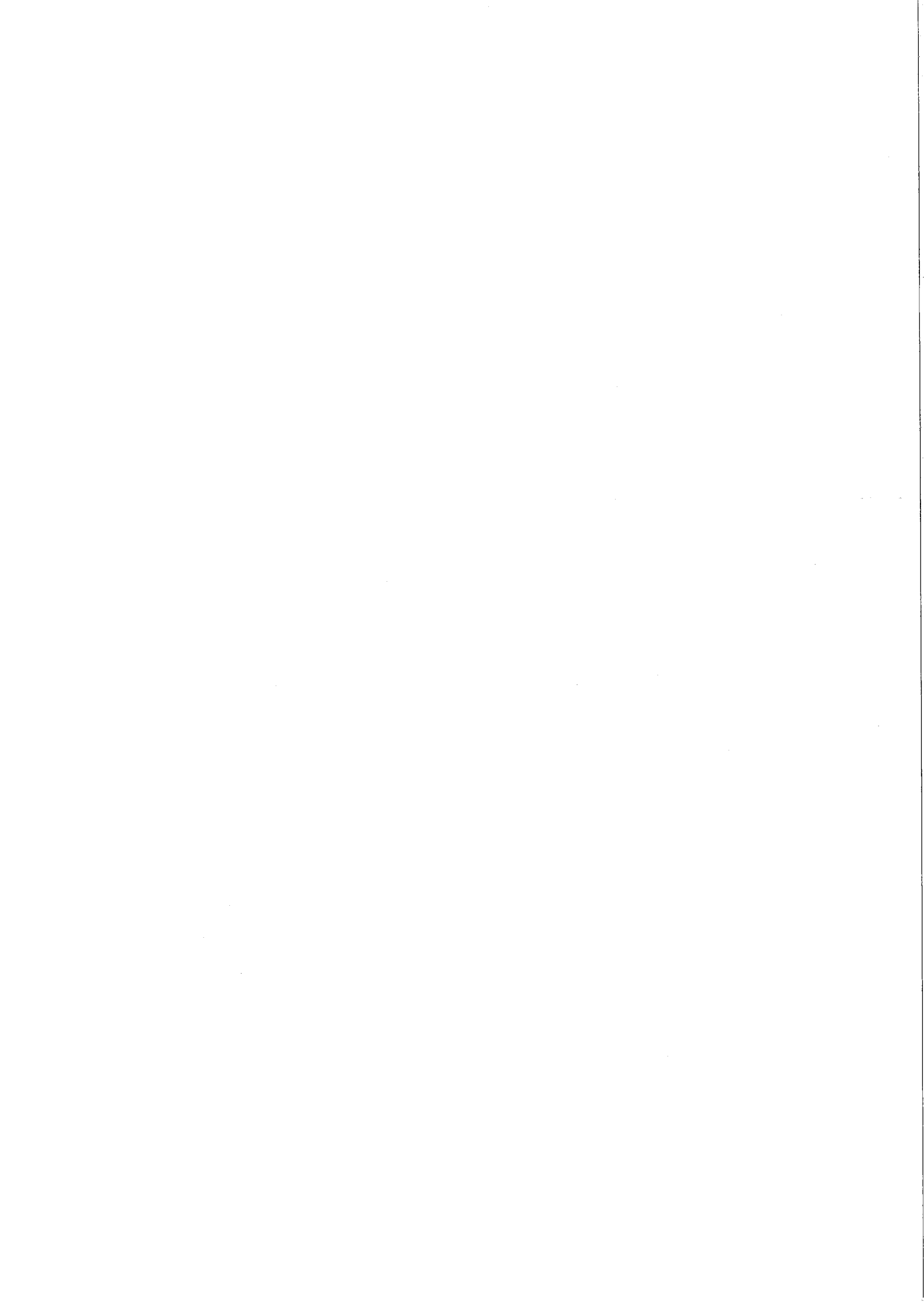
	1989/90	1990/91	1991/92	1992/93	1993/94
Current expenditure:					
- Staff costs	25911	132070	129894	247312	386725
- Client training	16491	29533	48581	66437	62723
- Staff training	37065	-	-	-	236668
- Professional assistance	48230	260	-	16800	-
- Travelling & transport	3949	33803	34774	73496	70529
- Vehicle expenses	2210	53696	45335	51584	80669
- Postage, stationery, phone	12163	29396	46331	39485	57269
- Other	65390	147235	187650	219385	296643
Sub-total	211409	425983	492565	714499	1191226
Capital expenditure	154307	43292	48176	28867	19028
Total expenditure	365716	469275	540741	743366	1210254
Income:					
- Grants	365716	458691	448883	599888	899022
- Interest and other income	-	10584	91858	143443	311232
Sub-total	365716	469275	540741	743366	1210254

Note: The composite income and expenditure table given in the source, used here, differs from the included balance sheet statements in respect of income and in 1993/94 in respect of staff training.

Source: Jones, Nyanda & Chirwa 1995, Attachments 1 & 2.



ANNEXES



ANNEX 1. MASAF'S MANAGEMENT INFORMATION SYSTEM

1.1 MIS Objectives and Functions

1.1.1 MASAF's Management Information Systems Office (MISO) complements the Project Manager's office and is responsible for the smooth running of the Management Unit's information network and the zone systems to ensure timely collection of data, accuracy of the resultant information, usability and easy access of information and records. In addition, the MISO is responsible for enhancing the computer skills of MASAF employees and for first line support for trouble-shooting computer malfunctions.

1.1.2 The objectives of the MISO Office are:

- To introduce, design and manage all management information systems (MIS) requirements of MASAF;
- To identify computer training needs as well as designing and implementing training modules for all the employees of MASAF;
- To ensure that correct, appropriate and up to date information is available at MASAF management unit and zone offices;
- To facilitate timely production of management reports and any ad-hoc reports that may be needed from time to time.

1.2 Introduction, Design and Management

1.2.1 Phase One: Procurement of Hardware, Off-the-shelf Software and Accessories

1.2.1.1 Information technology and allied products are being introduced into MASAF in phases. Procurement of computer hardware and accessories has already commenced. Each zone office will initially have one computer system and one printer. An Ethernet Network will be installed at the MASAF Management Unit. Each department office will have a computer system and printer for departmental processing of information. Scarce resources such as scanners and laser printer will be configured as network devices to optimise operational costs.

1.2.1.2 The Network at the MU has been configured with one fax/modem and six client workstations connected to the server. Each zone system has been configured with fax/modem gateways to facilitate the inter-change of data and information through the public telephone network between MU and zone offices as well as between any zone office and another zone office.

1.2.1.3 Fax numbers will be pre-defined in order to minimise errors that may arise during dialling and redialling save in cases where ad-hoc destinations are desirable. The automatic dialling facility will reduce the overheads associated with manual dialling.

1.2.1.4 In order to facilitate smooth operation of the overall inter-connected network and prevent 'misdirecting' of information, common groups will be defined as follows:

Group	Members
1	All members of the Project Steering Committee (PSC)
2	MASAF Project Manager
3	MASAF Project Manager and all Heads of Departments at MU
4	All heads of departments at MU
5	All zone officers
6	Project Manager, Heads of Departments at MU and all Zone Officers
7	Individual Heads of Departments

1.2.1.5 In order to minimise the time required to develop tailor made information systems, Microsoft Office Professional, an integrated package, and Microsoft Project have been identified as suitable software packages.

1.2.2 *Phase Two: Design of Mission Specific Management Information Systems*

1.2.2.1 Once the first MIS phase has been completed, (i.e equipment has been installed at zone and MU offices) and once the computerised project monitoring systems has been accepted, a comprehensive analysis of complementary MIS systems will be conducted. However, this phase will not necessarily be in sequence to phase one. The envisaged study areas will include but not limited to:

System	Components
Accounting Systems	Expenditure, budgeting and control Fleet management Payroll Fixed assets register
Field Operations System	Community project proposal form analysis Electronic retrieval and enquiries Zone statistical analysis
Technical Services System	Bills of quantities analysis Price references
Information, Education and Communication (IEC) Campaign	Public awareness evaluation
Administrative System	Personnel records

1.2.2.2 These systems will be implemented on a demand basis subject to availability of resources.

1.2.3 Training Needs Identification

1.2.3.1 The Management Systems Office has identified IT training needs pertinent to the demands of each established office. The level of training will be at three levels: introductory, basic and advanced. The initial areas of training are:

Training	Components
Project evaluation review technique/critical path method (PERT/CPM)	Project networks & task scheduling Forward & backward pass PERT costs Variance reporting
Office systems software	Spreadsheet modelling Document preparation using word processors Database management systems
Fundamentals of data processing systems	Components of computer systems and accessories Operating systems & house keeping routines
Networks and data transfer	Data transmission Electronic addressing Sharing resources

1.2.3.2 The PERT/CPM training module will prepare participants in the use, planning and interpretation of the main computerised project monitoring system. Training in data transmission, electronic addressing and sharing resources on the network will be offered once the network has been installed.

1.2.4 Availability of Correct and Up-to-Date Information

1.2.4.1 Each zone office will be required to transmit data to MU within one week after verification of the completeness and accuracy of the data. The Information Systems Office will validate and verify the accuracy of the data against source documents.

1.2.4.2 Once a project has been approved, transactions pertaining to the project will be stored on-line to facilitate speedy retrieval.

ANNEX 2. TERMS OF REFERENCE

2.1 Terms of Reference For Consultancy Services to Evaluate Social Development Funds in Africa

2.1.1 Background

2.1.1.1 The structural adjustment process in Africa, while creating favourable conditions for growth, has at the same time brought about adverse social and economic consequences on the welfare of the poor and vulnerable groups - at least in the short run. In response to this, a Social Dimensions of Adjustment (SDA) program, co-sponsored by the African Development Bank, UNDP and the World Bank, was launched in 1987 to mitigate the negative effects of adjustment. The Bank Group has also directly assisted regional Member countries (RMCs) in establishing programs and projects aimed at alleviating the social costs of structural adjustment programs on poor and vulnerable groups. The first one of such interventions was in Guinea where social concerns were integrated in the design of the adjustment program through the SDA project component. Over the years, SDA projects have evolved into explicit poverty reduction projects with credit delivery components. Such projects have come to be known as Social Development (or Action) Funds. These initiatives, designed as components of structural adjustment programs, involve providing assistance to the poor¹⁾ in undertaking income generating activities through training, capacity building, and extension of small loans for micro-enterprises. In addition to Guinea, SDF programs have been designed for several other RMCs, including Burundi, Central African Republic, Malawi, Mozambique, Sierra Leone, Zambia and Zimbabwe.

2.1.1.2 It is a well acknowledged fact that a large proportion of the African population today is poor and engaged in micro-entrepreneurship as subsistence or small producers whose major preoccupation is production for subsistence. These micro entrepreneurs operate mainly outside the formal economy and have little or no access to formal lending sources. Moreover, under the current set-up of lending institutions, it is often not cost-effective for formal commercial lenders to extend credit to micro-entrepreneurs because of the high costs and risks involved in administering small loans to usually sparsely placed borrowers.

2.1.1.3 However, in spite of their 'invisibility' in the mainstream formal economy, micro-entrepreneurs have a very important role to play in the economy and in the overall development process. It is estimated that the informal sector accounts for about 60 percent of the urban labour force in low income Africa and contributes, in many countries, as much as 20 percent of GDP. There is, therefore, an urgent need to facilitate the development of this sector of the economy by opening up channels of targeted assistance to micro-enterprises. A credit delivery mechanism, such as SDFs, would constitute one of such channels of assistance to the poor and vulnerable groups engaged in micro-entrepreneurship. SDFs are seen as appropriate instruments for providing the poor and other vulnerable groups access to productive resources to enable them to actively participate in the development process.

2.1.1.4 Although SDFs were initially conceived as a short term instrument for mitigating the negative effects of adjustment measures on the poor and other vulnerable groups, they are now being seen (either in their present form or in a modified way) as financially and socially viable

1. Including other vulnerable groups such as those out of gainful employment as a result of the economic reform process.

models for achieving sustained reductions in poverty within the overall framework of the most effective ways of ameliorating poverty within the overall framework of economic development in Africa. It has also been argued that SDFs could be one of the most effective ways of ameliorating poverty at the grassroots level by empowering the poor and enabling them to participate in meaningful economic activities^[2]. The unanimity about this concept can be seen in the growing prominence of the use of micro-enterprise financing as an integral part of development financing. The newly launched Consultative Group to Assist the Poorest (CGAP), anchored at the World Bank and co-sponsored by ten (10) donors including the Bank, is seen as one such initiative. It is within this framework of intervention that the ADB's own program of assistance to the poor (in the form of micro-enterprise financing) is expected to focus under ADF VII.

2.1.1.5 However, before undertaking an expanded program of intervention, it is important that the experiences of SDFs so far are evaluated and vital lessons incorporated in future intervention schemes. It is within this spirit that in September 1993 in Oslo Norway, the Poverty Working Group of the Special Program of Assistance for Africa (SPA), requested the ADB to undertake the evaluation of SDFs. By September 1994, a methodological framework had already been prepared and was presented to the Poverty Working Group of the SPA. On the basis of this framework, a pilot study will be undertaken to test the methodology. The findings of this pilot study will be finalised and presented to the next Poverty Working Group of the SPA scheduled for 19-21 September 1995 in Addis Ababa, Ethiopia. Following comments of the Working Group and the Bank, a comprehensive evaluation of SDFs will be undertaken

2.1.2 Study Objectives

2.1.2.1 The objective of this pilot phase is to test the methodology of evaluating the SDF program using two selected case studies in two RMCs (Malawi and Zimbabwe). The study will attempt to identify weaknesses and strengths of the SDF programs and propose ways for improving the performance of the programs. This particular study will lead a comprehensive evaluation of the SDFs with a view of improving the understanding of the functioning of the programs and the impact they have had on the intended beneficiaries. Such an understanding would also contribute to improvements in the design and implementation of future SDF (or similar) programs.

2.1.3 Tasks

2.1.3.1 The evaluation study will be undertaken by a team of consultants comprising at least two (2) African (i.e; at least one in each RMC to be studied) and two (2) Norwegian consultants with the relevant experience in the following disciplines and skill mix:

- a) economics,
- b) finance/micro credit
- c) institutional development, including legal aspects,
- d) sociology/anthropology, and
- e) micro enterprise/business administration.

2. For further details, see Deng, L.A., *Poverty Reduction: Lessons and Experiences from Sub-Saharan Africa*, (Abidjan: ADB, 1995).

2.1.3.2 The team leader (or lead consultant) will have the overall responsibility for preparing the document, with relevant input from each consultant. Two countries: Malawi, and Zimbabwe will serve as case studies for the entire study. In each country, actual research will be carried out by at least two consultants, one of which will be an African.

2.1.3.3 This study (assignment) will be under the overall joint supervision of the Chief, Country Economics Division of the Country Programs Department - South Region, and the Chief of the Environment and Social Policy Division of the Central Projects Department. Specific duties of the consultants will include, but not limited to, the following^[3]:

- a) reviewing the SDF program in its totality to identify the successes that can be replicated, and the problems, and suggest ways of overcoming the problems;
- b) reviewing the various Poverty Alleviation Action Plans in the RMCs, and determining how best they can be integrated with the current SDF programs;
- c) determining how to accelerate utilisation of SDF resources, and the structure and form of the Bank's follow-up intervention;
- d) preparation of a consolidated report at the end of the exercise that will include details (about the four case studies in the RMCs) as outlined in the suggested methodology in the annex;
- e) presentation of the report at a seminar within the Bank and subsequently assist the Bank's mission to present a revised document at a meeting of the Poverty Working Group of the SPA scheduled for 19-21 September 1995 in Addis Ababa, Ethiopia; and
- f) undertaking any other necessary activities in order to complete the study.

2.1.4 Methodology

2.1.4.1 The questionnaire and interview methods with program managers and the intended beneficiaries will be used in addition to collecting and analyzing program budgets, balance sheets and income and expense statements. The specific information to be sought is indicated in the suggested methodology in the annex.

2.1.5 Output

2.1.5.1 The primary output expected is a consolidated evaluation report of the SDF programs based on a review of the social development funds in Malawi, and Zimbabwe.

3. The detailed tasks are indicated in the suggested methodology in the attached annex.

2.1.6 Schedule of Activities

2.1.6.1 A breakdown of the working days required to complete the various stages of the evaluation study is given as follows:

i)	Workplan and mission preparation at ADB	2 days
ii)	Field visits in the two RMCs	14 days
iii)	Preparation of the draft report	4 days
iv)	Discussion of the report within ADB	1 day
v)	Finalisation of the report	4 days
vi)	Presentation of the report to the SPA working group	3 days
	Total Number of Days	28 days

2.2 Suggested Methodology for the Proposed Study to Evaluate Social Development Funds

by

Douglas H. Graham

The consulting team should engage in a study to evaluate the experience of the Social Development Funds (Microenterprise Programs) in selected Anglophone and Francophone African countries. The field work should focus on microenterprise programs that provide both financial and non-financial services to microentrepreneurs. The evaluation study of these microenterprise programs would entail three principal components. These are: (1) an examination of the program's products; (2) an examination of the program's technology; and (3) an examination of the program's organisational structure and institutional performance. Questionnaires and interviews with program managers and client-beneficiaries should be drawn upon in addition to collecting and analysing program budgets, balance sheets and income and expense statements where feasible. Each component would examine the following issues:

1. Program Products

1. Identify the principal types of products or services the program offers. Document the nature of the various financial and non-financial services supplied and the relative importance of each.
 - a) Determine recent trends in loan expansion (or decline) and if loan terms, amounts, disbursement and repayment schedules are consistent with the cash flow requirements of program clientele-entrepreneurs;
 - b) Record borrowers' evaluation of program loan services and the role they play in their business in comparison to other, informal loan services in their communities;
 - c) Document the availability of group loans and the characteristic terms and conditions of these loans;
 - d) Record selected group member evaluation of the contribution of group loans services to the operation of their businesses and the degree to which peer group pressure and group sanctions operate to generate sufficient group solidarity to ensure loan contract monitoring and enforcement among members;
 - e) Document the availability of deposit and savings instruments (where applicable) and the range of deposit terms, interest rates and withdrawal rights characteristic of these products and the recent trends for deposit growth;
 - f) Record depositor-saver evaluation of programs savings-deposit services and role they play in allowing the client entrepreneurs to manage their surplus liquidity compared to using informal savings vehicles;
 - g) Document the non-financial services offered by the program to their clientele on constituencies, e.g technical assistance, market information services, book-keeping

and managerial training, etc., determine the relative importance of each type of non-financial services;

- h) Record the evaluation of these non-financial services by program beneficiaries and how they compare to alternative sources of assistance or information.

2. Program Technology

- 1. Examine the Operational Mechanisms (technology) the Program Utilises to Disseminate its Products and Services

A Document the information management system employed by the program. What kind of information is collected? For whom is collected (internal constituency and/on external donors)? What purpose does it service for decision-making purposes? and How is it collected?

- a) Collect balance sheets and/or income and expense statements and loan arrears information for lending programs;
- b) Determine what non-financial information is recorded: e.g. number of clients, gender, type of occupational constituencies served, location, and various client-level data. Determine how costly this data collection is and who uses it for what purposes. Evaluate cost-effectiveness of this data collection.

B Pricing policy

- a) Document ruling interest rates on loan and deposit services; for loan rates determine if these rates cover all costs of lending including administrative costs (associated with lending and deposit mobilisation); a realistic allowance for loan losses; and the cost of funds plus reserve accumulation for future expansion or an unexpected decline in loan recovery.

C. Risk management procedures

- a) Identify the degree to which program management matches the term structure of assets and liabilities (for deposit based programs) to reduce the risks of financial disequilibrium between loan term and deposit term structures;
- b) Document liquidity (i.e reserve) management procedures (for deposit based programs);
- c) Document the degree of loan portfolio diversification by type of activity and type of client financed;
- d) Determine the degree of which loan decisions are made with a documented understanding of an arrears risk profile for prospective borrowers (i.e creditworthiness criteria).

- D. The design of incentive structures
 - a) Identify the staff remuneration policy and whether performance based remuneration procedures play any role in staff remuneration;
 - b) Determine the scope of group lending in the total portfolio and the manner and degree to which peer group pressure and sanctions operate to improve loan monitoring and contract enforcement in the program.
- E. Cost effective profile for non-financial services
 - a) Identify the dissemination methods and costs of supplying non-financial services, e.g technical assistance, market information services, book-keeping and management training etc.;
 - b) Establish the dissemination cost per client-beneficiary and the cost per staff member involved for each type of non-financial service offered.

3. Current Organisational Structure, Evaluation of Portfolio Program Performance, and Vision for Future Governance Rules

- 1. Organisational Structure
 - a) Identify whether program is only a loan program or both a loan and deposit based organisation;
 - b) Identify and evaluate upward linkages to a possible apex organisation or government agency and clarify the role and functions of these upstream organisations in the operation of the program (e.g supply channel for funds, technical assistance, regulator role, reporting hierarchy to donor, establishing loan policies, etc.):
 - c) Explore and evaluate the degree to which the principal-agent hierarchical relationship between the program and any second level institutional (or government agency) is designed to encourage program sustainability;
 - d) Examine organisational structure within the program itself and the incentive for employees and management to act in the interest of program sustainability (i.e. performance based remuneration mechanisms).
- 2. Evaluation of Portfolio and Program Performance

Program performance indicators should logically be linked to explicit program objectives established by the donor. In microenterprise programs these would characteristically include some target group orientation (however defined, e.g gender, type or level of business activity, location, number of employees, etc.) and some set of indicators underscoring the potential for program sustainability (e.g. loan arrears rates, high rate of return on assets, etc.). The following illustrate several possible performance indicators for both the financial and non-financial components of a microenterprise program:

A. Program sustainability indicators

- a) First determine the established procedures for reporting and recording arrears (temporary delinquency) and default (loans with no likely recovery). Then estimate the arrears (and default) rates on a loans due basis, namely, placing in the denominator of the arrears (default) ratio only the volume of loans for which loan repayments are due;
- b) Estimate an arrears matrix that highlights the aging of arrears and the cross classification of loan and borrower characteristics by status of loan repayment (paid up to date, in arrears, in default);
- c) Estimate net income (interest revenue minus program costs) per unit volume of loans outstanding, two net income measures can be used here, the first only including financial costs directly associated with loan activity and, the second, including all non-financial technical assistance and training costs. The difference between the two offers an insight into the real burden of the non financial services incorporated into the program;
- d) Separate the arrears and net income estimate could also be generated for an individual loan portfolio and a group loan portfolio insofar as a program has both loan services. The findings could help address the issue of whether the alleged cost savings of group loans is evident once corrected for arrears.

B. Non-financial program performance indicators

- a) Document the number of clientele served with loan and deposit services (for deposit-based programs), and the growth in these numbers over time in the program;
- b) Identify degree to which target group clientele established through program's objectives have been the true beneficiaries of program services (both financial and non-financial services);
- c) Estimate the cost of delivering non-financial services to the targeted clientele establishing, as indicated earlier, the cost per client services and the cost per relevant staff member for each type of service rendered;
- d) Compare the estimated costs per client to the presumed benefits of these services to the client. Subjective judgements of the client-beneficiaries could be recorded concerning the relative importance of these services (on a scale of 1 to 5) in having contributed substantially to:
 - i) an increase in the number of employees;
 - ii) an increase in output and/or profits;
 - iii) penetrating new product markets (or expanding the same clientele base);
 - iv) securing new and cheaper suppliers;
 - v) adopting new technologies; and
 - vi) achieving more efficient management.

3. Vision for Future Governance Rules

The evaluation should identify the degree to which the program has looked beyond its current operation into the future. The questions here would be as follows:

- A. Strategy to secure long run program sustainability
 - a) What path of institutional evolution is anticipated (and planned) for the program to establish a domestically based source of funding to replace donor funds for the future?
 - b) Does the program envision its improved, more credit worthy clientele graduating into the portfolios of formal sector banks (thereby defining sustainability in terms of clients); or does the program envision graduating itself into a more sustainable form?
 - c) What institutional form does the program anticipate? Graduating into a unit bank with equity capital from local merchants, or from a broader base of clientele borrowers combined with deposit liabilities from the public;
 - d) Or does the program envision a mutualist form of organisation in which the clients are owners?

4. Conclusion

Not all microenterprise programs in the proposed study will have all the information (or products or services) outlined above. Nevertheless the range of issues surrounding the conceptualisation and documentation of the product design, program technologies and organisational form was deliberately cast in broad terms to hopefully allow for some degree of uniformity of evaluation across all programs.

ANNEX 3. PERSONS AND ORGANISATIONS CONSULTED

(Does not include all the interviews undertaken by the national consultants).

Dr Zakia R. Chalia, General Manager, Indefund Ltd.

Mr Alto Chapota, Branch Manager, Indefund Ltd.

Mr Andreas Danevad, Programme Officer, UNDP.

Mr Galimoto, Senior Deputy Chief Economist, Ministry of Economic Planning and Development.

Ms Natalie D. Hahn, Representative, UNICEF.

Mr Terence D. Jones, Resident Representative, UNDP.

Mr Sam Kakhobwe, National Manager, MASAF.

Mr Moses Kanyadza, Computer Systems Specialist, MASAF.

Dr Stanley W. Khaila, Director, Centre for Social Research.

Mrs Margaret Khonje, Programme Officer, UNICEF.

Mr Noel Kulemeka, Economist, World Bank Mission.

Mr Peter Kulumeka, Programme Officer, UNDP.

Mr Geoffrey Kumwenda, Manager, Mudzi and Women Programmes, MRFC.

Mr Milton Kutengule, SDA Coordinator, Ministry of Economic Planning and Development.

Mr Zamatchecha Mbekeani, Credit Component Manager, Small Enterprises Development Programme, DEMATT.

Mr Jockely G. Mbeye, National Programme Officer, UNDP.

Mr James A.T. Misuku, National Administrative Officer, UNDP.

Mr Henry Ngombe, Chief Economist, Ministry of Economic Planning and Development.

Mr Saadat Siddiqi, Chief Executive Officer, MRFC.

