

MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES SOCIETY LIMITED
ANNUAL REPORT

For the year ended 31 December 2022

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LETTER FROM THE CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS

Dear Esteemed Valued Members,

We, at Malawi Union of Savings and Credit Cooperatives ("MUSCCO") Limited, would like to suggest that our member SACCOs adopt this theme with some minor modifications: "Enable the financial future of your members through Ownership by Cooperation Among Cooperatives."

People such as Jeff Bezos, Elon Musk, and Bill Gates, who have the most secure financial futures, are celebrated by all. These individuals share a crucial characteristic: they are all business owners. Clearly, the founders of the Cooperative movement were acutely aware of the significance of ownership. Before becoming customers, members become proprietors. Individually, members may lack the skills and capital to own the businesses they patronize, but collectively, they can. Access to loans and savings are essential for a financially independent future, but if we are genuinely committed to empowering our members, we must do much more.



True leaders do not restrict the future of their adherents based on their own leadership limitations. Individually, SACCOs can provide fundamental financial services, with some being more sophisticated than others. However, for our members to have the most financially empowered future possible, we must collaborate.

As SACCO leaders, if we provide our members with opportunities to create wealth even as they consume, they are better positioned to attain financial independence. Members of SACCOs should be actively encouraged by their SACCOs to acquire significant ownership stakes in the businesses from which they, the members, purchase goods or services. Consequently, SACCOs should have substantial ownership in the businesses from which they purchase goods and services. Cooperatives have always been structured so that their members own the enterprises whose products and services they consume.

As a financial and development institution for the Financial Cooperative Sector, MUSCCO Limited has been tasked with fostering discussions on a SACCO Value Proposition. It is one of Financial Empowerment tool via Ownership Power. Our Project 2030 has offered and sought opportunities for SACCOs to own significant shares in companies that offer digital financial services, data analytics, insurance services, housing cooperatives, and can extend to learning and capacity building (i.e., Cooperative Development Institute), food production, tourism-based services, and green and blue economy products.

Yes, we continued to register progress in our cooperative initiatives in the year just ended and these include:

- Our partnership with CIC Insurance Limited for cooperative ownership shares: we saw over ten SACCOs lining up to buy shares in CIC
- the MSME Project funded by FINES, a World Bank Project administered by Reserve Bank of Malawi; about eight SACCOs received Credit to develop MSMEs products
- the MUSCCO Project 2030: Continued Membership growth by 13% ; Total SACCOs Assets growth by 18% Cooperative Development Institute roll-out, and continued Social Transformation of our members through various SACCOs;

Last year, we urged our members to increase your MUSCCO Central Finance Facility member shares. This did not happen satisfactorily; we hope to see more capitalization this year. We are glad however, that the Union ended with yet another positive financial performance owing it to patronization of the union's programs by SACCOs, continued prudence in financial management and support from our

partners such as IFAD (through FARMSE), GIZ and We Effect. The Board and Management, thank you all for the support rendered to the Union in year 2022. We also appreciate guidance from our regulator, Registrar of Financial Institutions (Reserve Bank of Malawi) which ensured our operations remain resilient and sustainable against very many disruptions including, the tough economic situation.

Fellow leaders, we all despise talk shows, so we can't take solace in assessing our leadership on all of the progressive issues we've covered. We need to respond. In action, I accept there is a risk. That is why the adage "talk is cheap" applies. We cannot follow the safe and cheap alternative in the face of rising food prices and a slowing economic growth rate. We must accept and handle our risks. Thus, despite the challenging environment we are operating in, challenges in our technology pursuits, we must find solutions for continued excellent service to our members. I know it will get worse, but that is why we are chosen to be in leadership positions. To lead growth, with or without challenges.

Today, I challenge myself, our Board of Directors, and you, our leaders, to take the risk of proving the potential of the cooperative business model and the strength of its strategy of Cooperation Among Cooperatives. I am looking forward to the commencement of serious debate and, more importantly, decisions on how we as leaders want to deliver on an empowered financial future for our members.

Colonel Richard Chidzungu, President of MUSCCO

MUSCCO | BOARD OF DIRECTORS

The Board of Directors of MUSCCO Limited



Lt Col. Richard Chidzungu | Board President



Mrs. Patricia Somanje | Board Vice President

Mr. Sanderson Nyambwani | Board Secretary Mr. Alex Ntungama | Board Treasurer



Mr. Fortune Chanza
Board Members



Mr. Wiskes Mkombezi
Registrar of Cooperatives, Ministry of Industry



Mr. Henry Chiwalo | Technical Director



Ms. Zaitwa 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

Chapter 2

- AHL Employees SACCO
- Chitukuko SACCO
- Creative Arts SACCO
- Dedza Teachers SACCO
- DWASCO Employees SACCO
- FINCOOP SACCO
- Fodya SACCO
- Kandiya SACCO
- Kasupe SACCO
- Limbe Leaf Employees SACCO
- LUANAR SACCO
- Malawi Police SACCO
- Mchinji Teachers SACCO
- Msilikali SACCO
- MUFUNA Community SACCO
- M-Unity SACCO
- Plan Malawi SACCO
- RBM Employees SACCO
- Umodzi SACCO
- UN SACCO
- UNC Project SACCO

Chapter 3

- Kawiluwilu SACCO
- Mzuni Employees SACCO
- Rumphi Teachers SACCO
- Timbiri SACCO
- United Civil Servants SACCO

Chapter 1

- ADMARC Employees SACCO
- BNC SACCO
- Chilungamo SACCO
- Future SACCO
- Mudi SACCO
- Polymed SACCO
- PTC Employees SACCO
- SUCOMA SACCO
- Sunbird Tourism SACCO
- Tadala Community SACCO
- Thyolo Teachers SACCO

ORGANIZATIONS AND PARTNERS

World Council of Credit Unions

ACCOSCA ACECA

CDF Cooperative Development Foundation

WE EFFECT

FUM Farmers Union of Malawi

NASFAM

JIFAD Investing in rural people

FARMSE

Malawi Coat of Arms

Bridgepath Capital Invest to Achieve

NORWEGIAN CHURCH AID octaliance

The Development Fund Fighting hunger and poverty

NB National Bank of Malawi

MALAWI UNION OF SAVINGS AND CREDIT CO-OPERATIVES SOCIETY LIMITED

2021 MUSCCO MANAGEMENT REPORT CARD

For the year ended 31 December 2022

1. 2022 MUSCCO MANAGEMENT REPORT CARD

Cooperative greetings!

This report summarizes our accomplishments in 2022. We are once again pleased to share the 2022 Annual Report showing our progress, some of the challenges encountered and our plans going forward.

1.1. General Economic Overview

The report is evaluated against the backdrop of the economy's overall performance in 2022. The economic outcome has had a significant impact on business. The operating economic climate was and remains unfavourable for savings and loan operations. The economy's devaluation and inflation worsened, making it challenging to conduct business. The majority of businesses were negatively impacted by the rising prices of goods and services, the scarcity of foreign currency, which caused a fuel shortage, and the unreliable electricity and water supply. At the end of 2022, GDP growth rates decreased by fifty percent. Inflation fluctuated between 27% and 28%, up from 10% to 11% the previous year, and experts expect the situation to worsen in 2023. Donors are withholding funds because their domestic budgets have expanded due to the influx of Ukrainian immigrants or because of other economic effects of the conflict in Ukraine. Due to global economic challenges, partners also implemented budget adjustments. Despite the unfavourable economic conditions, the Union has continued to endure the storm and reported positive developments.

SACCO DEVELOPMENT PROGRAMS

1.2. Performance Overview

The Union continued to implement the 2019-2023 Strategic Plan, which is based on five key strategic pillars: Inclusive Growth, Innovation, Capacity Building, Communication and Visibility, Risk Management, and Sustainability. This report summarizes MUSCCO's performance in 2022 with respect to these main strategic pillars. The report must be evaluated in light of the economic performance of 2022 and a number of obstacles encountered by MUSCCO, including the effects of COVID 19 and the cholera pandemic.

1.2.1. Inclusive Membership Growth

Our tenet of operation is financial inclusion. Consequently, guaranteeing financial access for all Malawians in both rural and urban communities. In this regard, MUSCCO supports SACCOs to ensure that they recruit more members within their operational areas. Consequently, ensuring that more Malawians have access to financial services via SACCOs.

1.2.1.1. SACCOs Promotion and Support

Under the promotion and support of SACCOs in 2022, the Union continued to support all SACCOs and pre-SACCOs. Despite that SACCOs operated in an unfavourable economic climate due to the impact of COVID 19 and the general economic downturn, it is encouraging to note that the sector has shown resilience, with the majority of SACCOs recording positive financial performance, and the cumulative membership of 2022 SACCOs reaching 195,376 from 173,321 against a target of 226,937, a 13% increase.

1.2.1.2. Community Mobilization, Outreach and Financial Inclusion Initiatives

Through rural outreach programs, the Union continued to support national financial inclusion. Support of Financial Access for Rural Markets, Smallholders and Enterprise Programme (FARMSE) and We Effect enabled The Union to reach out to 255,736 beneficiaries consisting of 60% women, 19% men, and 21% youths through Village Savings and Loans Associations (VSLAs) and other associated social livelihoods support initiatives in 2022. This resulted in

improved incomes, business idea generation, gender equality in responsibilities, and climate segregation.

1.2.2. Innovation and Technology Enhancement

At the end of 2022, 24 of the 41 SACCOs affiliated with MUSCCO were utilizing the Microfinance Hub FinTech software on the Shared Computerization Platform. To improve electronic funds transfer to and from SACCOs and members, the Shared Platform has been connected to Mobile Network Operators to facilitate mobile phone-based financial transactions. By December 2022, ten SACCOs were offering mobile-based financial services.

1.2.3. Advocacy, Communication and Visibility

The Union in the reporting year continued to engage both the Regulator and Registrar of Cooperatives on furthering a conducive regulatory environment to spur sector 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 considerations were made in the proposal to reconsider 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

During the period under review, The Union facilitated a number of programmes aimed at enhancing the Board and Management as well as SACCO personnel capacities. In total, 494 SACCO personnel were trained, surpassing the annual target of 490 by 101%.

1.2.5. Financial Sustainability and Risk Management

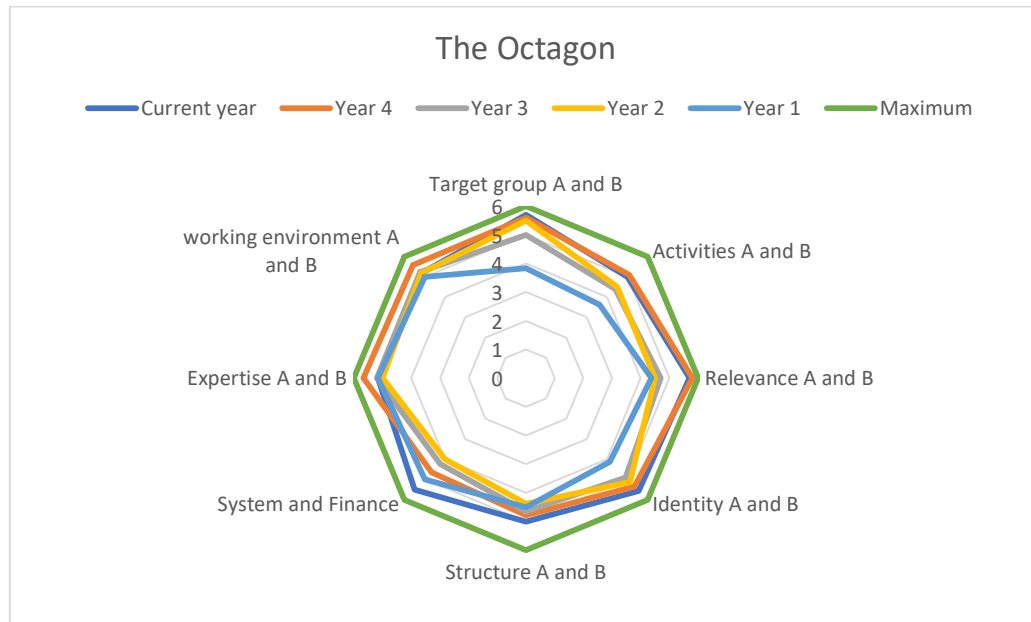
Since SACCOs transitioned to prudential regulation roughly a decade ago, the Sector has experienced annual growth and stability. In December 2022, nearly 94% of SACCOs were in full compliance with regulatory standards, up from 92% in December 2021.

1.2.5.1. System Quality Assurance

To assure the safety and soundness of SACCOs, a total of nineteen (19) internal audits, thirteen (13) financial audits, and three (3) Chapter audits were conducted. Internal audits contributed to SACCOs' compliance with regulatory standards throughout the year, as deficiencies were addressed in a timely manner. MUSCCO's principal departments and sections were also audited to improve internal controls and risk management program implementation. The Monitoring and Evaluation section of the Union monitored the progress of the work plan and advised Management to remain on track.

1.2.5.2. Institutional Strengthening

The Union conducted a self-assessment using the Octagon tool, with assistance from We Effect, to monitor its performance, systems, and relevance. The graph below displays the results of the evaluation.



The Union has been conducting its self-evaluation for the past five years. The 2022 assessment revealed that The Union's relevance to affiliates and the national agenda on financial inclusion stood out with a score of 5.8 out of 6, and that The Union and SACCO structures were more responsive to the needs and expectations of members with a score of 5. The operating legal environment remained favourable at 5 out of 6, while the economic environment was negatively impacted by the aftermath of Covid 19, the Russia-Ukraine war, and low agricultural production due to tropical cyclones and late onset and early cessation of rains in the 2021/22 agriculture season, receiving a 4.5 out of 6 rating. Expertise innates demonstrated adaptability in service provision rated a 5 out of 6.

1.3. MUSCCO | FINANCIAL PERFORMANCE AND POSITION REVIEW

1.3.1. Performance Overview

For the fiscal year that concluded on December 31, 2022, MUSCCO Limited ("the Union") recorded a net surplus of K101.655 million (2021 K133.315 million).

A fall in net interest income of 8%, an increase in non-financial lines of revenue of 19%, and a decrease in donor income of 34% were the main causes of the performance's 11 percent decline in total operating income (2021: K1.137 billion).

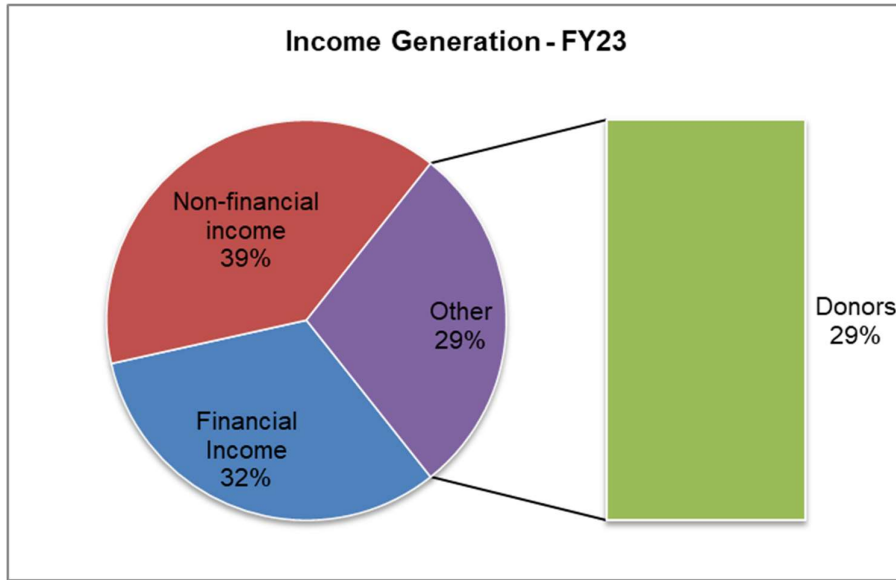
At the same time that donor income declined by 34% to K310 million in 2022 from K473 million in 2021, interest expense decreased by 31% to K59 million from K85 million, while gross expenses only slightly increased by 0.35 percent to K1.049 billion from K1.046 billion.

The share of associate profits dropped from K122.586 million to K75.788 million, a 38% decline, while the allowance for impairment losses dropped from K57.945 million to K80.414 million in 2021.

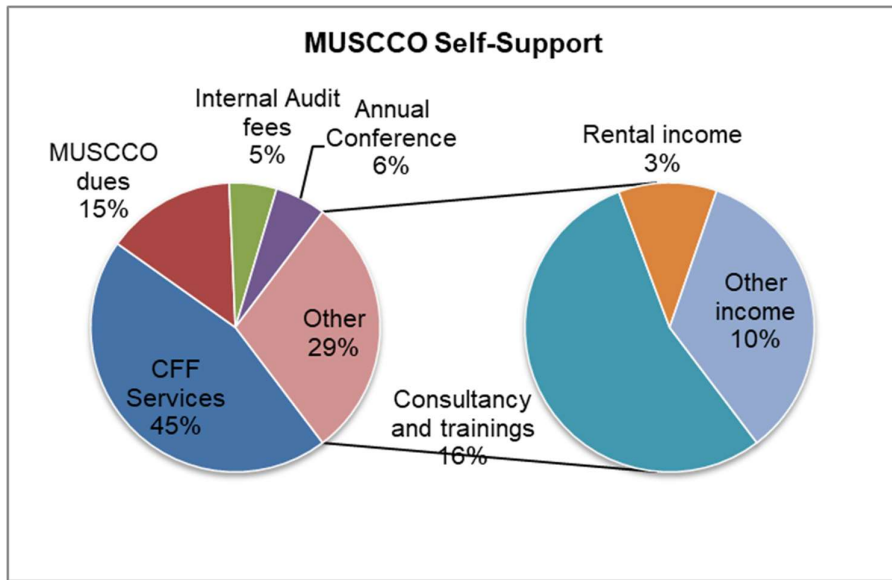
As a result, return on assets (ROA) increased to 9% from 5% in 2021 and return on equity (ROE) increased to +33% from 18% in 2021.

For the year ended December 31, 2022, the Directors report a profit for the year of K101.655 million (2021: K133.315 million). The preceding statements of financial position, profit or loss and other comprehensive income, changes in equity, cash flows, key accounting policies, and other explanatory information clarify the specific outcomes and condition of affairs of the Union.

See figure 1.0 below



See figure 2.0 below



Salient Features			
			Change
Earnings and expenses - MK'm	FY21	FY22	%
Gross Income	1228	1083	▬ -12%
Donor Income	473	310	▬ -34%
Gross Financial Income	399	349	▬ -13%
Interest expense	(91)	(66)	▬ -27%
Loan provision	(80)	58	▼ -173%
Non-financial Income	356	424	▲ 19%
Total Income	1137	1017	▬ -11%
Expenses	(1046)	(1049)	▲ 0.29%
Net profit/(loss) attributable to members	(96)	(96)	▲ 0%
RoA	5%	9%	▲ 84%
RoE	18%	33%	▲ 84%

1.3.2. Union financial position

Total Assets increased by 38 percent to K4.489 billion in 2022 (K3.259 billion in 2021), primarily due to a 98 percent increase in loans and a 28 percent increase in noncurrent assets. These were financed by a 46 percent increase in member shares and deposits to K3.236 billion (compared to K2.210 billion in 2021) and a 37 percent increase in capital to K1.155 billion (compared to K841 million in 2021).

Financial Structure			
Assets and Liabilities for MUSCCO (MK'mn)			
Type of Asset	FY21	FY22	Change %
Cash and cash equivalents	234	120	-49%
Short term Investments	245	30	-88%
Total member loans and advances	1122	2221	98%
Other Current Assets	328	414	26%
Non Current Assets	1328	1704	28%
Total Assets	3257	4489	38%
Type of Liability			
Deposits and member shares	2210	3236	46%
Liabilities to Donors	117	3	-97%
Other Current Liabilities	88	95	8%
Total Capital	842	1155	37%
Total Funding	3257	4489	38%
	-	-	
Loans / Total Assets	34%	49%	70-80%
ST Investments / Total Assets	8%	1%	
Non-Earning Assets / Total Assets	58%	50%	
Savings and shares / Tota Assets	68%	72%	70-80%
Total Capital / Assets	26%	26%	10%
Other Liabilities / Total Assets	6%	2%	

1.4. MUSCCO | FINANCIAL COOPERATIVES PERFORMANCE

1.4.1. Overview of Financial Cooperatives (SACCOs)

The subsector remained sound and resilient during the period under review. Total capital ratio stood at 28.6 percent (25.2 percent in December 2021). The ratio was well above the minimum

regulatory benchmark of not less than 10.0 percent of risk-weighted assets. This notwithstanding, two institutions were adversely undercapitalised, while three are pending liquidation.

Further, the subsector registered asset growth of 16.1 percent to K55.2 billion in December 2022. In terms of earnings, the subsector reported a surplus of K7.38 billion as at end December 2022 compared to K4.8 billion earned in the corresponding period in 2021. The increase in surplus was mainly on account of increase in interest income to K16.96 billion in December 2022 from K11.9 billion in 2021.

In addition, asset quality as measured by Non-Performing Loans (NPLs) was within the acceptable limit of 5.0 percent. The sub sector's NPL ratio stood at 4.1 percent as at end December 2022 and registered a slight improvement from 4.2 percent registered in June 2022.

Liquidity ratio at 13.1 percent was above the minimum regulatory benchmark of not less than 10.0 percent of sum of total savings deposits and redeemable shares. The liquidity ratio depicts an increasing trend from 8.1 percent reported in June 2022. Refer to Chart 16.

The improvement in liquidity ratio was on account of a decrease in delayed remittances of payroll loan deductions by government ministries, departments and Agencies (MDAs). As at end of December 2022 government MDAs owed SACCOs unremitted payroll deductions amounting to K0.4 billion (K3.99 billion, as at end of June 2022). Further analysis indicated that seven SACCOs (sixteen SACCOs, as at end of June 2022) reported liquidity ratios below the minimum regulatory benchmark of not less than 10.0 percent. The SACCOs have been advised to regularize their liquidity positions by 28th February, 2023, after which further enforcement actions will be instituted.

1.4.2. 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.

We thank all stakeholders that supported achievement of these results

2. Future Outlook

Just like economic experts have predicted, we anticipate tougher economic in year 2023 and this calls proper planning and focus in order to sustain our operations. We will need to fully institutionalize Risk Management programs in all our operations and exercise a lot of prudence in our spending. Above all, we will need to capitalize our operations more than ever before and build strong investments. Digitizing our operations is a panacea and cannot be substituted if we are to remain competitive on the financial market place.

The Union will continue to drive the SACCOs' growth agenda in line with 2063 Wealth Creation Government plan.