

## FIELD REPORTS

The journal now carries an occasional short-notes section entitled *Field Reports*. Such reports should be between 500 and 2000 words long and will offer in a concise form raw material which the author believes to be of relevance to policy-makers and analysts of the development process. Preference will be given to notes which suggest possible solutions to practical development problems on the basis of experience in a particular country or institution. The range of possible material is wide: alternative technologies and their social impact; adaptations of standard techniques such as manpower planning, budgeting, project appraisal, loan supervision, data collection, and information systems to the circumstances of LDCs; reports on the provision of public services such as informal education, primary health care, family planning, agricultural extension, famine relief, environmental protection, and how they may be adapted to the requirements of specific social groups; accounts of effective and ineffective interventions into development processes of official aid agencies and NGOs; and so on. The essential objective is to provide a channel by which those who feel they have made a practical contribution to the development process, or have observed such a contribution being made, share their ideas and experience with the development community. The essential criteria would be originality, interest to a wider audience, and conciseness of expression; authors would not be expected to use formal scientific methods, but would need to make clear the logical and empirical basis of their argument. Potential contributions will be assessed by the editors, using outside advice only in case of need, and it should be possible to publish *Field Reports* within 4 months of acceptance.

## THE MALAWI MUNDI FUND: DAUGHTER OF GRAMEEN

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### 1 BACKGROUND

The Malawi Mudzi Fund (MMF) is the first attempt by an official aid donor to use the Grameen Bank of Bangladesh as an institutional model in another country. The International Fund for Agricultural Development (IFAD) has provided a credit of US\$900,000 to the Government of Malawi (GoM) to establish MMF and finance its initial operations. The scheme was planned in 1987, the MMF's Board met for the first time in late 1988, field staff commenced duties in April 1990 and loan disbursement began in June 1990. Southern Malawi was regarded as a suitable location for this

transcontinental experiment because a number of its characteristics (in particular high population densities and widespread rural poverty) are broadly similar to Bangladesh.

The MMF's programme has developed rapidly since field operations began. It has established branches in the Chiradzulu and Mangochi Districts and by October 1990 had seven project officers (village-level bankers) at work. By the end of that month some 8410 villagers had registered with the MMF for membership. Of these, 1375 had been 'screened' to ensure that they were eligible (i.e., that they had a low income, few assets, and did not have access to formal sources of credit) and 735 were full members having been trained in Mudzi Fund principles and procedures. Some 326 of this number had received loans. The average size of loans is K300 (5 Malawi Kwacha = £1 sterling in December 1990), though in a small number of cases loans of K700 have been approved.

The selection of two different areas for initial operations is intended to generate information that may be useful in planning for the expansion of the MMF into other parts of the country. The Chiradzulu area has the highest population densities in the country (around 275 people per square kilometre) and its population faces severe problems in supporting itself from micro-plots that are under enormous environmental stress. It is, however, close to the country's largest city, Blantyre, so there are considerable opportunities to find markets in urban areas where purchasing power is concentrated. By contrast, the Mangochi area is distant from major urban centres, has lower population densities, and is adjacent to Lake Malawi. This latter factor means that agro-ecological conditions are quite different, and creates opportunities for the processing and trading of lake products, notably fish and articles made from reeds and cane.

The MMF headquarters is located at Zomba, mid-way between the two areas of field operations. The Scheme Administrator and Accounts Officer are based there and regularly visit each of the branches as well as maintaining contact with Lilongwe, where donor representatives and most MMF Board members are located.

## **2 MUDZI AND GRAMEEN**

As was originally planned, the MMF has been very closely modelled on the Grameen Bank. Members must be 'poor' in terms of the agency's criteria, must organize into cells of five people which are federated into centres, centres are single-sex, loans are made to individuals but the cells and centre screen and supervise loans, if a borrower defaults then his/her fellow cell members will be denied loans, weekly meetings are held at which all centre members should make a compulsory saving (K0.10) and make repayments, loans run for 52 weeks and all borrowers must make a contribution to a 'group fund'. As in the Grameen Bank the training of members is emphasized; all members are meant to take a share in group management as the positions of cell leader and centre secretary are rotated annually and there is a 'spiritual' dimension requiring both members and staff to pledge themselves to the eradication of poverty by hard work and helping each other. The latter is clearly evident in the personnel of MMF, who see themselves as taking part in a social experiment and not simply as 'employees'.

The close modelling on the Grameen Bank is only to be expected, given the initial plan and the fact that the four senior staff of the scheme have all been trained in Bangladesh by the Bank. However, a number of divergences from the Bank model have occurred.

1. The areas that individual MMF field workers have to cover are greater than is usual in Bangladesh. In part this is because population densities are lower, but it is also partly due to local-level pressures to ensure that the Fund 'shares' its resources between villages. The larger areas that field staff cover has meant that they have to live in rented accommodation in a village in their 'patch', rather than by the branch office as in Bangladesh. In consequence, field workers cannot be supervised on a daily basis. The distances they have to traverse have already led to a significant change in plans, and field officers have been allocated motorcycles rather than push-bicycles. This permits field workers to visit two, and sometimes three, centres in a day, as well as visiting the branch office on a regular basis. However, it means that the unit costs of loan administration are likely to be significantly higher than initially estimated.
2. The involvement of the GoM and IFAD in the project has meant that the director of this experiment — the Scheme Administrator — is doubly burdened. The constant monitoring of field activities and scheme redesign require that large amounts of time are spent at the branch and village level, as occurred in the original Grameen Bank experiment. But having to report and account to a high-powered Board (including four permanent secretaries and the general manager of the Reserve Bank) and donors, means that at a time when 'getting things right' in the field is the priority, significant amounts of time, energy and creativity must be expended in upward accountability. The recent decision to hire an Assistant Scheme Administrator may reduce this double burden, but it adds to the overheads and increases the costs of loan administration.
3. Disbursement procedures have been modified to cater for socioeconomic conditions in Malawi. Borrowers must utilize their loans within 3 days of receipt, not 14 days as is the case in Bangladesh. In addition, loans are disbursed at the branch and not in the village.

### **3 ISSUES AND PROSPECTS**

#### **Can the MMF Reach the Poor and Improve Their Incomes?**

The tentative answer to this is 'yes'. In its initial operations the scheme is lending to individuals who have never previously had access to formal sector finance, the vast majority of whom would be classed as 'poor' by all except the most extreme standard. Borrowers with whom I met generally reported that their micro-loans had led to significant increases in household income, although one borrower faced considerable difficulties because of the theft of his loan. There are questions, however, about how many new entrants can be supported by the markets that MMF members are exploiting. Data collected for the Chiradzulu area indicated that the vast majority of borrowers were engaging in trading or simple food processing (Table 1). Only two out of the 186 borrowers were engaged in manufacturing or intensified agricultural production. This raises the question of whether the MMF should make the Grameen Bank assumption that the poor's 'survival skills' will generate profitable activities for an expanding membership, and thus continue with a credit-only approach; or whether it should go for a credit-plus package, and provide training and technical assistance. The additional costs of a credit-plus package would be high. However, they could

Table 1. Malawi Mudzi Fund: recorded loan utilization in the Chiradzulu District at 14 November 1990

	Number of borrowers	Percentage of borrowers
Trading		
Fish	57	30.7
Grain, fruit and vegetables	67	36.0
Chicken and meat	10	5.4
Firewood	3	1.6
other goods	9	4.8
Sub-total (trading)	146	78.5
Processing and trading		
Maize flour	28	15.1
Fritters	10	5.4
Sub-total (processing and trading)	38	20.5
Agricultural production		
Broiler raising	1	0.5
Manufacturing		
Tinsmithing	1	0.5
<b>Total</b>	<b>186</b>	<b>100.0</b>

Source: Files of the Malawi Mudzi Fund, Chiradzulu Branch, Providence Industrial Mission.

probably be passed on to another donor, given the present passion for 'microenterprise' amongst aid agencies.

### **Will Borrowers Repay Loans to the MMF?**

Much of the success of the Grameen Bank is believed to relate to the exceptionally high repayment rates it achieves (around 98 per cent). In its first 3 months the MMF attained repayment rates of 100 per cent in six of its seven localities. However, since mid-September 1990 there has been a marked downturn, and during October only 89 per cent of the targeted repayments were collected. (This compares with a repayment rate of around 80 per cent for official small farm loans.) In consequence the main issue for the MMF's staff is understanding and halting this trend.

Part of the explanation appears to be gender-related, as male borrowers have persistently been more problematic than female borrowers. For example, in October women achieved a 92 per cent repayment rate against men's 83 per cent. During that month 13 men (out of a total of 111) were classified as being defaulters but only two women (out of 215) had defaulted. As a consequence, project officers in all areas are now reluctant to make new loans to male groups. Both the Grameen Bank and its Malaysian replica (Amanah Ikhtiar Malaysia) have found that a concentration on female loanees correlates positively with repayment.

A second set of explanatory factors relate to the seasonality of supply and demand. A number of borrowers involved in fish-trading reported that the selective closure of

fisheries from October to January (during the breeding season) had disrupted business. Others reported that demand for traded items reduced towards the end of the year as the new agricultural season began and cash became increasingly scarce at the village level. In some groups, loanees had drawn down their maize stores and were finding it necessary to divert part of their loans to food purchases for consumption. There is no obvious solution to these seasonal problems. If they persist, then it may become necessary to move away from Grameen principles and operate a 'close season' for lending.

### **Will MMF be Able to Cover its Operational Costs?**

If one assumes that high repayment rates can be achieved, once early problems are solved, then the question that remains is whether the Fund can cover its operational costs from its earnings (an interest charge of 15 per cent) or whether it will require subsidy. Clearly at present this is not the case, as the volume of loans is relatively low, and the MMF is incurring high costs as most centres are still in a formation stage and have only 15 to 20 members. The need to use motorcycles has created additional administrative costs.

Although comprehensive data on lending costs and interest income will not be available until late 1991, it seems likely that the ratio of operating costs to total loans will be higher for MMF than those of the Grameen Bank. In consequence, the Fund will require external subsidies to maintain and expand its activities if interest charges are held at present levels. This could be interpreted as indicating that MMF will not be financially sustainable, but it must be noted that donors are accustomed to subsidizing poverty-alleviation programmes, and are likely to judge the scheme in relation to alternatives. From such a comparative perspective the MMF is likely to prove highly effective in terms of cost recovery, as long as repayment rates are maintained.

### **Replicating the Grameen Bank—Blueprint or Process?**

At the end of the 1991 IFAD will conduct a mid-term review of the MMF. Will they put it through the conventional donor 'sausage machine' and bring in a team of external consultants to judge the progress and hastily prepare a blueprint for a second phase? Or will they recognize one great lesson of the Grameen Bank experience—that the design and redesign of poverty-alleviation programmes is best done by those who have to manage them—and mount a review that permits the management and staff of MMF to analyse what they have learned in the first phase and to build on this for the next?

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