

**MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES SOCIETY LIMITED**

**ANNUAL REPORT**

**For the year ended 31 December 2021**

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<b>TABLE OF CONTENTS</b>	<b>PAGE</b>
LETTER FROM THE PRESIDENT	06
MUSCCO BOARD OF DIRECTORS	08
MUSCCO MANAGEMENT	10
SACCO MEMBER LISTING	11
SACCO DEVELOPMENT PERFORMANCE	12
MUSCCO FINANCIAL PERFORMANCE	14
FINANCIAL COOPERATIVES PERFORMANCE	17
DIRECTORS REPORT	20
AUDITED FINANCIAL STATEMENTS	21

## LETTER FROM THE CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS

Dear Esteemed Valued Members,

I am very happy to have my first opportunity as President of the Board of Directors of MUSCCO to present to you our 2021 Annual Report. Indeed, I was humbled to be entrusted with the highest leadership role in MUSCCO at the time the Union is undergoing a lot of transformation to reposition business amidst a number of disruptions, especially the melting down of the economy as a result of COVID 19 and the war in Ukraine. The effects have been dire to business and livelihood globally including Malawi. Headline inflation has been increasing every day and prices of goods and services soared. The impact to MUSCCO business, as expected, could be reduced level of savings by members, increased borrowing, increased cost of borrowing and increased loan default. Amidst all these unfavorable business climates, I have, today some positives to report to you my fellow members regarding what transpired in year 2021. Let me focus on the Union's main mandates of Lobbying and Advocacy, provision of technical support to SACCOs and Financial Intermediation.



In year, 2021 we successfully lobbied the Regulator to consider licensing the Union so that we are able to legally provide financial services to SACCOs through the Central Finance Facility ("CFF"). After a number of studies and technical support from consultants, by end of year 2021, the Regulator accepted the Union's proposals and was in the process of licensing MUSCCO. Something we realized during the first quarter of year 2022. This is a great milestone for Union as it will not only ensure compliance to Financial Cooperative laws, but also ensure prudential management of the Union to ensure safety of SACCOs funds, sustainability, improved return and delivery of competitive financial services to members. I congratulate Management and us all for jointly working on this to its fruition. I know there are a number of advocacy programs that as a Union were accomplished in year 2021 such as ensure conducive operating environment for SACCOs in this country, where we consistently worked with Government through our parent Ministry of Industry ("MOI") and Reserve Bank of Malawi, as our Regulator, regarding review of Financial Cooperative Laws and ensuring that MUSCCO is present in many Technical Working Groups (TWGs) feeding into policy decisions in Government. I am glad we have been successful in all these interventions.

Regarding SACCO Promotion and Development, we recorded an increased membership in SACCOs by a 9 percent to 173,321 from 158,974. This was way below our target of 25 percent growth. We lost membership in a few employee-based SACCOs due to retrenchments by institutions but am glad some SACCOs aggressively continued to mobilize more and more members. Special thanks to the following SACCOs for their drive-in membership mobilization; United Civil Servants, Thyolo Teachers, Umodzi, Mudi, Polymed, SUCOMA and Tipindule. I was glad to note that two SACCOs namely: Lighthouse and Mwato were registered by the Registrar of Cooperatives and SACCOs continued to participate in capacity development programs facilitated by MUSCCO and our continental body African Confederation of Cooperative Savings and Credit Associations (ACCOSCA). This contributed to the growth of SACCOs' Assets in Malawi to K40 billion from K32.4 billion. Representing a growth of 25%. Total members savings grew by 30% while the loan book grew by 17% This is by all means commendable growth if we consider the unfavorable situation, we operated in. At that level, let me thank all our development partners for also supporting the Union to continue with the outreach and inclusion programs which led to formation and linking of 254,141 beneficiaries comprising 60 percent Women, 19 percent Men, and 21 percent Youths through Village Savings and Loans Associations to SACCOs thereby improving access to financial services through SACCOs by rural people. This is one of the main reasons we exist. To this effect let me thank the International Fund for Agricultural Development (IFAD) through FARMSE, the Royal Norwegian Embassy, GIZ and We Effect, Development Fund of Norway for providing financial and technical support to MUSCCO which facilitated these programs.

Regarding SACCOs automation, two more SACCOs joined the shared platform at the Micro Finance Hub. But on the negative note, SACCOs continued to be under served by the Fin-financials software resulting in dissatisfaction by SACCO Management and Leadership on the use of the platform. The Union continued to engage with all stakeholders to ensure the problems were rectified. By the end of year 2021, regrettably the situation had not improved much. This continues to be work in progress and I hope we can all work together to find a long-term solution to this effect going forward.

Above all, fellow members, let me report what made me very excited when I look back in year 2021. We turned the corners regarding Financial Performance of the Union. From a loss making of over 7 years to a surplus of K133million. It is evident that we did something well regarding revenue generation and expenditure control. Our Central Finance Facility also remained very liquid and continued supporting short-term credit needs by SACCOs unlike the previous years. I am sure that this is good news for us all as return on our share capital in MUSCCO has been a major cry by SACCOs and a deterrent to capitalization of the Union. Again, I say congratulations to Board, Management and all of us members that have supported the vision and the transformation strategies that have led to this performance.

When I consider what happened in year 2021. I realize that we have answers to the challenges facing our society, whether it be economic downturn, climate change, food shortages, urbanization or mobility. Every day I get to see how great our SACCO model and our team is and how passionate we are about innovations. I have no doubt that SACCOs are on the right track to providing solutions to improved livelihood in Malawi. We should soon be comparing ourselves with other countries like Kenya, Tanzania, Ghana and many more others where Financial Cooperatives have contributed immensely to financial inclusion in their respective countries

Our ambition is clear: We want MUSCCO to remain the National's Leading Union in the Financial Cooperative sector. We want to be the first choice of our members and impress them again and again. Sustainability and Inclusive Growth, continue to remain our focus. This has been well aligned with the Malawi 2063 (Malawi National Development Strategy for growth) and it is important that we continue to innovate and transform to ensure our SACCOs and the Union remain resilient especially amidst the unfavorable operating environment.

Going forward therefore, in our new strategy, we have identified additional priorities: operational excellence, digitalization, innovation, Visibility, portfolio management and employees. In each of these action areas we want to raise the bar and be the pacesetter in our industry. MUSCCO is known for the safe and reliable provider of financial products and service delivery in the cooperative sector. We are passionate to fully digitalize SACCOs and MUSCCO operations and products offering by 2023.

In conclusion, 2022 will be an exceptionally demanding year of transformation – economically, politically and strategically. It will be a year in which we should make MUSCCO more agile, flexible and member-focused with our strategy. At the same time, we should maintain a balance; ensuring resiliency and investing in the future. We know that the economy will continue to crumble and as a SACCOs, we can only be strong by clinging to our beloved Cooperative Principle of “Cooperation amongst Cooperatives”. We can invest together and be stronger than before!

We should not be contented with our achievements this far, but always trust that The Road to Success is Always under Construction!

Yours,

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Jonas Chiweza  
MUSCCO President

## MUSCCO | BOARD OF DIRECTORS

The Board of Directors of MUSCCO Limited



Mr. Jonas Chiweza | Board President



Mr. Amon Moyo | Board Vice President



Mrs. Patricia Somanje | Board Secretary



Lt Col. Richard Chidzungu | Board Treasurer



Mr. Fortune Chanza  
Board Members



Mr. Wiskes Mkombezi  
Registrar of Cooperatives, Ministry of Industry



Mr. Henry Chiwalo | Technical Director



Ms. Zaithwa Phambana | Technical Director

Further information:

- Corporate Governance: Board of Executive Directors
- Compensation Report: Board of Executive Directors

## MUSCCO | EXECUTIVE MANAGEMENT



**Mr. Fumbani Nyangulu**  
Chief Executive Officer (CEO)



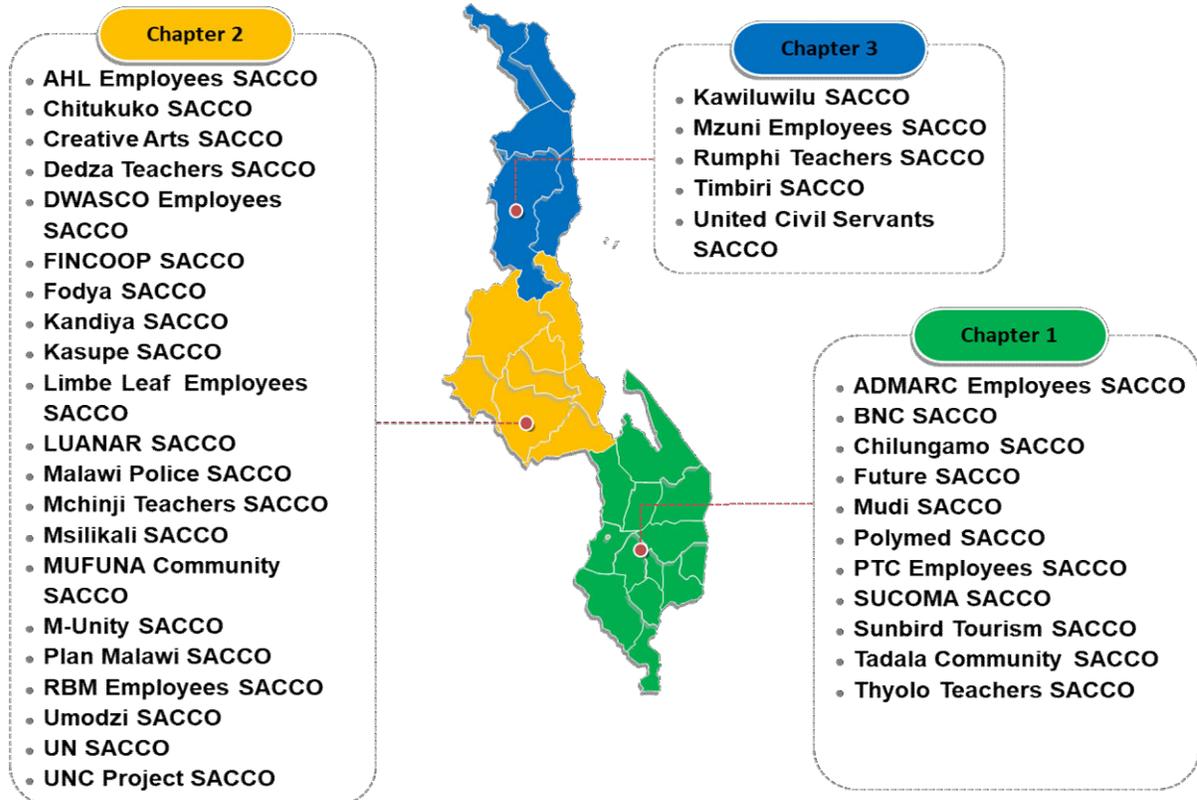
**Mr. Leroy Banda**  
Head of Co-operative Development and Projects



**Mr. Uchizi Taiman Nkhata**  
Head of Finance, HR and Administration

## MUSCCO | AFFILIATED SACCOs AND PARTNERS

### MEMBER SACCO LISTING



### ORGANIZATIONS AND PARTNERS



**2021 MUSCCO MANAGEMENT REPORT CARD**

For the year ended 31 December 2021

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**1. 2021 MUSCCO MANAGEMENT REPORT CARD**

**Cooperative greetings!**

We are once again pleased to share the 2021 Annual Report showing our progress, some of the challenges encountered and our plans going forward.

**1.1. General Economic Overview**

This report gives a synopsis of our performance in 2021. The report is considered against the background of the overall performance of the economy in 2021. The outturn of the economy has a big impact on business. 2021 has been an economically chaotic year by all accounts and its disastrous effects have not spared our industry. The economy was once more greatly affected by effects of COVID 19 pandemic which saw the GDP growth reducing to less than 3 percent from the projections of 5 percent. Budgeting and planning became a wind chasing game. Inflation continued to inch upwards and the continued depreciation of kwacha wreaked havoc and untold misery to businesses and individuals. Cost of living increased significantly affecting levels of savings, loan repayments and spending. Two of our major Projects under Development Fund of Norway (TRANSFORM and MAMO) came to an end within the year completely affecting our outreach targets.

The impact to MUSCCO business, as expected, was reduced level of savings by members, increased borrowing, increased cost of borrowing and increased loan default. As a result, MUSCCO was in the year, undergoing a lot of transformation to reposition business amidst these disruptions. However, amidst all these unfavorable business climates, we have, today some positives to report despite the unfavourable economy. We are glad to highlight below some key performance areas that we can smile about.

**SACCO DEVELOPMENT PROGRAMS**

**1.2. Performance Overview**

The Union continued to implement the 2019-2023 Strategic Plans which are premised on five main strategic pillars: Inclusive Growth, Innovation, Capacity Building, Communication and Visibility, Risk Management and Sustainability. This report gives a synopsis of MUSCCO's performance in 2021 in these main strategic pillars. The report must be considered against the background of the overall performance of the economy in 2021 and a number of challenges that MUSCCO faced, including effects of the COVID 19 pandemic.

**1.2.1. Inclusive Membership Growth**

The mantra of our operations is financial inclusion. Thus, ensuring financial access to all Malawians in rural and urban communities. In this respect MUSCCO supports SACCOs to ensure they are recruiting more members to their SACCOs within their areas of operation. Thus, ensuring more Malawians are accessing financial services through SACCOs.

**1.2.1.1. SACCOs Promotion and Support**

In 2021 under SACCOs' promotion and support, The Union continued to support all SACCOs and pre-SACCO groups. Lighthouse and Mwato study clubs in Lilongwe and Nkhatabay respectively, were registered as SACCOs. It is also pleasing to note that, despite the unfriendly economic situation, the sector came out resilient with a majority of SACCOs recording positive financial performance. Overall, cumulative 2021 SACCO membership missed the mark of expected 200,000 cumulative total as most SACCOs concentrated on retention of existing members and less recruitment except a few in a bid to survive the economic turbulence. At year end the total SACCO membership stood at 173,321 comprising 63 percent men, 34 percent women, and 1 percent others from 158,974 in 2020 representing a 9 percent growth.

### **1.2.1.2. Community Mobilization, Outreach and Financial Inclusion Initiatives**

The Union continued to contribute to national financial inclusion agenda through rural outreach programmes. In 2021 support from Farmers Access to Rural Markets, Small holders and Enterprises (FARMSE) and We Effect helped The Union to reach out to 254,141 beneficiaries comprising 60 percent Women, 19 percent Men, and 21 percent Youths across the country through VSLAs and other associated social livelihoods support initiatives that led to improved incomes, business ideas generation, gender balance in responsibilities and climate sensitive behaviours.

### **1.2.2. Innovation and Technology Enhancement**

Regarding SACCO Automations, as at year end 2021, out of 41 SACCOs affiliated to MUSCCO, 20 SACCOs had successfully migrated to the Shared Computerization Platform using a Fin-financials software by FinTech called Microfinance Hub. 3 SACCOs are using a different core banking systems other than Fin-financials to service members. To enhance electronic funds transfer to and from SACCOs and members, the Shared Platform facility has been linked to Mobile Network Operators to facilitate financial transactions using mobile phones. Thus, introduction of digital financial services in SACCOs. By December, 2021, 8 SACCOs were providing mobile banking services.

Starting from year 2022 and beyond the sector intend to integrate with A Commercial Bank core banking system to allow members withdrawal cash using the bank's ATM machines and to start participating in the national payment system through National Switch (NATSWITCH) in remitting and receiving funds.

We think digitalization will be a solution for SACCOs strengthening and growth in rural areas as it will afford easy access to financial services by so many members currently saving their money through Village Savings and Loan Associations. These will easily be linked to Community based SACCOs. We expect more innovation in this respect in year 2022 and beyond.

### **1.2.3. Advocacy, Communication and Visibility**

The Union in the reporting year continued to engage both the Regulator and Registrar of Cooperatives on ensuring continued conducive operating environment for SACCOs to spur sector's growth. This led to consultative meetings on the review of the Financial Cooperative Act (2011) to make it relevant to current situation. Engagements with Government for long term re-consideration on the process and cost of administering Civil Servants payroll deductions to third parties including SACCOs and also to consider full income tax exemption for Financial Cooperatives due to their nature of business, furthering financial inclusion.

### **1.2.4. Infrastructure and Capacity Building**

Capacity building of both SACCO and MUSCCO officers and leadership is one the major activities MUSCCO undertakes every year to ensure competency at all levels. In year 2021, we invested considerable resources in training and over 500 attended various training programs both nationally and internationally. SACCOs benefitted a lot from the training programs and this is evident in the growth and stability most SACCOs achieved in year 2021. Out of 40 licensed SACCOs, only four SACCOs reported losses and most of them complied effectively with the regulatory framework as supervised by the regulator, Reserve Bank of Malawi.

In the year under review, The Union facilitated a series of capacity building programmes aimed at enhancing SACCO personnel capacities at both Board and Management level. In total 353 SACCO personnel were trained against an annual target of 500 representing 71percent achievement. In our provision of training, quality and satisfaction remain of utmost importance, and, throughout the year, the Union put in place enhanced support services, as well as a strengthened reporting mechanism which feeds into robust evaluation activities to ensure the continuous improvement of our training offering.

### 1.2.5. Financial Sustainability and Risk Management

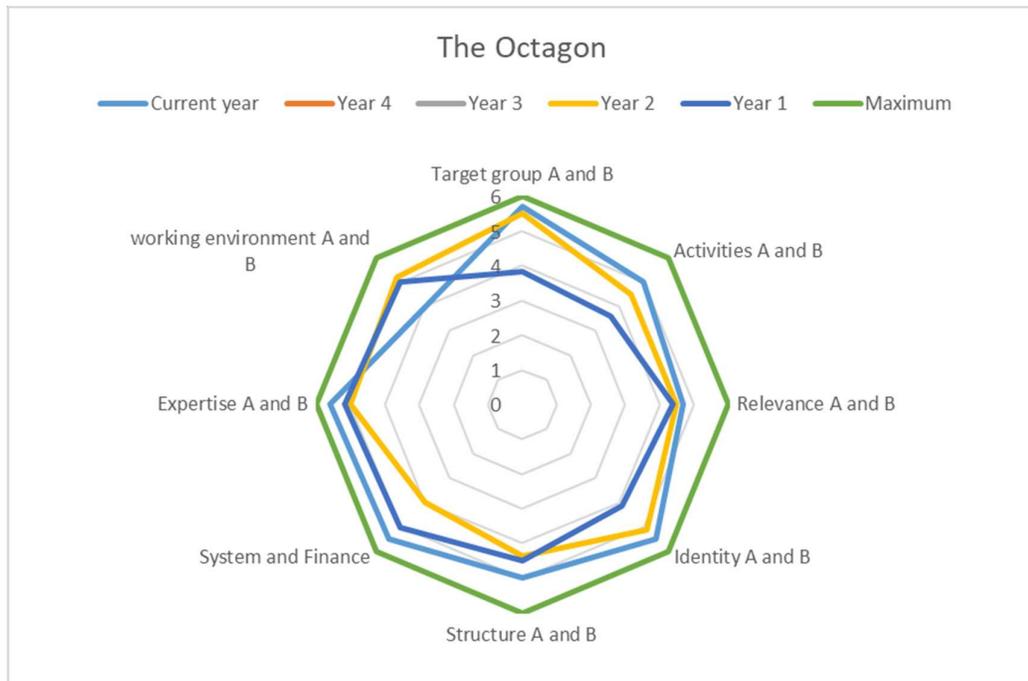
Since SACCOs transitioned to prudential regulation some 10 years ago, the Sector has been experiencing growth and stability every year. By December, 2021, almost 92 percent of the SACCOs were fully complying with regulatory standards compared to 88 percent in year 2020.

#### 1.2.5.1. System Quality Assurance

A total of twenty-four (24) internal SACCO audits, twelve (12) financial audits and three (3) Chapter audits were conducted to ensure safe and soundness of the movement. Internal audits contributed to compliance to regulatory standards by SACCOs throughout the year as shortfalls were addressed in good time. Main departments and sections in MUSCCO were also audited to enhance internal controls and effective implementation of risk management programs. The Union's Monitoring and Evaluation continuously, throughout the year, monitored progress of the work plan and guided Management to stay the course.

#### 1.2.5.2. Institutional Strengthening

With support from We Effect, the Union undertook self-assessment using the Octagon tool. The graph below presents results of the assessment.



The results show that The Union continues to be relevant and that it possesses required expertise at both Management and Board level with good supporting systems, while the working environment became less friendly due to challenging economic slowdown while the regulatory environment remained favourable.

## 1.3. MUSCCO | FINANCIAL PERFORMANCE AND POSITION REVIEW

### 1.3.1. Performance Overview

MUSCCO Limited ("the Union") reported an improved performance for the financial year under review with total gross income increasing by 12 percent to K1.228 billion (2020: K1.097 billion), mainly on account of increase in interest income (60 percent), increase in non-financial lines (58 percent) and decrease in donor income (minus 24 percent).

Much as donor income decreased by -24 percent to K473m in 2021 from K622m in 2020 during the same time, interest expense decreased by -9 percent to K91m from K100m in 2020; and gross expenses decreased -5 percent to K1.046 billion from K1.103 billion in 2020.

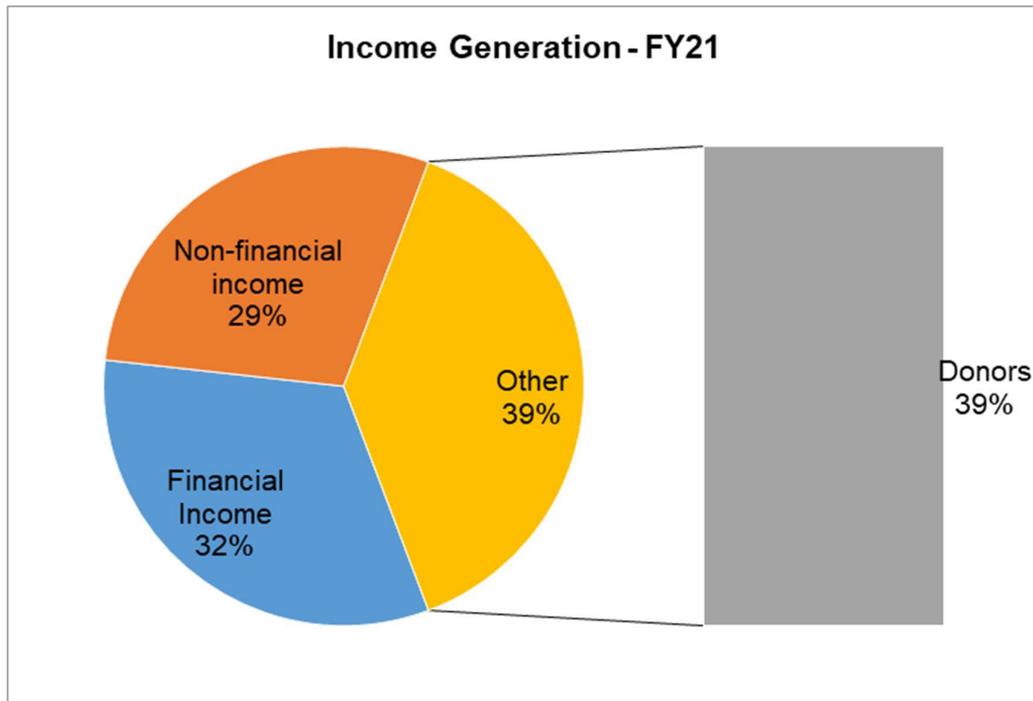
As Operating net income increased by 14 percent to 1,137m from K997m from both funded and non-funded sources, operational costs decreased to K1.046 billion from K1.103 in 2020.

The provision for impairment losses increased by 264 percent to K80m (2020: K22m). As a result of impairment of Alliance capital Limited and loans to member SACCOs.

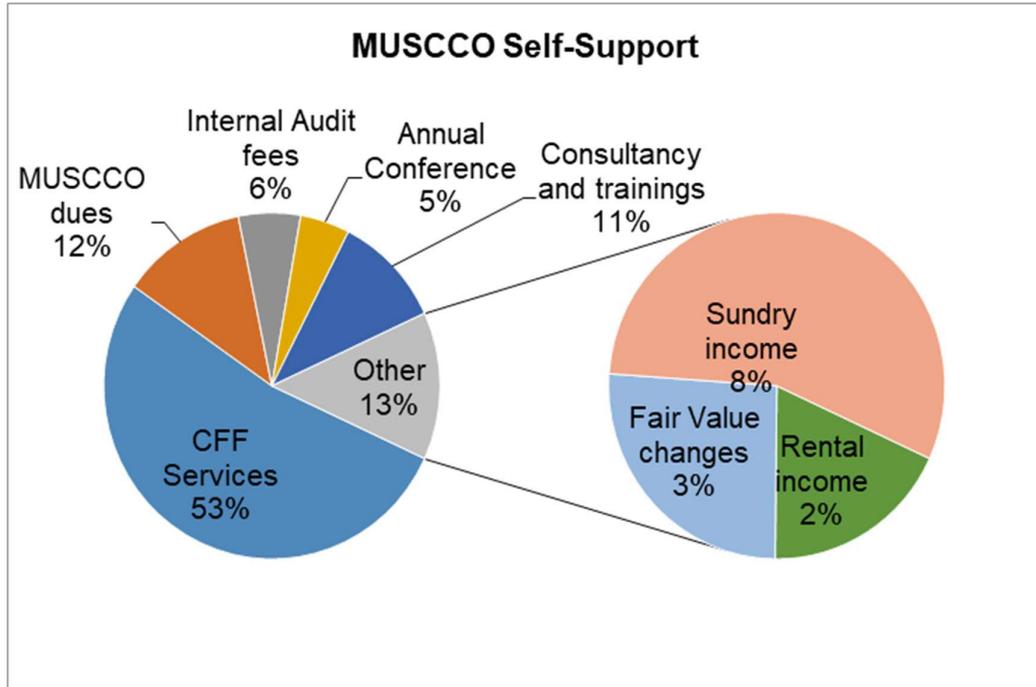
The Directors report a profit for the year of K133 million (2020: Loss of K97 million) for the year ended 31 December 2021. The detailed results and state of affairs of the Union are set out in the accompanying statements of financial position, profit or loss and other comprehensive income, changes in equity, cash flows, significant accounting policies and other explanatory information.

Consequently, Return on Assets (ROA) was +4 percent from -3 percent in 2020; and return on Equity (ROE) was at +16 percent from -14 percent in 2020

**See table 1.0 below**



**See table 2.0 below**



Salient Features			
	FY20	FY21	Change %
<b>Earnings and expenses - K'm</b>			
Gross Income	1097	1228	12%
Donor Income	622	473	-24%
Gross Financial Income	249	399	60%
Interest expense	(100)	(91)	-9%
Loan provision	(22)	(80)	264%
Non-financial Income	226	356	58%
<b>Total Income</b>	<b>997</b>	<b>1137</b>	<b>14%</b>
<b>Expenses</b>	<b>(1103)</b>	<b>(1046)</b>	<b>-5%</b>
<b>Net profit/(loss) attributable to members</b>	<b>(97)</b>	<b>133</b>	<b>-237%</b>
RoA	-3%	4%	-228%
RoE	-14%	16%	-210%

#### 1.3.2. Union financial position

Total Assets grew by 7 percent to K3.259 billion (2020: K 3.043 billion) principally driven by a 4 percent increase in member shares and deposits to K2.210m (2020: K2.126). A reduced funding level from savings of to fund loan book saw a 12 percent growth in loan book.

<b>Financial Structure</b>			
<b>Assets and Liabilities for MUSCCO (K'm)</b>			
<b>Type of Asset</b>	<b>FY20</b>	<b>FY21</b>	<b>Change %</b>
Cash and cash equivalents	140	234	67%
Short term Investments	378	245	-35%
Total member loans and advances	1000	1122	12%
Other Current Assets	404	329	-19%
Non Current Assets	1121	1329	19%
<b>Total Assets</b>	<b>3043</b>	<b>3259</b>	<b>7%</b>
<b>Type of Liability</b>			
Deposits and member shares	2126	2210	4%
Liabilities to Donors	83	117	41%
Other Current Liabilities	154	88	-43%
Total Capital	680	844	24%
<b>Total Funding</b>	<b>3043</b>	<b>3259</b>	<b>7%</b>
	-	-	
Loans / Total Assets	33%	34%	70-80%
ST Investments / Total Assets	12%	8%	
Non-Earning Assets / Total Assets	55%	58%	
Savings and shares / Total Assets	70%	68%	70-80%
Total Capital / Assets	22%	26%	10%
Other Liabilities / Total Assets	8%	6%	

#### 1.4. MUSCCO | FINANCIAL COOPERATIVES PERFORMANCE

##### 1.4.1. Overview of Financial Cooperatives (SACCOs)

The microfinance sector remained on the recovery path from the adverse effects of COVID-19 and is expected maintain this trajectory. However, erratic weather patterns posed a challenge to the sector as it disrupted business activities and agriculture productivity, there by negatively affecting the ability of clients to honour their credit obligations in the near term. The Financial Cooperatives subsector remained resilient.

Overall, the sector continued to register growth in all financial aspects during 2021. Overall, the sector's performance was satisfactory despite the adverse impact of COVID-19 pandemic. Total assets for the sector grew by 25 percent to K40 billion (2020: K32.4 billion). Net income grew to K7.0 billion. As at end of the year, the sector had 40 licensed financial cooperatives of which 35 were employer based, while five were community based. This was mainly attributed to enhanced supervision oversight by MUSCCO, the Regulator and Registrar.

##### 1.4.2. Financial Structure / Assets and Liabilities

Total assets grew by 25 percent to K40 billion (2020: K32.4 billion) owing to growth of loans and investments. The loans were financed by shares which grew by 17 percent to K22.6 billion and deposits grew by K4.4billion (2020: K3.2 billion).

Member loans and advances, grew by 30 percent at K28.2 billion (2020: K21.7 billion), accounted for 70 percent of total assets during the year against the sector's recommended best practice of between 70 and 80 percent. This had an effect on the sectors' interest income and return on assets. As regards funding, the sector largely relied on member savings which accounted for 67 percent of total assets.

### **1.4.3. Capital Adequacy**

Overall, the sector was adequately capitalized. Total institutional capital grew by 49 percent to K10.8 billion (2020: K7.7 billion). In terms of capital, the subsector was adequately capitalised during the review period. Its capital adequacy ratio increased to 25.2 percent as at December 2021 from 20.3 percent in June 2021. The ratio was above the minimum regulatory requirement of 10.0 percent.

### **1.4.4. Asset Quality**

Total loans grew by 30 percent to K28.2 billion in 2021. Non-performing loans (NPL) amounted to K675.3 million, representing a 4.8 percent NPL ratio which was above the acceptable ceiling of 5.0 percent.

Further, the sector's asset quality as measured by the NPL ratio was fair during the review period. The NPL ratio of the sub- sector decreased to 4.8 percent in December 2021 from 6.5 percent in June 2021. However, following the impact of the COVID-19 pandemic, some SACCO members had their disposable incomes reduced which led to low or no savings contributions to the SACCO and members' failure to service loan obligations.

In addition, there was an increase in non-remittance to SACCOs by some employers due to loss of business. Subsequently, provision costs on expected loan losses increased; loan write-offs increased; return on loan portfolio decreased and liquidity decreased. During the period under review, some SACCOs experienced liquidity challenges which were aggravated by lack of a structured Central Liquidity Facility (CLF).

### **1.4.5. Earnings**

The sector registered growth in both total revenues and profits. Total income increased by 43 percent to K12.2 billion (2020: K8.5 billion) in 2020 of which loan interest income constituted 97 percent. Total expenditure grew by 30 percent to K6.87 billion (2020: K5.3 billion).

### **1.4.6. Liquidity**

On aggregate, Liquidity for the sector was satisfactory during the review period. However, liquidity ratio decreased to 12.6 percent in December, 2021 from 16.9 percent in June 2021.

### **1.4.7. Membership**

Total membership grew by 9 percent to 173,319 (2020: 155,632) of which 36 percent were females, an increase from 31 percent recorded in 2020. The increase in total membership was attributed to newly licensed SACCOs in the year and aggressive Marketing by some few SACCOs.

### **1.4.8. SACCO Onsite Examinations**

The Registrar conducted nine on-site examinations and eight follow up examinations of financial cooperatives. Examination findings showed continued improvement in all key financial performance indicators except for four SACCOs. Corrective measures were taken to address the identified shortfalls.