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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ISSN 0805-505X

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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 polices 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 Projet, 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 nevertheles 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 reached 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