

# **Institutional Case Study: CUMO Microfinance Limited**



by

**Micro-Credit Ratings International Limited**

602 Pacific Square, 32nd Milestone NH8,

**Gurgaon 122 001 INDIA**

March 2009

*This study is a presentation of organisational facts and figures and is not an assessment*

## Table of Contents

Section	Page
<b>List of Abbreviations &amp; Definitions</b>	i
<b>Synopsis</b>	ii
<b>Financial, Operational and Social Snapshot</b>	iv
<b>1 Organisational background</b>	<b>1</b>
<b>2 Governance and Strategy</b>	<b>1</b>
2.1 Governance structure and strategic direction	
2.2 Market strategy	
2.3 Institutional Linkages	
2.4 Growth	
<b>3 Management Systems</b>	<b>5</b>
3.1 Development of systems	
3.2 Human Resources - staff training and productivity	
3.3 Management Information Systems	
3.4 Financial/cash management	
3.5 Internal controls	
<b>4 Financial Performance</b>	<b>9</b>
4.1 Portfolio Quality	
4.2 Operating efficiency	
4.3 Risk Management	
4.4 Asset and Liability Management	
4.5 Profitability and Sustainability	
<b>5 Social Performance</b>	<b>10</b>
5.1 Outreach	
5.2 Client retention	
5.3 Staff protection and retention	
5.4 Responsibility towards community and environment	
<b>6 Going Forward</b>	<b>12</b>
<b>7 5 years comparative financial statements</b>	<b>13</b>

## List of abbreviations

AGM	Annual General Meeting
ALM	Asset Liability Management
APR	Annualized Percentage Rate
BAS	Business Area Supervisor
BRAC	Bangladesh Rural Advancement Committee
CU	Concern Universal
DFID	Department for International Development
FAM	Finance and Admin Manager
FSO	Financial Service Officer
FSS	Financial Services
HO	Head Office
HR	Human Resources
M-CRIL	Micro Credit Ratings International Ltd.
MFI	Micro Finance Institution
MIS	Management Information Systems
MWK	Malawi Kwacha (local currency of Malawi)
OER	Operational Efficiency Ratio
OM	Operations Manager
OSS	Operational Self Sustainability
PAR	Portfolio at Risk
PPP	Purchasing Power Parity
RoE	Return on Equity

OER: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio

OSS: Ratio of total operating income to total costs for the year.

PAR (30 days): Ratio of unpaid principal balance on all loans with overdues greater or equal to 30 days to the total loan portfolio outstanding

Yield on Portfolio: Ratio of interest income on loans to the average loan portfolio for the year

Portfolio outstanding is the total of all the loans outstanding (total loans disbursed minus total principal repaid by client) that a financial institution holds at a given time

PPI: It is a user-friendly tool that estimates the likelihood that clients fall below the national poverty line, the poverty line that defines the poorest half below the national poverty line or the \$1/Day/PPP and \$2/Day/PPP international poverty lines. While the PPI is built on a universal methodology, each PPI is country specific and based on that country's best nationally representative income and expenditure household survey.

Repayment rate: Ratio of amount received till date to the total amount due this period plus the amount due from previous periods

RoA: Ratio of operational income/loss to average total assets.

Loan loss provisioning ratio: Total loan loss provisioning expense for the year divided by the average portfolio.

## Definitions

APR: It represents the income the MFI should earn on the loan. It includes interest, fees, commissions and the calculation method on the loan principal stated in an annualised figure. It does not include compulsory savings and effects of compounding.

Cost of Funds: Weighted average of interest rates on loans that fund the loan portfolio.

Dropout Rate: This is the proportion of members leaving the groups in relation to total existing members

EIR: It represents the financial costs to the borrower. It includes the effects of interest, fees, commissions, calculation method and other loan requirements (forced savings) on the total cost of the loan. It is expressed as declining balance interest calculation – either monthly or annual and includes the effects of compounding.

FER: Total interest expense (incl. interest on savings) for the year divided by the average portfolio.

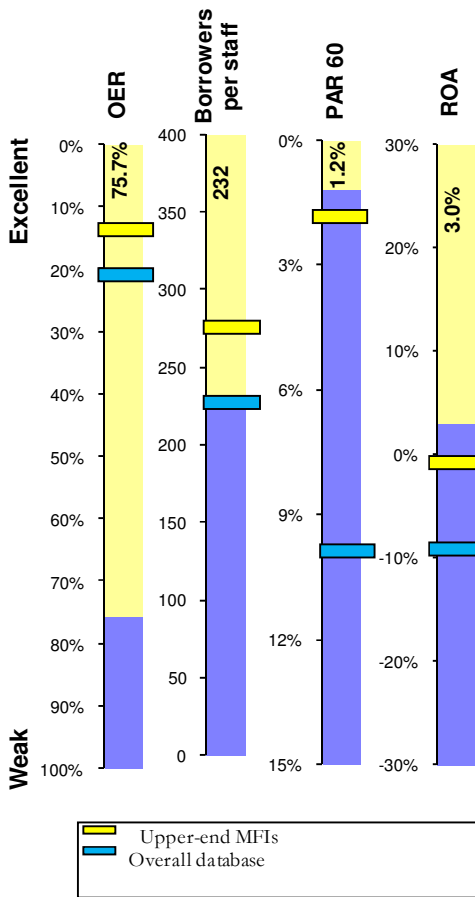
## SYNOPSIS

<b>CUMO Microfinance Limited</b>	<b>Dedza, Malawi</b> Visit: February 2009						
<p><b>Mission Statement:</b> the mission of CUMO is “to improve the lives of rural people by taking relevant, affordable and valuable financial services to the doorsteps of the remote and difficult to reach communities, particularly targeting the women”</p> <p><b>Vision Statement:</b> the vision of CUMO is to become a viable national rural microfinance provider meeting the diverse financial needs of rural households to reduce their poverty</p> <p><b>Goals:</b></p> <ol style="list-style-type: none"> <li>1. To achieve Operational Sustainability by December 2009 and Financial Sustainability by December 2011</li> <li>2. To have operations in 15 districts by 2012</li> <li>3. To offer a range of micro-credit, micro-savings and micro-insurance products, based on selective improvements and additions to the current successful product range;</li> <li>4. To serve an active client base of 45,000 saving and borrowing clients by 2010 and 60,000 by 2012</li> </ol> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <tr> <td style="width: 20%; padding: 5px;">Model:</td> <td style="padding: 5px;">Group</td> </tr> <tr> <td style="padding: 5px;">Financial services:</td> <td style="padding: 5px;">Enterprise loan (<i>Masika</i>), Agriculture loan (<i>Fumba</i>) and Business loan (<i>Kasupe</i>), Facilitates linkages for providing access to Life insurance and savings facility</td> </tr> <tr> <td style="padding: 5px;">Non-financial services</td> <td style="padding: 5px;">Plans to launch an entrepreneurship training programme for its borrowers</td> </tr> </table> <p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>⇒ Leadership commitment of top management to balance financial and social goals</li> <li>⇒ Strong policies for client selection, as indicated in poverty outreach</li> <li>⇒ Good HR systems with respect to recruitment, performance appraisal, gender and health issues of the staff</li> </ul>	Model:	Group	Financial services:	Enterprise loan ( <i>Masika</i> ), Agriculture loan ( <i>Fumba</i> ) and Business loan ( <i>Kasupe</i> ), Facilitates linkages for providing access to Life insurance and savings facility	Non-financial services	Plans to launch an entrepreneurship training programme for its borrowers	<p>CUMO Microfinance Limited is a not-for-profit rural microfinance company. The company was incorporated in the year 2007, under the Companies Act of Malawi as a company limited by guarantee. CUMO was founded and wholly owned by Concern Universal.</p> <p>The microfinance operations were initially started as a project of Concern Universal in the year 2000 to test the operational methodology and also to observe the impact of the project on the livelihoods of the poor. After satisfactorily establishing the methodology with achievement of a high repayment rate, in 2003, CUMO became a semi autonomous unit of CU. In May 2007, CUMO Microfinance Limited (limited by guarantee) was incorporated with a Board comprising CU Malawi senior managers (majority) and independent directors with expertise in finance, law and development. The guarantee was provided by CU and Dr Ian Williams, Executive Director of CU, making CUMO Microfinance Ltd a wholly owned subsidiary of CU.</p> <p>As is clearly articulated in the mission statement, CUMO provides a set of financial services (credit, savings and micro insurance) to rural clients located in remote and difficult-to reach areas. The organisation’s microfinance policies and products strike a fine balance between the mission to reach poor and its vision to deliver financial services viably. The products and policies are detailed later in this study.</p> <p>Micro-finance forms the core business of CUMO, with focus on providing credit to poor women, living in rural and remote rural areas. CUMO’s clients have access to small loans for starting an enterprise, investing in existing ones or for agricultural inputs. Starting loan sizes are deliberately kept low to allow for self selection of individuals with low income into the programme. 9.2% of CUMO’s clients are below the “food line”, Malawi’s extreme poverty line, while 36% clients are under the national poverty line and 92% under the \$2.5 per day poverty line. CUMO also undertakes market linkages, HIV-AIDS awareness programmes, and is in the process of launching entrepreneurship training.</p> <p>CUMO serves over 30,000 members, around 85% of whom are women. The organisation reaches out to: 2,359 groups in 1,486 villages across 11 districts of Malawi. CUMO uses group methodology for its operations, lending to mixed gender groups, formed through self-selection. The groups work on the basis of joint responsibility and financial liability, with members co-guaranteeing each other.</p> <p>CUMO is the second largest private sector microfinance institution in the country in terms of number of borrowers (<i>Microfinance Market Share, Malawi Microfinance Network,</i></p>
Model:	Group						
Financial services:	Enterprise loan ( <i>Masika</i> ), Agriculture loan ( <i>Fumba</i> ) and Business loan ( <i>Kasupe</i> ), Facilitates linkages for providing access to Life insurance and savings facility						
Non-financial services	Plans to launch an entrepreneurship training programme for its borrowers						

**Challenges**

- ☐ To reduce cost of operations by improving staff productivity
- ☐ To continuously upgrade staff skill sets
- ☐ To standardise and automate the MIS
- ☐ To maintain good repayment rate in the months of food shortage
- ☐ To reduce the cost of loan for borrowers
- ☐ To launch much needed entrepreneurship training for the members
- ☐ To achieve Financial Self Sustainability and reducing the dependence upon grant funds

Comparison of CUMO on select financial parameters with the MFIs in M-CRIL database



September 2008). For reaching this scale, CUMO has received its funding support from DFID. Till now it has not raised any loan funds.

The management structure of CUMO comprises an Executive Board, a Chief Executive Officer and three departmental heads of Operations, Finance & Administration, and MIS.

CUMO has a strong Board consisting of nine members with a mix of external and internal Directors. The high representation of Concern Universal on the board, which has the mandate of working for the poor, helps in keeping the focus on poverty outreach.

In the last three years, CUMO’s portfolio has expanded from MWK51 million in December 2006 to MWK180 million (equivalent to US\$ 1.3 million) in December 2008 (a compounded annual growth rate -CAGR of 52%). Its active client base grew from 17,300 to 28,997 (a CAGR of 19% over the same period). While CUMO’s growth has been steady, the approach to expanding portfolio can be deemed cautious, from the fact that as on 31 Dec 2008, 48% of the total funds of the organisation were unutilised and were kept in the bank as deposits or invested in short term government securities. The organisation realises that it works in a difficult context and targets poor families in remote locations wherein opportunities are limited. CUMO exercises caution in limiting risks by not expanding its outreach too fast.

In the year 2008, the organisation was able to break even. This was despite some reduction in the rate of interest for clients in higher loan cycles. Although financial self sustainability is an important goal for CUMO, the organisation has given itself time till 2010 to achieve 100% FSS, in line with its approach of cautious growth.

CUMO has well documented loan policies and procedures. The organisation currently faces challenge in finding skilled human resources which makes it important to invest in the training and development of its managerial and operational staff. This is imperative to ensure satisfactory implementation of organisational policies.

Looking forward, CUMO wishes to provide a range of services to its members. These will include financial services like health insurance, crop insurance, money transfer and non-financial services such as entrepreneurship training and providing market information to farmers. As mentioned earlier, CUMO intends to achieve this while also targeting to become a financially self-sustainable institution by the year 2012.

**Operational, Financial and Social Highlights**

Main Indicators	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
<b>Scale of Operations</b>					
Gross Loan Portfolio (MWK '000)	5,231	24,649	46,469	102,329	179,969
No of Members	9,520	12,741	17,300	22,830	33,873
Number of Active Borrowers	3,450	4,592	15,369	20,603	28,997
No of Groups	614	823	1,186	1,649	2,359
No of Field Staff	33	37	48	70	82
Total staff	53	57	80	115	125
No of Districts Covered	1	1	3	10	11
<b>Asset Quality</b>					
Portfolio at Risk (>60 days) / Gross Loan Portfolio	1.0%	1.0%	1.0%	1.0%	1.2%
Loan Loss Provision Expense / Average Gross Portfolio	0.0%	0.0%	13.9%	-4.9%	2.0%
Loan Loss Reserves	0.0%	2.0%	1.6%	1.8%	1.9%
Write-offs / Average Gross Portfolio	0.0%	0.0%	0.0%	18.7%	0.0%
<b>Efficiency and Productivity</b>					
Operating Expenses / Average Gross Loan Portfolio	623.1%	477.3%	281.2%	156.2%	75.5%
Cost per Borrower (MWK)	9,448	15,530	6,507	5,641	3,686
Average Outstanding Loan Size (MWK)	1,516	5,368	3,024	4,967	6,206
Number of Borrowers / Field staff	105	124	320	294	354
Number of Borrowers / Total Staff	65	81	192	179	232
<b>Capital Adequacy</b>					
CAR	269.4%	287.0%	198.5%	189.8%	163.3%
<b>Profitability</b>					
OSS	44.3%	42.7%	42.8%	64.8%	91.3%*
Income from Investments	3.8%	5.5%	5.9%	7.2%	6.3%
Net operational income / Average Equity (RoE)	-15.8%	-24.9%	-19.1%	-6.1%	3.3%
Net operational income / Average Assets (RoA)	-15.3%	-23.7%	-18.3%	-5.8%	3.0%
Portfolio Yield	243.5%	177.4%	97.6%	78.8%	62.8%
<b>Liquidity</b>					
Cash & Liquid Assets / Total Assets	71.2%	77.7%	56.0%	56.6%	51.0%
Cash & Liquid Assets / Total Deposits	4866.3%	3095.3%	2132.5%	1471.3%	1102.2%

\*As per M-CRIL's formula, OSS does not include non-microfinance incomes, such as interest from investments, sundry incomes and foreign exchange gains.

Figures for 2006 and before pertains to Concern Universal's microfinance operations while 2007 and 2008 are of CUMO Microfinance Ltd

Exchange Rate 1 US\$ = MWK 140

**CUMO's Social Outreach**

	<Food*	<National	<\$2	<\$2.5	>=\$2.5
Income line per capita per day (in MWK at 2005 PPP)	27.5	44.3	60.8	125.4	
% of clients below the line	<b>9.2</b>	<b>35.9</b>	<b>58.7</b>	<b>91.8</b>	<b>8.2</b>

\* The "food line" represents the subsistence poverty line for Malawi (MWK 27.5, comparable with USAID's "extreme" poverty line at MWK 29.3).

## 1 Organisational background

The CUMO initiative grew out of consistent research findings that Concern Universal had to provide credit as part of its wider livelihood programme, if it were to have significant impact on rural poverty reduction in Malawi. By 1998 there were two informal credit operations under the CU Dedza Sustainable Livelihoods Project funded by DFID, and the Dedza Integrated Food Security Project funded by EU and CORDAID.

CUMO was established as a stand-alone project in July 2000 to consolidate the informal credit operations of the two projects. While 2001 and 2002 were largely devoted to methodology development and fundraising, formal microfinance operations commenced in 2003 on the back of a financial commitment of 2.45 million Pounds from DFID. CUMO remained an autonomous microfinance unit of Concern universal from 2003 to May 2007 when it was transformed from a project to a fully-fledged, independent and incorporated microfinance company limited by guarantee.

CUMO currently operates in 11 districts in central and south Malawi, with its head office based in Dedza. CUMO's operations are focussed on providing financial services to the low income households of Malawi's rural population, especially to the women. It offers agriculture loans, small enterprise loans, business loans, facilitates linkages for micro-insurance and intends to complement these soon with non-financial inputs such as entrepreneurship trainings and market linkage services.

CUMO has achieved reasonable growth both in terms of its client base and portfolio outstanding. As on 31 Dec 2008 it had a membership base of around 34,000 and portfolio outstanding of around MWK 180 million (an annual growth rate of 48% and 76% respectively from the corresponding levels in December '07).

## 2 Governance and strategy

*CUMO has a competent, independent Board, focussed approach, client-centric product design and linkages with external agencies.*

### Shareholding

CUMO is fully owned by Concern Universal. Its two shareholders are Concern Universal (CU) and Dr. Ian Williams, who is the Director of CU and holds shares on behalf of CU. The combined shareholding is MWK 11,000 (MWK 10,000 of CU and MWK 1,000 of Dr. Williams).

### Board of Directors

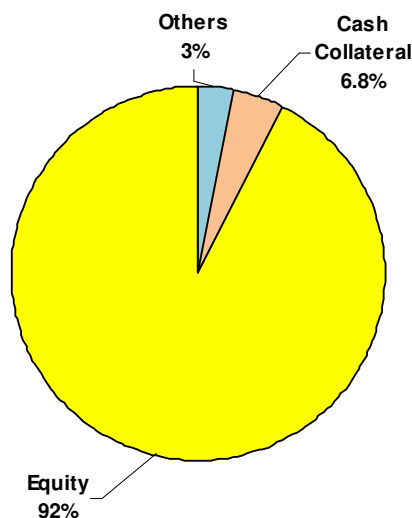
CU, as the majority subscriber, has the authority to appoint and remove the directors. At every Annual

General Meeting (AGM), one-third of the directors are required to retire by rotation. This is determined by the length of their service as directors. Retiring directors are eligible for re-election.

The Board has nine members, consisting of professionals from diverse backgrounds including development work, agriculture, accounting, law and economics. Five of the nine directors represent Concern Universal and are based in Malawi. The remaining four members are from diverse professions based in Malawi.

The Board meetings are held quarterly, and the level of strategic guidance provided in relation to growth is good. There are three committees, comprising of Board members, namely: Appointment and Remuneration committee, Credit committee and the Audit committee. CUMO's directors have shown a keen interest in the organisation's on-going sustainability, while encouraging optimum use of finances for extending the outreach to target clientele. Apart from the information provided to them by the management, the Board keep itself abreast with the operations by regularly evaluating the organisation's performance in internally conducted client satisfaction surveys, exit surveys and loan utilisation checks, as well as externally conducted impact assessments, audits and ratings. Internal studies were conducted by the Marketing and Product Development Officer (MPDO), whose position is currently vacant.

### Funding



CUMO's major source of funding is grants from DFID (with two extensions) of \$4.8m from 2003 – 08. As on 31 December 2008, net owned fund (equity) accounted for 92.4% of the total funds of CUMO. CUMO has not sourced any commercial loan funds till now and as such does not incur any financial costs. CUMO is in the unique position of having surplus funds at its disposal, 48% of the total assets have been used for short term

investments until the time they are used for expanding the loan portfolio.

CUMO has no plans to raise commercial loans or debt in any form over the next three years, as per its business plan. The organisation has a sizable surplus to meet its growth targets and is currently not in a position to bear financial expenses.

### Operational Strategy

CUMO employs a unique business model wherein there are no physical branch offices. The Loan Officers, called the Financial Service Officers (FSOs) are supervised by Financial Services Supervisors (FSSs) who in turn are supervised by Business Area Supervisors (BASs). All of them reside in the respective areas they cover. FSOs are assigned an operational area with a radius of 10 kms from their base. FSS supervise about 10 FSOs and are in turn supervised by a Business Area Supervisor, who cover a radius of 100 kms. BAS are supervised by three Regional Managers. There are currently two Regional Managers – one for the central region and one for the southern region. An additional Regional Manager will be appointed for the Northern Region once CUMO extends its outreach to the North.

At the Head Office level, bi-weekly meetings chaired by the Operations Manager (OM), involving the Regional Managers and Business Area Supervisors are used for monitoring and reporting.

CUMO has kept its loan approval process centralised. The loan application forms are screened by the supervisors at all level of hierarchy and finally approved by the OM. After the approval, a loan contract is prepared and forwarded to the Business Area Supervisors to pass on to the clients. The money is remitted to the respective bank accounts of the member groups and the group leaders withdraw the money from these accounts and distribute it among the members. The lead time for loan approvals and disbursement is two weeks. Centralised operations do not pose trouble since the current operations are spread out in a compact geographical region.

Repayments are facilitated using CUMO's linkages with the commercial banks and agriculture supply chains. In case there is a bank branch close to the members' village, the group representatives deposit the repayments directly in the commercial bank accounts of CUMO. The other option is to make use of two major farming input supply chains – Farmers' World and Agora. These chains act as collection agents and earn a commission of 0.5% on the collections.

### Market strategy

CUMO started its operations from Dedza, because of its affiliation with Concern Universal, its founder, which

### CUMO – institutional case study

had its office in this district. The organisation targets rural areas and focuses on women clients and the low income households. The low loan size provides a self selection mechanism for attracting the desired target group.

CUMO aims to target low income households, primarily in rural areas, with a strong emphasis on women. It does so through its Enterprise loans (Masika), which are designed to attract only the poor. The low loan size, starting from MWK 3,000, is sufficient only for very tiny businesses, which are typical of those run by small entrepreneurs in rural areas. Self selection takes place during the group formation process.

### Group Formation Strategy

CUMO uses the group model for financial intermediation, to encourage collective decision making, as well as to facilitate joint liability and preliminary risk assessment. CUMO does not undertake any preliminary screening, and potential clients are included in the groups of 10-20 through self selection. These groups save and lend internally, while undergoing a six week training, by CUMO's FSOs. After establishing a history of internal lending, the group can approach CUMO for its first external loan.

Group meetings take place fortnightly or monthly, and are attended by the Financial Service Officers. The meeting is a forum for collection of savings, internal lending and repayment of CUMO loans. CUMO's procedures ensure that group members collectively pass each other's loan applications, impose fines on members making late payments, and take turns for depositing collections. The group treasurer is responsible for cash counting, the secretary for book-keeping, and recording the minutes, and the chair for general direction, discipline and communication with CUMO. CUMO also facilitates the opening of a group savings bank account.

### Products

CUMO offers four loan products, the first being the enterprise loan product with following features:

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

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

Masika loan offers clients lower interest rates on subsequent loan cycles: 6% p.m. till the second cycle, 5% from third to fifth cycle, and 4.5% p.m. from sixth to the tenth cycle. Groups with members' average loans of MWK 7,500 have the option to shift to monthly repayments from their second cycle, while those taking an average of MWK 17,500 can extend their loan term to six months. Clients are incentivised to borrow higher amounts, while staying with CUMO's programme for several cycles.

CUMO also has an agriculture loan, called Fumba. This product is meant to be disbursed at the onset of the rainy season, so that clients can cultivate maize, tobacco, or other crops and repay at the end of the season. Fumba loans can only be accessed by clients who have successfully completed the first cycle of Masika. Initially the loan was offered in kind, generally in the form of agricultural inputs such as seed or fertiliser. However, when the government introduced a fertiliser subsidy, CUMO incurred losses on its stocks of fertiliser bought at original prices. Intervention of the government in agri input prices increased the risks for CUMO to offer this loan in kind. Now CUMO offers all its loans only in cash.

<b>CUMO's Fumba Loan Product</b>	
Clientele	Groups
Loan guarantee	Social guarantee
Min. Size	MWK 3000 (\$20)
Max 1 <sup>st</sup> loan size	MWK 10000 (\$67)
Max loan ceiling	MWK 40000 (\$267)
Term	4-6 months
Instalments	Balloon repayment at the end of the season
Loan linked savings	Internal saving should be as per group constitution and group bank account must have been opened

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

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

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

#### **Distribution of loan outstanding among products**

	<b>Masika</b>	<b>Fumba</b>	<b>Kasupe</b>	<b>Mthenthandevu</b>
# of loans outstanding	25,335	7,740	81	978
Average o/s loan (US\$)	26	61	256	74
% of portfolio	56%	39%	2%	6%

Internal savings are compulsory in CUMO. The organisation does not engage in the collection or management of these funds since it is not legally authorised to do so. It is compulsory for every client to save at every fortnightly meeting and clients may withdraw their savings only when they want to leave the programme. The minimum amount of saving is decided by the group, and usually is around MWK 50 – 200.

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

#### **Competition**

Malawi has one microfinance bank and two microfinance companies which are authorised to collect savings and are regulated by the central bank of the country. There are more than 70 Savings & Credit Cooperatives and four large to medium sized MFIs including CUMO. However, unlike other MFIs, the operations of CUMO are predominantly rural and it does not face much of competition. There is some competition in the semi-urban regions wherein CUMO's presence is limited.

CUMO might face competition in the near future from the bigger MFIs and some of the new entrants like BRAC. These bigger MFIs will have the advantage of lower operating costs due to economies of scale and may offer bigger size loans at a comparatively lower rate of interest to the clients of CUMO which could result in a higher drop-out rate for the organisation. CUMO's EIR is 149% (weighted average across products), and

monthly interest for its products is 4.5-6%p.m. as compared with 4-5% p.m. offered by other MFIs. Furthermore, some of the other MFIs collect processing fees as a one-time charge, while CUMO collects these fees for every loan cycle.

CUMO board has taken note of the increasing competition in its first quarter board meeting of 2009 and the organisation is gearing up for increased efficiency and better offering for its client base which would include a unique mix of financial and non financial services.

### Institutional Linkages

As mentioned earlier, CUMO has tied up with two of the leading banks in the country and two agri-input supply chains for collection of repayments from its borrowers. Till 2007, the organisation had linkage with just one bank and one of the input suppliers. It was important for CUMO to increase the number of linkages to facilitate growth and to reach closer to its members. An increased number of collection centres have provided some relief to the clients, however, limited banking infrastructure is still a bottleneck.

After partnering with NICO Life, a leading insurance provider in Malawi, to provide funeral benefit insurance to its clients, CUMO plans to introduce hospitalisation insurance, based on client feedback, and is in the process of negotiation with different insurance partners for introducing this product at lowest cost to clients.

CUMO has established linkages with various agricultural input companies and commodity exchange for the dissemination of agricultural techniques and price information respectively.

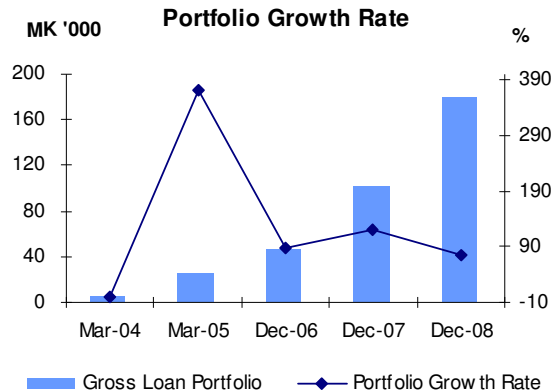
CUMO has partnered with the Malawi Agricultural Commodity Exchange (MACE) for dissemination of information to its clients since a large proportion of them are small farmers. Price information is displayed on prominent neon panels outside commodity trading centres.

CUMO has plans of linking up with Concern Universal and other agencies in the development space to extend entrepreneurship trainings to its clients, through a semi autonomous CUMO Training Centre. This will be done through a semi autonomous training centre. Most of the client surveys have highlighted the need to provide livelihood diversification options to the borrowers to reduce their vulnerability and improve their standard of living. The organisation is keen to roll out this service very soon and has applied for funding for the initial roll-out. Once the product becomes established, it will be offered on a for-payment basis.

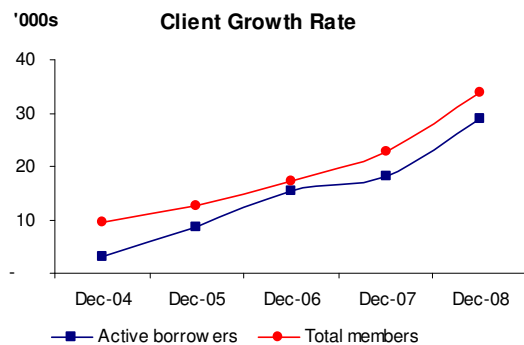
### Growth Strategy

### CUMO – institutional case study

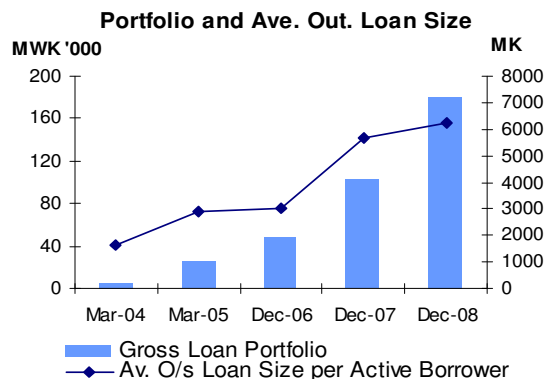
CUMO started its operations from Dedza, because of its affiliation with Concern Universal, its parent foundation, which had its office in this district.



CUMO has expanded its outreach to clients over the past 5 years, from 3,206 borrowers in 2004 to almost 29,000 at the end of 2008.

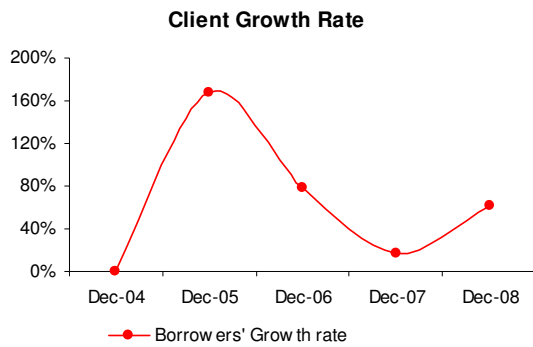


As can be seen from the graph below, average loans outstanding have ranged from MWK 2,000 in 2004 to MWK 6,000 in 2008, with a significant dip in 2006. This reflects CUMO's disbursements of very small loans to clients in rural areas. CUMO's average loan outstanding is the lowest in Malawi.



CUMO's growth in terms of borrower numbers has fluctuated from 79% in 2006 to 17% in 2007 and 61% in 2008, reflecting hesitance to expand in 2007, following

widespread defaults after the famine which affected Malawi in 2005-06.



CUMO's area of operation is in the southern and central part of Malawi, with districts Dedza (19.1%), Ntcheu (12.8%) and Rural Lilongwe (12.1%), constituting a large proportion of operations. CUMO also has operations in the districts of Phalombe, Balaka, Mulanje, Mangochi, Zomba, Salima, Machinga, and Thyolo. Areas of operation are rural and remote rural areas. Of late, expansion has brought CUMO's operations to the market centres and peri urban areas, where it is continuing to lend, and is pushing the business loan product (Kasupe) product for cross-subsidisation of its Masika and Fumba loans.

After expanding to 11 districts, CUMO Board has made a strategic decision to increase the penetration in the existing districts rather than moving immediately (in the current year) to the farther districts. This decision has been taken considering high costs involved in expanding to other districts. However, in order to tap the unserved market, CUMO has planned to grow (by 2012) to 15 districts, towards the northern region of the country in its current strategic business plan.

Attainment of operational and financial self sufficiency has been high on CUMO's list of priorities. The cost of operations remains high. Though CUMO has been able to break-even in the year 2008, it has not yet achieved operational self sufficiency (not considering the income from investments and gain from foreign exchange price fluctuation). A high cost of operations (mainly because of difficult to reach target areas, high cost of transportation in the country and weak infrastructure) has resulted in a high effective interest rate (discussed in the section on cost to clients).

In order to increase efficiency, CUMO chose to implement the branchless system and has also set productivity targets and performance based incentives for the staff. In terms of strategy it has decided to delink its remuneration policy from that of Concern Universal, when becoming a separately incorporated entity, since CU, (being a large international NGO) has higher salary structures than commercial MFIs in the country.

### 3 Management systems

*Well established supervisory hierarchy and internal control systems. Further improvements in staff productivity required for cost reduction, MIS is in transition, requires external technical support and training of human resource*

#### Development of Systems

Since 2000, CUMO has carefully crafted its systems in order to achieve a balance between client satisfaction, effective internal control, portfolio and client growth and achieving operational efficiencies. The organisation works in a challenging external environment wherein the costs are high, natural and political risks pose a challenge in maintaining control over loan repayments and human skill sets are limited, posing challenges in implementing innovative models and new products.

As mentioned earlier, CUMO follows a branch less system and follows a no cash handling policy for its staff. These two policies put an additional cost on client in terms of loss of productive time and travel expenses. However, these are important from the point of view of (i) reducing the operating expenses and (ii) reducing the risks of theft and misappropriation of funds. In order to minimise the expenses for clients, CUMO has managed to tie up with two leading banks and two farm input supply chains. These institutions act as collection points for CUMO. In future CUMO plans to use the smart card technology to make the process more efficient.

An adverse external environment has, to some extent, limited the growth of CUMO and it faces a challenge of continuously looking out for more institutional linkages, managing its existing linkages and upgrading its systems to meet the growth aspirations.

#### Human Resources

In 2008, CUMO formalised its human resource policies and also appointed a full time HR Manager. CUMO has an HR manual with clear set of policies with respect to recruitment, promotion, remuneration, staff appraisal, staff code of conduct and gender and health policies.

The management team of CUMO, which had been thin to start with, has been boosted in 2008 by the appointment of an experienced Operations Manager, a full time HR Manager and an MIS manager. The organisation has also made some steps in increasing the participation of second line Managers in decision making by implementing regular monthly management meetings as well as biweekly meetings of the Operations Committee. Further, the management team is gradually becoming more proactive in decision-making. These changes are a step forward to build a stronger second line of leadership and reduce the key-person risk on the CEO. An immediate priority for the management team is to increase the skill sets across different functions.

Historically, CUMO has preferred to promote staff from within the organisation to fill senior positions, however, in the recent past it has taken a more balanced approach by accepting external recruitments in positions where the skills are not immediately available from within.

The HR department carries out regular staff appraisals and training needs assessments. This is done in assistance from the operations department. The organisation is currently in the process of standardising and streamlining the appraisal tools, which will be easily understandable to the staff.

The challenge before the HR department currently is to find financial and human resources to carry out skill building trainings across all levels of the organisation. Apart from external trainings, it also needs to upgrade its process for induction and training of the new recruits.

During the year 2008, CUMO made a significant leap in its HR strategy by designing its own Human Resource policies, separate from those of Concern Universal, Malawi. This was necessary to reflect the different operating and recruitment environment, as CUMO needs to compete with other Micro-finance Institutions (MFIs) with a more incentive based remuneration

package. This will allow CUMO to make its operations efficient in the future.

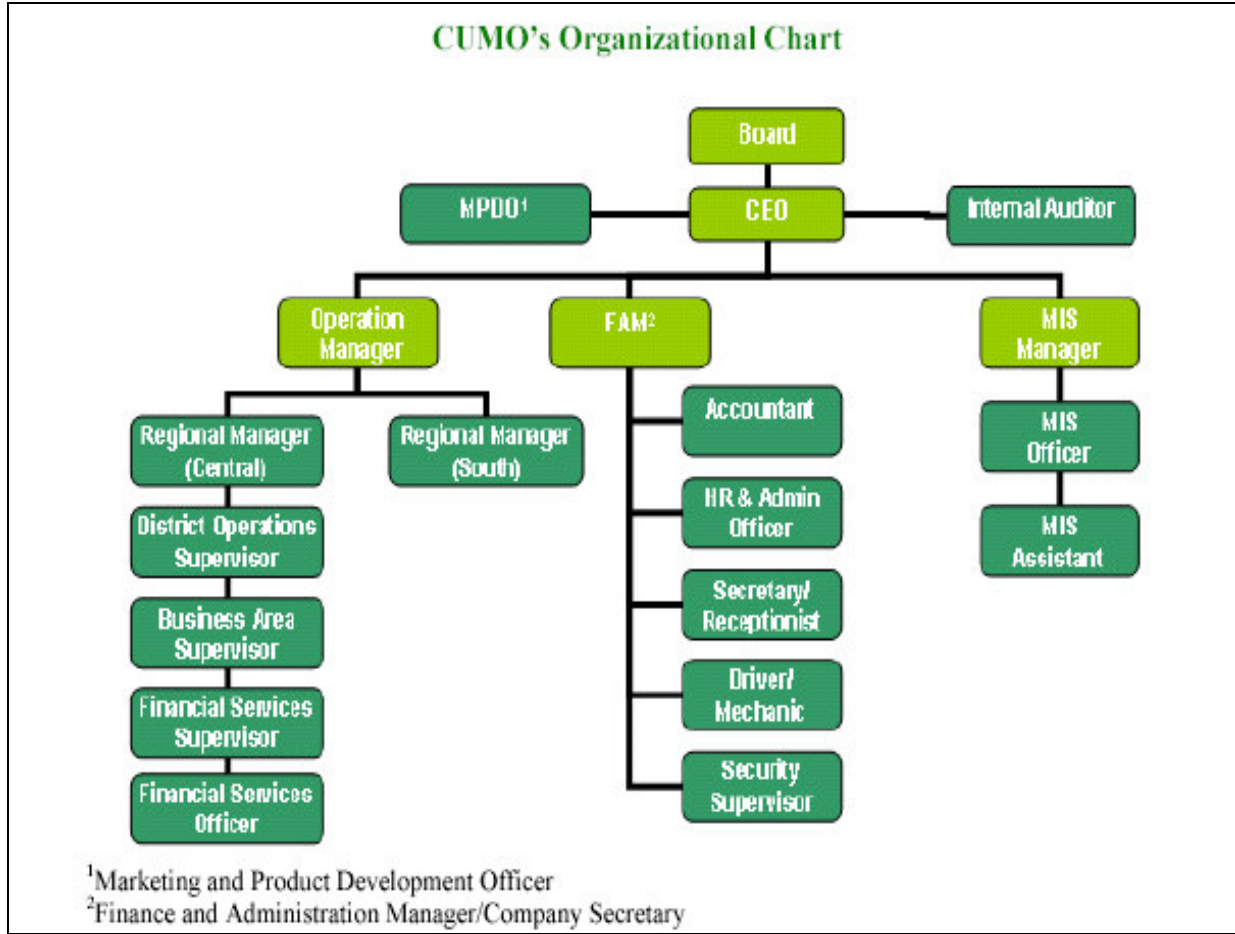
CUMO currently has an incentive system in place which incentivises staff on the basis of their achievement on the following parameters:

- Quality of portfolio
- Amount of loan portfolio
- Client retention

The incentive model is well designed; it strikes a balance between the financial goals of efficiency and social goal of client retention while also keeping the model objective and simple. However, the challenge for the organisation is to make more frequent pay-outs (currently the payments are made annually instead of quarterly). This is important for the system to effectively motivate the staff and produce desired outputs.

CUMO's staff turnover has been reasonable at 13.6% for the year 2008. The HR department conducts an exit interview with each staff member leaving the organisation and have found that many left the organisation to pursue higher studies. The survey reveals that CUMO, does not lose many staff members to other MFIs

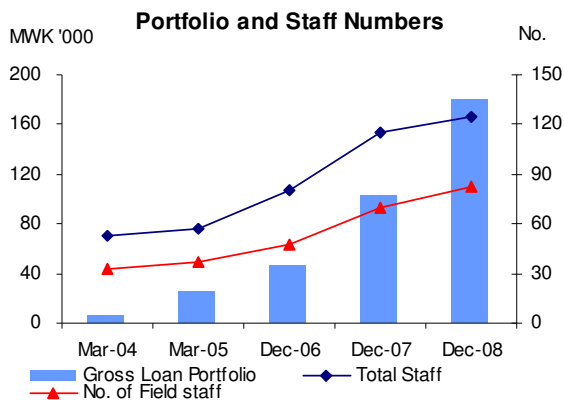
**Organisation Structure of CUMO**



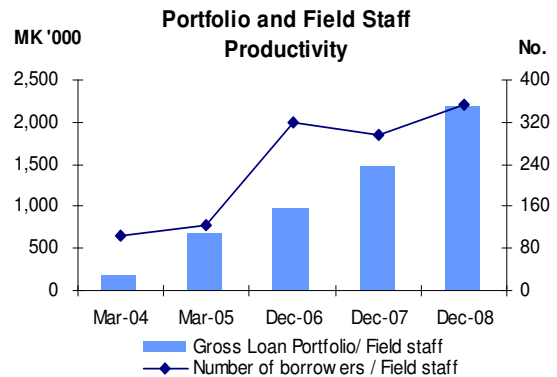
\*Positions of MPDO and District Operations Supervisor are currently vacant.

**Staff Productivity**

Staff costs are the major operational cost for CUMO representing 77% of total operating costs, for the year ending 2008. CUMO had 104 staff at the start of the year 2008, the number increased to 121 by the year end.



ratio over the years and has now reached a reasonable level.



The client to total staff ratio as on 31 December 2008 stood at 232 while the client to total field staff ratio was 354. There has been a considerable improvement in this

CUMO plans to gradually reduce its staff costs, which as earlier mentioned constitutes 77% of its total operating costs. This will be done by the alignment of its salaries and benefits with other micro-finance institutions in the country. A change in its remuneration policy is part of CUMO's transition from a donor funded programme to a sustainable microfinance institution. However, the

organisation may find it challenging to maintain the motivation levels of its staff with such a change.

## MIS

With a unique operating system, with no branches and external cash collections, the MIS of CUMO is unique. The MIS and accounts are currently centralised at the head office. Since all the disbursements are approved at the head office, a centralised MIS perfectly serves the purpose. However, the challenge lies in recording the collections. The details of collection made at the

Farmer's World and Agora depots are collected by the BAS who then send these to the HO. This has resulted in considerable delays in updating the system at the HO. Recently CUMO has made a change in its MIS policy. It has made the MIS and accounts department responsible for collecting the data from the collection centres. The impact of this change on the timely availability of information and operating costs is yet to be observed. CUMO also plans to utilise smart card technology to make its MIS efficient. However, the organisation has not yet taken any step in this direction.

CUMO maintains two major information systems: one for accounting and one for loan tracking. Repayment or disbursement information is first entered into Kredit, the loan tracking software by Technical Development Solutions, USA. This data is then exported to Excel and reconciled with the Bank statements before being posted into the accounting system. CUMO faced a number of technical difficulties in implementing the "Kredit" software. As the supplier was based in the US, it was expensive as well as time consuming to get the much needed post-installation services.

In the year 2007, CUMO deliberated on shifting to new software, Bankers Realm. This software is able to support all banking transactions and the supplier has an office in Nigeria. However, the Board finally decided that since CUMO is not going to become a deposit taking (bank) in the near future, it is better to spend time and resources on the up-gradation of the current system.

CUMO is currently in the process of upgrading its MIS, removing bugs and erroneous data and updating the database with support from the USA based software supplier. Till the issues are completely sorted out, the organisation is using a manual system, wherein the FSOs fill a template containing basic indicators on the performance of their portfolios. This data is consolidated at all levels by the supervisors and ultimately by the Operations Manager at the HO. Since the manual involvement in this system is high, CUMO faces the challenge of maintaining integrity of the data. The data is reconciled monthly with the bank statements to check for clerical or other errors.

### Internal controls

In 2007 and 2008, CUMO management has emphasised documentation of its policies across all functions. CUMO also carries out regular training and refresher courses for its staff to orient and reorient them with these policies.

Internal procedures and controls at CUMO are well structured to provide reasonable cover for various risks. However, considering the fact that country risks are high especially with respect to the food security and the political risks, CUMO has maintained a fairly cautious approach and kept major decisions centralised at the HO

The current weakness in the internal control systems is mainly with respect to the MIS. As stated earlier, MIS is in the state of transition, data is being cleaned up updated into the system. Reliability of the data is though not a big concern since, there are multiple and rigorous verification checks in place.

In the past, CUMO faced some sporadic incidents of misappropriation of funds, since 2007 cash related risks have decreased significantly as the cashless system is being implemented. However, since most of the clients of CUMO are illiterate and some do not have proper pass books, there is some risk of clerical errors and fraud. CUMO is in process to make sure that all its members have receipts and passbooks and they are well aware of their loan and savings balances.

### Internal audit

CUMO has two Internal Auditors, who visit all 11 districts/business areas, at least once (usually twice) a year. The scope of the internal audit is wide and covers analysis of portfolio quality, portfolio growth, matching MIS and accounts, and matching head office accounts and MIS data with field-level data. Client protection issues include checking of group level records, and spot-checks at meetings to check for adherence to CUMO policies and procedures. The audit also checks physical existence of clients on a sample basis to avoid disbursement of ghost loans. Measures taken in the case of delinquent loans are followed up to make sure that staff are acting in accordance with CUMO policies. Audit reports are detailed and of good quality, with recommendations for corrective action. The reports are submitted to the CEO and presented to the Board at each quarterly meeting.

The scope of the audit can be broadened eventually (when the team is expanded) to include loan utilisation checks, and client level credit risk assessment. Compliance will require more attention from the Board and management, as it appears that the same mistakes are often repeated.

CUMO now needs to increase the size of its audit team. A branchless system has certain inherent weaknesses in terms of supervision and control and to compensate for that the organisation now needs to increase the frequency of audits.

CUMO's statutory audit is done by KPMG, a reputed firm of auditors. The external auditors apart from auditing the financial statements, also put emphasis on auditing the operations. CUMO's previous major lender, DFID, also carried out regular assessment of CUMO's operations. DFID extended its funding twice, due to CUMO's good grant management of the initial funds. The association between DFID and CUMO has lasted 5 years. Further, CUMO commissions a credit rating and impact assessment study every year. A large number of external checks and rigorous audits mechanisms have ensured transparency in the organisation.

### Financial and Cash management

The Finance and Admin Manager (FAM) looks after financial and cash management. Since the organisation has a large proportion of its funds (48% as on 31 December 2008) invested in the short term securities, managing funds becomes an important task. CUMO has avoided making investments in risky assets like equity or long term debts. The organisation makes investments only in secured short term government securities. However, the returns on these investments are lower than the inflation rate in the country, further lowering the financial self sufficiency ratio of CUMO.

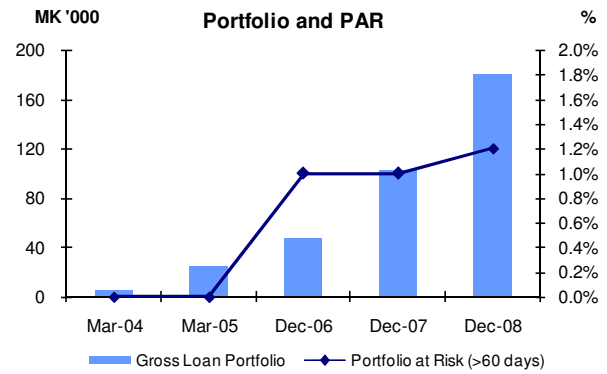
Since the organisation does not have repayment obligations, cash planning does not pose much of a challenge. However, its unique model of taking the assistance of farm input suppliers has made it important for it to make regular follow-up with them to reduce the cash turnover time, thereby reducing its investments in the unproductive current assets.

## 4 Financial performance

### Portfolio Quality

Portfolio Quality at CUMO is good with PAR (>60) at 1.2% as on 31 December 2008. In 2006, the organisation suffered significant losses due to large scale famine and drought in the country. It had to then write-off 19% of its total portfolio in the subsequent year (2007). Except for this, the organisation has been able to maintain its PAR (>60 days) below 2%, as shown in the graph below.

### CUMO – institutional case study



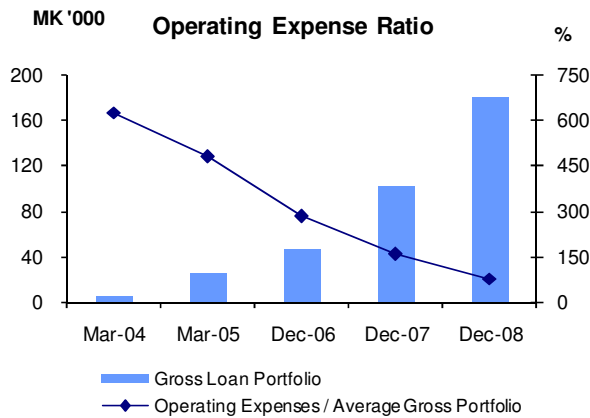
Despite a low PAR, CUMO does face some portfolio quality risks. These are mainly due to some external factors such as famine, drought, political risks and some internal factors such as misappropriation and fraud. After following the “no cash handling policy” it has been able to limit the risk of misappropriation.

CUMO lends mainly in the rural areas of Malawi. CUMO members are rural poor who rely mainly upon traditional crops such as tomato and maize. A few clients have taken loans for live stock but still there seems to be a high concentration of portfolio in agriculture and trading of agri-commodities, which is matter of concern. Lack of diversification in livelihood activities has meant an increased risk and low level of income for the members. CUMO has taken note of this situation (captured in its internal loan utilisation surveys) and has decided to provide entrepreneurship training to the members to facilitate more opportunities which will eventually also reduce its portfolio quality risks. A key task of the training will be to encourage clients to diversify their profile of businesses, and take up non-traditional, viable business opportunities.

### Operating efficiency

CUMO has a high cost of operations (OER of 75.7%). The cost per borrower is high at MWK 3,686. CUMO operates in the regions which are difficult to reach; cost of fuel in the country is high which increases the cost of travel. A weak infrastructure limits staff productivity. However, a major reason for high cost is the limited size of portfolio due to very small average outstanding loan sizes (MWK 6,206 - US\$44 per client).

CUMO is well aware of its high cost of operations which limits its ability to reduce the costs for the members. It has, in the recent past, placed a higher emphasis on reduction in the OER. The organisation has well defined staff productivity targets and staff remuneration policy. CUMO plans to de-link its remuneration structure from its parent Concern Universal and make it commensurate with microfinance industry standards. CUMO's efforts have already shown results in bringing the OER down, as is shown in the graph below.



### Risk Management

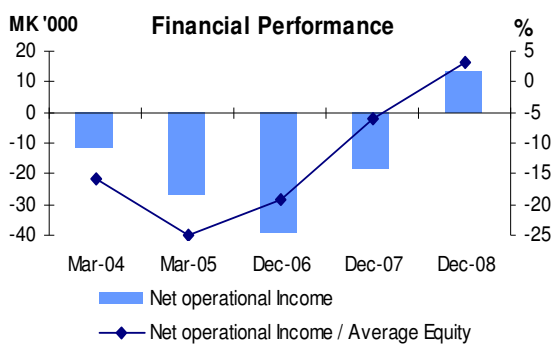
Apart from the portfolio quality risk, CUMO does not face any significant financial or liquidity risks, mainly because it has not yet availed any commercial borrowings and does not have short term repayment obligations.

### Asset and Liability Management

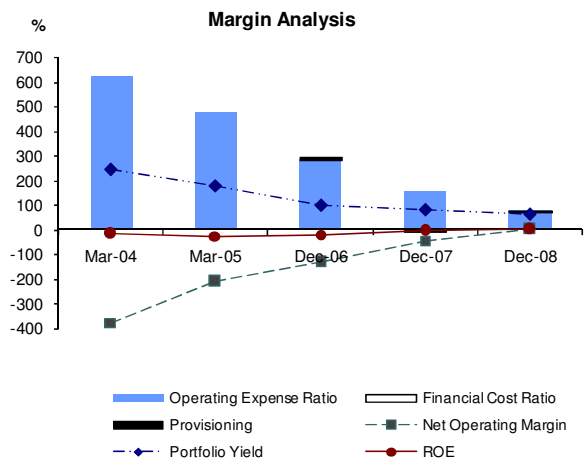
With a high capital adequacy of 163% and no borrowings, CUMO is in an absolutely comfortable position with respect to ALM.

### Profitability and Sustainability

CUMO achieved break-even point during the year 2008. The organisation is also quite close to achieving the operational self sufficiency (OSS at 91.3% for the year ending 31 Dec 2008). RoA improved considerably from (-5.8%) in 2007 to 3.0%. The income from investments has always been low in the range of 5.5% to 7% per annum.



The portfolio yield which dipped in 2007 to 79% due to an increased PAR, was still low at 63% for the year 2008, a phenomenon which will require further investigation by CUMO, since it may point to issues with portfolio quality at the field level.



## 5 Social performance

CUMO's Board and management place strong emphasis on social performance, in keeping with the mission to achieve on the double bottom line. CUMO has conducted internal studies on annual studies on client satisfaction, client exit and loan utilisation, while external impact evaluations have been made twice (in 2004-05 and 2006). The reports, which are submitted to the Board, are a good starting point for implementation of full-fledged social performance management on an on-going basis.

### Outreach

The Social Performance Assessment conducted by M-CRIL in February 2009, suggest that

- None of the CUMO's client had ever borrowed from a bank.
- No client had an individual savings bank account before CUMO began its programme. Clients would use savings to buy assets or use in their business.

It also reveals that CUMO has reached a large proportion of clients who have not had any access to financial services, except through local moneylender (*katapila*) loans.

The study observes that CUMO has a reasonably strong poverty outreach, with 58.7% of its clients falling below the \$2 poverty line, and with 36% of clients within the national poverty line. Only 8.2% of its clients can be classified as non poor (above \$2.5).

### Client retention

CUMO regularly monitors its client retention rate which gives an initial indication on client satisfaction and relevance of its products and policies for the members. It follows the M-CRIL formula for calculating dropouts. Although the MIS system drops out clients who are inactive for 25 weeks, the dropout rate is also calculated manually.

		Dec-07	Dec-08
a	Total clients at year end	22,830	33,873
b	New clients during year	5,987	12,906
c	Clients at beginning of year	17,300	22,830
	<b>Rate of dropout [(c+b-a)/c+b]*</b>	<b>2%</b>	<b>5%</b>
	<i>Number of dropouts</i>	<i>457</i>	<i>1,863</i>

\* M-CRIL formula

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

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

The exit surveys conducted by CUMO are of good quality, and in addition to documenting the reasons for dropout, the studies also record the changes which the clients suggest would prompt them to re-join CUMO, and analyses the relationship between dropout and delinquency. On the basis of the observations made, CUMO has introduced monthly repayments and has also reduced its interest rates for clients in higher loan cycles.

### Staff protection and retention

CUMO has a capable HR manager, who has 5 years experience in her field. CUMO's approach to training and skill development appears adequate in terms of orientation and classroom training, but more mentoring and hand-holding may be necessary at the field level in order for trainee FSOs to achieve the target client base of 350 active borrowers (per FSO). Senior staff and management are sent for external trainings. In-house refresher trainings are conducted for the field staff, on policies and procedures. All staff are covered with medical insurance, accident and life insurance, and are eligible for gratuity payments. Staff who have stayed with CUMO for five years get a cash award and a certificate.

### CUMO – institutional case study

Salary levels are good as compared to other MFIs in Malawi. Staff are also eligible for incentives, which can range from 20-50% of their basic salaries. Staff are also granted personal loans from CUMO, limited to 50% of their salary. CUMO also pays for the funeral expenses of staff or their immediate family members.

### Responsibility to Community & Environment

CUMO exhibits a strong responsibility to community in its functioning. CUMO has from inception believed in gaining the community leaders' acceptance before commencing operations in the area. CUMO's operations manager seeks the approval of the Traditional Authority (a type of local self government), and the authorisation from the District Executive Committee at the district assembly before CUMO enters an area.

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

Most other MFIs in the country have based their operations around towns and market centres, but CUMO's unique model has enabled it to reach remote rural locations, thereby enabling the very poorest to access its loans. The product design ensures that only very poor persons get selected into the programme.

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

## 6 Going Forward/Conclusion

CUMO is in a good position to consolidate various aspects of its operations, tighten its systems, and launch various non financial services, to complement its existing offering to clients.

CUMO has improved many aspects of its operations, through its responsiveness to client feedback on both product design and repayment processes. However, the organisation must now counter challenges in staff capacity with adequate training and up-gradation.

Aspects of staff satisfaction can also be studied internally so that CUMO can make amendments to HR policies if required, before the next round of expansion takes place.

CUMO would do well to increase outreach so as to make better use of the funds at its disposal, and lower operating costs through economies of scale.

CUMO's systems require tightening, especially with regard to MIS. Manual calculation of PAR and dropout results in duplication of work and efforts should be made to integrate accurate querying in the system, so that these reports can be automated. Integration of social performance management indicators into the existing system is possible, and CUMO can undertake client

#### **CUMO**– institutional case study

profiling and tracking of important indicators, once it has made the required changes in the software.

CUMO has to focus on achieving financial self sustainability, whilst expanding its portfolio. The current period of “conservative growth” is the best opportunity for CUMO to make the required improvements in systems, and to consolidate its position in the existing operational area, before it undertakes expansion and deepening of outreach in the post-election phase of the year 2009.

**Five year comparative financial statements of CUMO microfinance limited**
**Balance sheet as on**

31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-07			31-Dec-08
MWK	MWK	MWK	MWK	<b>Assets</b>	MWK	MWK
				<b>Current assets</b>		
11,108,535	23,595,457	67,448,915	63,249,032	Cash in hand and bank		16,916,147
43,954,446	93,158,788	88,213,754	143,746,945	Investments		235,413,873
10,183,698	3,701,909	64,646,373	40,352,930	Other Current Assets		43,253,867
<b>5,231,450</b>	<b>24,648,675</b>	<b>46,469,076</b>	<b>102,328,870</b>	<b>Loans outstanding</b>		
				Gross loans outstanding	<b>179,969,226</b>	
	(492,978)	(763,548)	(1,838,613)	(Loan loss reserve)	(3,417,799)	
-	(492,978)	(763,548)	(1,838,613)	Net (Loan loss reserve) after writeoff		
5,231,450	24,155,697	45,705,528	100,490,257	Net loans outstanding		179,969,226
<b>70,478,129</b>	<b>144,611,851</b>	<b>266,014,570</b>	<b>347,839,164</b>	<b>Total current assets</b>		<b>475,553,113</b>
				<b>Long term assets</b>		
	738,820	492,546		Intangible assets		
6,817,100	4,867,779	11,625,637	17,590,755	Net property and equipment	19,242,034	
<b>6,817,100</b>	<b>5,606,599</b>	<b>12,118,183</b>	<b>17,590,755</b>	<b>Total long term assets</b>		<b>19,242,034</b>
<b>77,295,229</b>	<b>150,218,450</b>	<b>278,132,753</b>	<b>365,429,919</b>	<b>Total Assets</b>		<b>494,795,147</b>
				<b>Liabilities and Net Worth</b>		
				<b>Current liabilities</b>		
1,131,527	3,772,003	7,299,515	14,069,341	Security deposits from borrowers		22,893,206
1,179,647	3,939,588			Insurance fund		
		1,773,489	2,979,184	NICO insurance		5,153,350
587,500	705,000	942,550	1,793,804	Other liabilities and provisions		2,086,656
<b>2,898,674</b>	<b>8,416,591</b>	<b>10,015,554</b>	<b>18,842,329</b>	<b>Total current liabilities</b>		<b>30,133,212</b>
				<b>Long term liabilities</b>		
			4,581,311	Loan Capital		1,800,001
				Employee Severance provision		5,681,103
-	-	-	-	Total long term debt		-
-	-	-	<b>4,581,311</b>	<b>Total long term liabilities</b>		<b>7,481,104</b>
<b>2,898,674</b>	<b>8,416,591</b>	<b>10,015,554</b>	<b>23,423,640</b>	<b>Total Liabilities</b>		<b>37,614,316</b>
				<b>Net Worth</b>		
31,000,227	69,920,852	139,767,718	176,913,968	Donated Equity	176,913,968	
55,185,638	110,580,480	206,197,827	261,498,372	Grants	363,679,257	
(11,789,310)	(11,789,310)	(38,699,473)	(77,848,346)	Retained net surplus/(deficit)	(96,406,061)	
(11,789,310)	(26,910,163)	(39,148,873)	(18,557,715)	Current net surplus/(deficit)	12,993,667	
<b>74,396,555</b>	<b>141,801,859</b>	<b>268,117,199</b>	<b>342,006,279</b>	<b>Total net worth</b>		<b>457,180,831</b>
<b>77,295,229</b>	<b>150,218,450</b>	<b>278,132,753</b>	<b>365,429,919</b>	<b>Total Liabilities and Net Worth</b>		<b>494,795,147</b>

**Income statement for the year ending**

31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-07			31-Dec-08
MWK	MWK	MWK	MWK		MWK	MWK
12,722,280	26,029,530	32,786,728	8,613,002	<b>Income</b>		
				Interest on loans to customers	88,670,228	
				Insurance Service fees	1,737,760	
				Recovery of loans written off	5,014,416	
1,683,188	3,740,180	5,306,142	8,300,667	Loan fees	12,034,776	
18,292	477,150	1,929,391	4,169,831	Penalties	4,705,894	
	174,794	4,950,904	1,844,500	Admission fees from members	700,662	
	12,573,815	16,631,650	13,711,455	Bank interest	14,396,988	
	1,407,703	4,205,851	6,493,561	Foreign exchange gains	6,378,348	
6,381,499			917,094	Sundry Income	3,017,337	
<b>20,805,259</b>	<b>44,403,172</b>	<b>65,810,666</b>	<b>94,050,110</b>	<b>Total income</b>		<b>136,656,409</b>
				<b>Financial costs</b>		
<b>20,805,259</b>	<b>44,403,172</b>	<b>65,810,666</b>	<b>94,050,110</b>	<b>Gross financial margin</b>		<b>136,656,409</b>
		4,951,411	(3,611,734)	Provision for loan losses	2,864,694	
				Write-off	13,905,513	
<b>20,805,259</b>	<b>44,403,172</b>	<b>60,859,255</b>	<b>97,661,844</b>	<b>Net financial margin</b>		<b>119,886,202</b>
				<b>Operating expenses</b>		
20,508,734	43,433,090	55,953,580	67,766,916	Salary	81,983,727	
1,986,086	3,099,357	2,516,719	3,496,272	Depreciation	3,329,103	
10,099,749	24,780,888	41,537,829	44,956,371	Administrative & other expenses	21,579,705	
<b>32,594,569</b>	<b>71,313,335</b>	<b>100,008,128</b>	<b>116,219,559</b>	<b>Total Operating expenses</b>		<b>106,892,535</b>
<b>(11,789,310)</b>	<b>(26,910,163)</b>	<b>(39,148,873)</b>	<b>(18,557,715)</b>	<b>Net Surplus/Deficit</b>		<b>12,993,667</b>
(11,789,310)	(26,910,163)	(39,148,873)	(18,557,715)	Profit before tax (PBT)		12,993,667
				Tax expense/credit		
<b>(11,789,310)</b>	<b>(26,910,163)</b>	<b>(39,148,873)</b>	<b>(18,557,715)</b>	<b>Profit after tax (PAT)</b>		<b>12,993,667</b>

Figures for 2006 and before pertains to Concern Universal's microfinance operations while 2007 and 2008 are of CUMO Microfinance Ltd