



EXPECTED RESPONSE BY SACCOs TO POTENTIAL LIQUIDITY CHALLENGES DUE TO EFFECTS OF COVID-19 PANDEMIC

Considering how the COVID-19 pandemic is ravaging economies across the globe, we all know that Malawi has not been spared. All Financial sectors including SACCOs will surely be negatively affected. Early last week, we shared how Kenyan SACCOs liquidity has been affected by the pandemic. We noted increased loan demand from members and deposit withdrawals by members that has exceeded most of the SACCOs liquidity levels. This is the same across the world and the most affected are SACCOs that are seemingly not very well capitalized and have been facing cash liquidity challenges even before COVID-19. Obviously, coupled with the long term challenge of 'Delayed Remittances of Payroll Deduction' by Government Ministries/ Departments, parastatals and even private companies to SACCOs, the case might be dire in Malawi. Today, we want to share some of the world over responses to expected SACCO Liquidity challenges as advised by World Council of Credit Unions (WOCCU) and African Confederation of Cooperatives Savings and Credit Association (ACCOSCA) as could be adapted to Malawi.

Liquidity Management Strategies

In order to ensure that SACCOs continue serving their members amidst this crisis, it is imperative that as a matter of urgency, SACCO Boards must consider deploying the following strategies:

1. **Review of SACCO Expenditure Plans:**

It is important to understand that we cannot operate business as usual. The COVID-19 pandemic is necessitating change if we are to stay afloat. We need to reduce expenditure significantly and maintain liquidity for member services. To this effect, we saw the Registrar of Financial Institutions directing that we put on hold all heavy capital expenditures, dividends declaration and we might extend this to all non- essential/ urgent expenditures. If for example, the Government announces a "Lock Down", this will call for a completely reduced level of operations and most of the

staff members should be asked to work from home. We note most SACCOs are already doing this to prevent the spread of the Corona Virus.

2. Review Liquidity Management Policies:

This entails review of loan and investment policies. In order to ensure liquidity for all, SACCOs might consider putting on hold all long-term and focus on short-term loans. Similarly, it might be necessary to liquidate part of long-term fixed deposits as they mature, and fix them in shorter-term securities. In a worst case scenario, suspend lending until liquidity position improves.

3. Developing Contingency Plans on SACCO Liquidity:

Boards will need to develop contingency plans as to how they would respond to shortage of cash. Stress scenarios based on minimum liquidity required by the SACCO each week/month in order to service members successfully will be required. Thus, an analysis of cash in- flows against expected cash-outflows will give an estimated picture of the liquidity required. The plan will also guide the board how and where they will get cash injection to defray cash deficits. This might include short-term external borrowing, early liquidation of longer term securities or indeed disposing off of fixed assets in case of acute liquidity situations.

4. Cooperative Advocacy and action on Delayed Payroll Deductions:

As SACCOs in Malawi, we will need to advocate so strongly the SACCO brand together. It will be imperative to inform all Government structures and Private institutions the contribution SACCOs are making to the Malawi economy and livelihoods through provision of inclusive financial services. To this effect we will need a unified effort to collect the 'Delayed SACCO remittances' from whichever institution is owing SACCOs including Government Ministries. We know this might be exacerbated if the Government Ministries and Parastatals decide not to effect deductions for the next three months responding to the Presidential directive for 'moratorium' on loan and interest repayments due to effects of COVID-19. A Task Force including most affected SACCOs must be established and with

MUSCCO's guidance, arrange for meetings with concerned Government Ministries, departments, parastatals and private Companies to ensure the issue of 'three months' moratorium' is fully understood to be applied on case to case basis and that all not remitted payroll deducted funds should be remitted to SACCOs.

5. Cooperative Approach Through Collective Pooling of Finance through Central Finance Facility

This is the time that SACCOs need to cooperate more than before. SACCOs are at different levels of development and the liquidity challenge is not affecting all of them in the same manner. Actually to some SACCOs, the COVID-19 effects are; decreased loan demand and increased savings levels because investment in business has declined significantly. Indeed, to some SACCOs there has been less effect on members' flow of income to the extent that such SACCOs investment levels have not been affected. To this effect, the Central Finance Facility is coming up with a three months 'COVID-19 Investment Product' that will carry one or two percent interest above normal CFF Investment (depending on the amount invested), with a view of attracting more SACCO investment in CFF which can be used to lend to other SACCOs in need of short-term liquidity during this time.

6. Actively source Funding to support Automation of SACCOs:

During COVID-19 pandemic, one would wish that all SACCOs were automated and are taking advantage of technology to provide financial services on line or using Mobile Phone technology. Mobile Network Operators have significantly reduced transaction charges that our sector is not taking advantage of because we are not fully automated. Going forward, MUSCCO and SACCOs should actively be resourceful to support automation and linkage to Mobile Network operators. The process could continue even after COVID-19 pandemic as one of the growth and financial inclusion strategies.

7. Disaster Preparedness Beyond COVID -19

COVID - 19 has surprised all and has revealed glaring shortfalls that we need to develop some level of preparedness for future occurrences of this kind or worse. As the world is becoming a global village, effects of disasters

in any corner of the globe have potential to destabilize economies. Going forward therefore, a structured CFF should be a domicile of SACCOs' liquidity reserve that can support system/sector in the event of rising liquidity demanding situations as they occur.

As we wade through the crisis at hand, we will continue updating and guiding the sector in a number of areas as we, together, fight to survive the pandemic. Meanwhile, if your SACCO is in distress or you need support in coming up with contingency plans in liquidity Management, please contact MUSCCO for support.

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