Executive Summary

Peace came at a time when Mozambique had no noteworthy experience in microfinance. Microenterprise credit experiences, led by the disastrous CCADR, the institutionally paralysed Urban Microenterprise Support Fund, and the inflation-plagued first phase of GAPI, formed the list of unimpressive precedents on which the design for the support of demobilized was to evolve. Given the difficulties associated with loan recovery of these previous experiences, it is little wonder that many donors did want to get involved in the apparent futility of loan provision and recovery.

The immediate post conflict reintegration package was a mish mash of programmes reflecting agency specializations, tacked together with a semblance of coordination through coordinating and supervisory commissions. Many of the agencies involved were anxious to produce concrete results in as short a period as possible, eyeing new post-conflict challenges on the horizon, especially Angola.

Though no comprehensive evaluation has been made of programmes that should have had longer-term developmental perspectives (in particular those associated with income generating activities), available information suggests an almost complete failure to create any sustainable activities amongst the beneficiaries. Such activities were usually badly conceived with little back-up technical advice and no supporting finance for working capital needs. Some agencies, conscious of the time factor for completing their objectives, refused to
collaborate with relevant Government agencies. Under more ideal circumstances, the combination of agency skills, had all the potential of generating a good maximalist approach to microenterprise promotion.

It was only in a relatively peaceful and stable environment that serious best practice microfinance began to emerge in Mozambique. Despite the success of some of the more famous early microfinance initiatives such as the Grameen Bank and the Banco Sol, locally based experts associated with microenterprise development felt that the conditions for microfinance in Mozambique were not yet suitable. Thus, when World Relief announced in 1993 that it was to start a village banking operation targeting the poorest of the poor, the initiative was met with extreme skepticism.

At that stage and for some time afterwards, microfinance was of the maximalist variety associated with NGOs transitioning from emergency relief services to development programmes which typically encompassed a number of integrated components such as basic business training, credit (often subsidized), skills training, agricultural extension, etc. Since the early 1990s, the French institute IRAM had been studying the possibility of establishing a sustainable microfinance programme in a number of provinces. Eventually a pilot programme involving associations of solidarity groups was established in 1997 in Maputo. A year or two after World Relief’s Village Bank initiative, CARE began a programme of solidarity group lending in several large towns.

As microfinance became internationally recognized as an effective development tool and as donors and NGOs witnessed the impressive results of the World Relief programme, microfinance of the minimalist variety was adopted as a priority strategy. To date, the overall performance of microfinance operations in Mozambique remains fairly chequered although there is a clear tendency by both international and national NGOs alike to adopt CGAP type minimalist approaches leading to institutional sustainability.

Though these are very encouraging signs, a healthy debate has recently begun in relation to the impact of minimalist microfinancing. Critics point out that emphasis on attaining CGAP performance standards has resulted in credit policies similar to the formal banks i.e. lending to low risk clients, particularly short-term commercial loans. Consequently, we have seen progressive distancing by NGOs from their more productive clients such as carpenters, mechanics and tinsmiths. The George Soros funded Open Society Initiative for Southern Africa (OSISA) is encouraging the return to a more maximalist approach involving the capacity building of MFIs, the promotion of both vocational skills and basic business training and a more proactive role for business associations (e.g. in creating a more enabling legal environment).

Microfinancing, the world over, has found it difficult to support agricultural activities.
Mozambique has been no exception. An attempt by the FAO to get donors and Government to adopt a "Master Plan" for rural finance failed. CARE has entered into an agreement with the Dutch Government and CLUSA to finance the activities of selected producer associations with the longer term perspective of financing individual members or solidarity groups of members for non-agricultural activities. More recently, GAPI, normally giving loans in excess of $10,000 to small enterprises has entered into an agreement with a large agro-business specializing in cotton production and processing to provide microfinancing to small producers, requiring prerequisite basic business training. These are encouraging signs that microfinancing is breaking away from the relatively easy, low risk commercial vendor lending paradigm of the past few years.

The Mozambique experience, in terms of developing a "code of conduct" or some form of guidance for future post-conflict situations has provided some important insights. To keep the issues of microfinance and post-conflict in perspective it must be borne in mind that Peace came to Mozambique before microfinance became a household word in development. Even though good examples of microfinance existed internationally, few agencies were brave enough to pursue strategies that made more developmental sense in the long run but that carried the unexpected risks associated with untested innovations. The adopted reintegration policy essentially was a composite of conservative highly subsidized programmes offering free training, free kits and small capital grants. Although there is little in the way of palpable results of such assistance, the strategy may have "bought" peace by keeping the beneficiaries happy over the critical threshold post-conflict period.

The process of reintegrating returning refugees and dislocated persons did not enable any opportunity for introducing family-specific development assistance outside of standard agricultural inputs. It is questionable if agencies should even contemplate microfinancing within the highly fluid situation of post-conflict resettlement. The immediate short term requirements of 1m returning refugees and even more dislocated, requires enormous logistical resources accompanied by the urgent need to rebuild minimum social infrastructures to avoid the possible return of the refugees in the absence of minimum health and education conditions. Much time was also spent in delicate diplomatic discussions between former antagonists and the handing over of administrative responsibilities from the rebels to the Government. Given the expertise needed for good microfinancing and the critical need for microfinance programmes to demonstrate that their presence in an area will be long term, it is the author’s opinion that transitory agencies should not contemplate microfinancing but should rather focus on establishing the right conditions for effective microfinancing.

In conclusion, Mozambique is now approaching 7 years of sustained peace, economic stability and surging investor confidence. It is one of the few examples today of a peace process that was cut and dry without resumed hostilities. The way in which microfinance developed within a framework of peace and significant
political/ economic reform cannot by itself be said to be in any way significantly different than the development of microfinance in other countries not recently affected by war. What is significant is that the microfinance beneficiaries surviving a highly destructive and cruel war of some 16 years, managed to so quickly adapt themselves to microfinance opportunities - the underlying caveat being that prevailing socio-economic conditions ensured that sustainable microfinance was possible with vulnerable groups.

What is not yet clear is to what extent we can introduce CGAP type of microfinancing in more volatile situations. If the Mozambican peace process were to have taken place today, it is obvious that the issue of providing microfinance to war-affected populations would have got much more attention than in 1992/3. Less obvious is whether the agencies in the business of ensuring sustained peace would be willing to provide credit rather than grants to demobilized soldiers who have sacrificed years of their life fighting for a cause. Previous "credit" programmes for such demobilized have clearly shown that that the gratitude extended by those for whose cause they fought will hardly be seen as sufficient compensation. Realistically, few donors are likely to want to get involved in programmes that chase after demobilized soldiers with delinquent loans.

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1. Introduction

The study of microfinance in a post-conflict situation is one that must be approached from various perspectives. The case of Mozambique is of interest as a case study because peace was not only part of an ongoing process of significant change, but was also the critical catalyst for accelerating key components of that change process. It will be long debated to what extent the seemingly interminable war was responsible for bringing about the ideological changes demanded by the financial backers of the dissident forces of RENAMO. Whatever the truth, significant changes through a structural adjustment policy (PRE) initiated in 1987 and the new Constitution of 1990, are likely to have been instrumental in bringing about the peace process. Peace came in the midst of change but the economy was still largely state-controlled, inflation was over 60% and the national currency was in a constant downward spiral. A few years after peace, Mozambicans started to enjoy rapid economic growth, a negative inflation rate, a currency that is now the most stable in the Southern African region, while also struggling to absorb enormous injections of foreign investment. A discussion of microfinance in a post-conflict situation in Mozambique will not only consider typical post-conflict issues such as the reintegration of demobilized and war-affected populations, but also must examine the evolution of microfinance in the context of rapid economic, social and political change. These changes resulted in major shifts in the institutional, attitudinal and legislative environment in which microfinance was practiced.

This paper will look at microfinance from two perspectives. At one level, it will look at how microfinance was used or not used (as in the case of the majority of returning refugees) to facilitate the process of reintegration in the immediate post-conflict period. This will be done by examining exactly how effective these approaches were and to see i) to what extent these experiences served to evolve microfinance in the country; ii) to what extent such programmes are relevant in other more common situations currently facing the country (such as large retrenchment exercises) and iii) to what extent Mozambique can offer lessons to other countries likely to emerge from war. The second level looks at how the microfinance industry evolved during a period of recently implemented peace and rapid change.

Mozambique is a country that has featured much in development discussions over the past 5 years and is often singled out as one of the most successful examples of a war-to-peace transition in a world of too many disappointing “Peace” Accords. Until recently, one of Mozambique’s main claims to fame was that it was regarded by many statistical reports as the poorest country in the world. However, following a rigorously implemented structural adjustment policy (adopted in 1987) and a monumental effort by the United Nations to ensure lasting peace following the Peace Accord of 1992, Mozambique is now touted as one of Africa’s most prominent economic success stories. Mozambique is now
the playmate of the month of economic reviews (see for example "Mozambique: a blueprint for success", *BusinessWeek* European Edition August 23-30, 1009).

Mozambique has recently generated much interest in the international microfinance community. Though not yet able to boast large scale sustainable programmes of the type seen in the better known African countries leading the field, Mozambique is going through a critical incubation stage, involving experimentation by serious international microfinance operators, a regulatory environment currently exhibiting encouraging signs of reform and a donor community collaborating to promote best practices.

Among the factors accounting for the new-found attention are:

- the impressive performance of a transition economy emerging from almost two decades of war and rigorously applied structural reform policy
- the very rapid growth of the informal sector which, to date, has been the principal focus of microfinance
- the successful implementation of various microfinance initiatives with divergent methodologies in different parts of the country
- the spontaneous growth and influence of an informal microfinance working group, initiated originally by donors, but now embracing all stakeholders
- a concerted effort on the part of operators, donors and government alike to learn from the experience to date
- the establishment of an Action Research Programme (an international initiative of the World Bank) - a two year programme that: actively promotes better networking on a regional basis, disseminates information about microfinance issues and developments through a popular newsletter and focuses on effective capacity building by identifying operators’ priorities
- the production of a national microfinance programme directory, providing details on 40 operators
- a national microfinance seminar (April 1998), involving the participation of most stakeholders and which has established a clear set of priorities for the sub-sector
- the publication of the *Mozambique Micro Finance Study (1998)* which reviewed the general state of affairs within the sub-sector, through a broad-based survey, and presented a set of recommendations for the second (expansionary) phase of microfinance.
- a common statement from the main donors regarding agreed upon standards for small and microfinance practitioners in Mozambique (1998).

A country as poor as Mozambique will, for a long time, see much of its economic and political policy formulation focus on improving the wellbeing of its people. Microfinance is increasingly recognized by both donors and Government alike as one of the most effective ways of doing so.
The post-conflict transition should be seen as one component within a matrix of changes including pre-existing forces such as structural adjustment, democratization, and an ideological U-turn from a centralized to a free market economy. Peace has brought about some specific reforms linked to political compromise as in the case of local administration and the restitution of traditional authority, land reform, etc. but, most importantly, it has opened the doors for the broad application a pre-existing reform programme.

Demographically, peace has had a major impact as refugees and deslocados return to their economic activities, increasing the size of the active labour force by an estimated 9% per annum between 1991-95.

To some, a study such as this would seem to serve little more than as an academic exercise, seeing that a similar situation – at least in terms of microfinance – will never again be repeated. The Mozambique experience with demobilized soldiers and refugees was undertaken at a time when international microfinance experiences had not yet penetrated the country. The ILO, in setting up its training and kits programme, had not yet had enough experience from its ACLEDA programme in Cambodia to influence the Mozambican initiatives. Where the Mozambican experience with demobilized soldiers and refugees has proven to be useful is in the treatment of large groups of retrenched workers. The first of a series of large retrenchments comes, somewhat unexpectedly, at the end of the privatization programme, regarded as one of the largest and most successful in Africa. The first in this series will be the "concessionalization" of the National Railways (CFM) which expects to retrench (many with early retirement benefits) more than two-thirds of its 20,000 employees. A strategy for the redeployment of the more than 13,000 of those who are expected to lose their jobs has been recently designed, drawing heavily upon the lessons learned from the Mozambican demobilization experience. The Mozambican experience was also critical in the designing of a proposal for the microfinance component of programme for demobilized soldiers in Angola (prepared by the ILO before the renewal of hostilities).

2. Reconstruction and Reintegration:

Picking up the Pieces after Protracted War

2.1 The Post-Conflict Situation
The war and its consequences are estimated to have left more than a million people dead (Hanlon 1991), 2 million dislocated internally, most of which seek refuge in the relative security of urban centres or small rural villages and more than a million as refugees. But it was a comparatively small group of about 90,000 demobilised soldiers who have drawn most attention and funding. The donor community seemed determined to ensure that peace would endure no matter what the cost. The process involved the huge logistical exercise of deploying thousands of international peace keeping troops throughout the country; setting up demobilization centres; and introducing a myriad of international organizations that would compete to sell their expertise in the growing market for demobilization and reintegration skills.

The situation that faced the United Nations and its entourage of support organizations was extremely challenging. Some of the more salient aspects being:

- the material cost of war estimated to be about $18 billion (Hanlon, 1991);
- a road network that had collapsed and could not reach a large part of the country;
- a devastated social infrastructure that left more than 3,000 primary schools and a third of the health posts and clinics destroyed or closed (Hanlon, 1991);
- mines scattered throughout many part of the country;
- huge areas of previously cultivated land that had been abandoned for more than a decade and were overgrown with bush;
- decimation of livestock in many areas, leaving less than 1% of the original stock; and
- many parts of the country were effectively under the control of regulos (chiefs) loyal to Renamo.

Millions of Mozambicans had to go through some process of reinsertion in order to resume a semblance of their previous lives. Most had to do so with virtually no belongings. It was commonplace for families to trek for days through the bush as the situation dictated. The UNHCR focused its attention on returning external refugees, typically offering transport, food and agricultural inputs.

### 2.2 Reintegration Strategies

The reintegration strategy revolved around how best to reinsert the demobilized soldiers in such a manner as to reduce their interest or susceptibility in reverting back to armed conflict – or as was more likely – to armed banditry. The demobilized were consequently showered with benefits justified on the basis of
reducing the potential, but enormous socio-economic costs of any continued armed violence.

The reintegration package offered to the demobilized was a concoction of benefits that reflected the diversity of experiences of a number of agencies wanting to demonstrate their recently acquired expertise in post-conflict environments, what was somewhat opportunistically seen as a growing market niche. The programme had virtually no high-level strategic thinking directed to it: the Reintegration Commission’s (CORE) main responsibility was to coordinate of the various agency initiatives and to ensure a minimal level of goodwill and communication between implementation teams that operated from the same building, but who had only a marginal interest in cooperation.

The types of activities that were being conceived and coordinated under the same roof included:

- transport to place of resettlement and clothing (IOM);
- agricultural packs (WFP/World Vision);
- Provincial Funds for the start-up costs of economic activities for the demobilized (IOM)
- The Open Reintegration Fund for funding the capital costs of small economic activities as well as for funding economic activities of existing enterprises that would guarantee the employment of 10 demobilized soldiers (GTZ);
- Vocational training and kits (ILO);
- Basic business training (Improve Your Business/Start Your Business (ILO));
- Subsidized loans to vulnerable groups, including demobilized soldiers (BPD’s Poverty Alleviation Fund, through ADB funding);
- Publication of booklet discussing rights, etc. (Creative Associates);
- Provincially-based Referral Services (Creative Associates under contract to the IOM);
- Two-year indemnity package consisting of quarterly salary payments through branches of the the BPD (multi-donor funds, coordinated by UNDP); and
- Employment Intensive Works Programmes, especially tertiary road construction with preference for employing the demobilized (ILO;IBIS;ODA).

In terms of financial programmes, it is important to note that no successful microfinance model had yet been developed in Mozambique and that not one person involved in any aspect of the reintegration programme had had any experience in the field of microfinance. As is normally the case in an immediate post-conflict situation, planning horizons are extremely short, not extending past 2-3 years. Financing programmes are at best conceived with intentions of repayments, but poor loan recovery mechanisms ensure that almost nothing is
recovered. Implementing agencies had virtually no interest in establishing a sustainable financial mechanism for two reasons: i) the beneficiaries were unlikely to take loans seriously as was shown through previous experiences (loans were often taken as a pension right) and ii) the agency itself has little interest in these type of schemes, apart from accomplishing short-term results before packing its bags to leave.

2.3 The War Affected vs. the Demobilized

A retrospective analysis of microfinance and the promotion of income generating activities in the immediate post-conflict period of Mozambique shows a very different picture of beneficiary group. The war-affected populations, in particular, the refugees and dislocated, enjoyed almost no benefits of this nature in contrast to the demobilized who were showered with projects aimed at stimulating income generating activities. The reasons for such a contrasting dichotomy are considered below.

Refugees and the Dislocated

The post-conflict situation in Mozambique witnessed the reintegration of three distinct types of war-affected populations. The largest number were the deslocados, a group who had in many respects suffered the most from the war, but perhaps received the least assistance both during and after the war. This group generally originated from areas directly affected by conflict or regarded as highly vulnerable to attack. They were usually too remote to flee into neighbouring states, thus causing them to seek refuge in safer zones in the country, often small rural towns or the larger cities. Apart from access to emergency relief supplies consisting mainly of food, they received little else apart from occasional assistance to resettle in their original areas.

Refugees on the other hand, once finding themselves in other countries, were usually able to find assistance in camps in terms of shelter, clothing and food. In some areas, especially those close to their place of residence e.g. in the regional of Angonia in Tete Province, refugees were able to pursue their agricultural activities during the day, returning to their camps at night or when the threat of attack was felt to be most imminent. Many refugees, especially those who stayed for long periods in camps, took up vocational training and pursued these activities for generating some income. Although such activities seemed to be well coordinated in the camps, there appeared to be no follow-up to develop newly acquired or well-honed skills during the resettlement of the refugees. Skilled refugees returned to rural areas without any means to establish the minimum capital requirements for carrying out these activities on a commercial scale. Apart
from a few NGOs which might have offered some assistance to a few skilled returning refugees, it does not appear that any systematic attempt was made to help skilled artisans to establish activities upon their return.

Discussions with a former UNHCR staff member working in the immediate post-conflict period offers some candid and useful explanations accounting for the very divergent results.

The bulk of the refugee flows came from Malawi into the provinces of Zambezi and further north. Some 1 million refugees were allowed to enter en masse in a very short period. Very little coordination was undertaken between the Malawi operation and that of Mozambique, resulting in little advance preparation on the Mozambican side for dealing with the huge influx of returnees. Benefits were essentially limited to food rations until the next harvest and seeds and tools for the planting of crops. With very little operational staff and assistance from a still inexperienced Mozambican Government counterpart, attention was primarily focused on getting the returnees resettled as quickly as possible and ensuring a socio-economic environment that would prevent the returnees from going back to the security of the Malawian camps. Circumstances called for the rapid mobilization of resources to rebuild essential infrastructures, such as clinics and schools. The coordination of this was largely left up to UNHCR, in collaboration with the local authorities, which, at that time meant dealing with Renamo in many parts of the northern provinces. The actual construction of the infrastructure was sub-contracted largely to NGOs. Much time and resources were also spent on re-establishing the administrative control of the Government in Renamo held areas. Renamo teachers and other "public servants" had not been paid – often for many years. Many refused to leave until UNHCR brokered dignified departures with small gifts in lieu of remuneration.

Under these circumstances, UNHCR was clearly in no way capable of introducing microfinance programmes. Nor, in the author’s opinion, should it have. Conditions during the immediate post-conflict period are too volatile for any form of serious microfinance to be established. Furthermore, UNHCR as a transitory agency should not enter into a service that needs longevity of presence, if high levels of repayments are to be maintained. UNHCR should focus its attention on creating the right environment for microfinance to flourish rather than directly engaging in it. NGOs such as World Relief are much more suited to follow in the footsteps of UNHCR to establish sound long term microfinance programmes.

The Demobilized

The demobilized soldiers, in contrast to other war-affected populations, received a disproportionate share of the reintegration benefits for the simple reason that they were the source of the conflict and, unless satisfactorily resettled, were considered to be a volatile and high risk group. Given other post-conflict
experiences, such an assumption was not unreasonable, although it later became fairly obvious that most soldiers from both sides of the conflict wanted to resettle as quickly as possible and forget the war. Furthermore, the anticipated difficulties of reintegrating back into their communities in most cases did not materialize. Mozambican society seemed to be much more forgiving than anticipated towards the soldiers that had killed so many of their families and friends and wreaked so much havoc.

Retrospectively, it is hard to isolate the factors that were instrumental in ensuring a smooth peace process. It now seems clear that millions of dollars were "wasted" in the development of small income-generating activities for the demobilized soldiers and was far in excess of what was needed. Yet it would be foolhardy to speculate by how much the international community had overindulged the demobilized to ensure that he/she did not revert to armed conflict or banditry. The cost of maintaining peace seems relatively inconsequential when looking at the horrific counter-scenarios of those countries unable to establish peace rapidly and pervasively.

A recent programme aired on the BBC revisited the demobilized – some 8 years after the Peace Accord. The programme vividly illustrated the immense difficulties faced by the demobilized in the process of economic reinsertion. Socially, they seem to have been accepted back into their communities and, in many cases, have succeeded in forming close friendships with former adversaries. However, as is common amongst many ex-combatants, the trauma of war – and a long one at that – has turned many into alcoholics and rendered many psychologically unstable. For most, the war meant the loss of 10 or more years of education. One ex-soldier-turned-school master, said he was one of the lucky ones, but lamented the fact that his former school colleagues who managed to avoid conscription were now Ministers, National Directors, business executives, etc. With his current salary, it would take him two years to purchase (chair by chair) a dining room suite. Other interviews showed how ephemeral the training and support programmes were for developing income generating activities. With little follow-up assistance to hurriedly conceived schemes, it is not surprising that the vast majority of the donor assisted schemes collapsed. Very few of the beneficiaries had access to crucial working capital necessary to sustain their activities. Carpenters had no wood and duck breeders had no feed nor vaccines.

3. Mozambique: A Brief Overview

Post-Colonial History

Recent Mozambican history can be summarised by five principal events: (i) Independence (1975); (ii) the implementation of the Programme for Rehabilitation
At Independence, Mozambique suffered from a mass exodus (90%) of Portuguese settlers who had occupied virtually all skilled and even lower skilled positions. By 1973, the manufacturing sector was the sixth largest in sub-Saharan Africa. The new Government of the Frente de Liberação de Moçambique (Frelimo), with minimal skills and managerial capacity, set itself the ambitious socialist goal of rapid development and equality for all. This meant nationalization or government intervention into most of the strategic or abandoned enterprises, a focus on big heavy-industry projects and large state farms. Although impressive advances were made in the provision of basic health and education services, the combination of economic mismanagement and a civil war with guerrilla group Renamo, led the country to economic collapse. In 1994, Mozambique joined the World Bank and IMF, and implemented the self-designed Structural Adjustment Programme (PRE) in 1987. Growth followed, but was accompanied by high inflation, severe drops in the foreign exchange values of the national currency, and increasing poverty. The situation was aggravated by a very destructive war and one of the worst droughts of this century. The 1990 Constitution prepared the country for political pluralism and for a liberalization of the economy based upon "the value of labour, on market forces, on the initiative of economic agents, on the participation of all types of property and on the action of the state to regulate and promote economic and social growth and development". Peace, elections, and the end of the drought led to rapid growth, substantial agricultural surpluses and a resurgence of foreign investor confidence.

Geography

Mozambique has an area of 799,380 sq. km. with a coastline of 2,515km. It is traversed by 13 major rivers many of which offer very fertile flood plains. It shares borders with 6 countries, 5 of which it offers important rail, road and port facilities along "corridors" (the main ports being Maputo, Beira and Nacala).

Population and Quality of Life

The population of Mozambique in mid-1995 was estimated at 17.3 million residing in 3.18 million households (averaging 5.44 members). More than three-quarters (77.4%) of households are considered rural, which use 97% of cultivated land, but produce less than a third of the total GDP of the country. The 1997 national census recorded a national population of 16.57 million in mid-1997. This fell almost 2 million short of the pre-census estimate of 18.5 million. The difference is said to be partly accounted for by larger mortality rates directly and indirectly due to the civil war.
The population is characterised by high levels of mortality and fertility, high population growth with a predominantly younger age group (45% of population is below 15 years of age). Population growth rate increased from 1.5% p.a. during the 1950s, to 2.3% in the 1970s, and 2.7% in the 1980s. The highest growth rates have been recorded amongst the poorest households.

It is estimated (although never clearly explained how) that 58.9% of the population live in absolute poverty. Health indicators are amongst the worst in the world: in 1990-95, the infant mortality ratio was estimated at 148 per 1,000 live births. War destroyed nearly 40% of rural health facilities. Only about 30% of the population have relatively convenient access to health services, 22% to safe water, and 20% to sanitation. Life expectancy at birth is 46 years. The doctor/population ratio is one to about 40,000, with a huge bias in favour of the urban areas (UNFPA, 1995).

Adult literacy is very low at 33% (45% for males and 21% for females) up from 10% at Independence. An estimated 42% of the schools were destroyed during the war and currently about half the school-age children are not in school. Only about one-third of children entering primary school are able to complete their primary education. The transition rate of children from primary to secondary level is very low: the secondary school enrolment rate being only 7%. The drop-out rate of approximately 3,000 university students is about 50%, affecting primarily female students (UNFPA, 1995). Just prior to peace, there were about 4.5 million displaced persons within the country and 1.5 million refugees outside the country. After the war, some 93,000 soldiers were demobilised posing an enormous challenge for their reinsertion in the economy.

**Employment**

Agriculture, mainly subsistence, absorbs by far the greatest proportion of the labour force. Between 1980 and 1991, the proportion of those working on agriculture came down barely 2 percentage points from 78.7% to 76.2%

Non agricultural self-employed accounts for about 4.8% of the active labour force. Most self-employed would be found in the informal sector, engaged in such activities as petty trade, artisanal production and traditional rural non-agricultural production such as charcoal production, firewood collection, etc. It should be said that these activities also provide a secondary source of income to many who are otherwise engaged primarily in agriculture.

To sum up: if the current population of Mozambique is assumed to be 18 million, then 8 million people, constituting 45 per cent, would be in the labour force. They would be distributed as follows:

**Distribution of Active Labour Force**
The number of wage workers in relation to the whole population is relatively small. The 1980 census found that wage employees accounted for 16.5% of the total labour force. Almost one-third of the men (31.1%) and only 3.6% women were wage employed. Barely more than one-third (37%) were working in the private sector. Of the 891,200 who were classified as wage employed, the three largest sectors were agriculture with 218,900 workers, industry and energy (204,600) and services (106,900).

The 1991 Demographic Sample Survey found that wage employment as a percentage of the total labour force decreased to 16%. The participation of men decreased to 28.5% while that of women increased to 5.2%. The number of workers in the private sector increased only slightly. Trade unions and the local press regularly refer to a figure of 100,000 workers who have lost their jobs since structural adjustment and privatization. The imminent restructuring or privatization of Mozambique’s largest state enterprises such as the railways (CFM) and its airline (LAM) as well as utilities and other service industries, may lead to the retrenchment of 30,000 workers. However, given the fact that most of the retrenched are older and likely to retire to their machambas (rural smallholdings), combined with the very rapid growth of both financial services, the results of this initiative should prove to be very interesting.

4. The Evolution of Microfinance in a Transition Economy

Six years into peace, Mozambique has left its "emergency" phase and, as indicated above, is enjoying some very encouraging economic trends. The rapid scenario switch is not unfamiliar to the major international NGOs, usually at the forefront of the "relief to development" paradigm. Having justified their presence as agents for handouts, NGOs were now obliged to demonstrate their
development skills in an economy where poverty remains chronic and the distribution of income becomes increasingly more skewed.

With peasants back on the land producing large surpluses and urban populations managing to survive through the informal sector, NGOs scrambled to introduce development programmes to satisfy their sponsors and the host Government. Those international NGOs, familiar with such transitions and some national NGOs with a good understanding of local conditions were exemplary in their approach. Others demonstrated much less ability in grappling with development issues, sustainability and the long term needs of their target groups.

Mozambique’s microenterprise credit experience spans more than a decade, ranging from the disastrous state-controlled Credit Fund for Agriculture and Rural Development (CCADR) fund for rural development with heavily subsidized interest rates and virtually no loan recovery, to the recently introduced community banks (World Relief) which apply real positive interest rates while achieving virtually 100% loan repayment rates. Despite such progress, many NGOs and some international agencies are still convinced that credit should be subsidized. More disturbingly, the Government, despite the lessons learned from the CCADR, introduced a heavily subsidized credit programme, Fund for Economic Rehabilitation (FARE), to encourage local entrepreneurs, using proceeds from the privatization programme.

The programmes used for the direct benefit of the demobilized, failed for various reasons, but largely because of donor disinterest in establishing a sustainable support system. Support was essentially designed to last as long as the implementing agency stayed in the country. Few of those supported initiatives have survived until today. Income generating activities lasted only long enough for peace to consolidate itself and that, ultimately, was the main purpose of assistance to demobilized soldiers. It is hard not to be cynical about donor intentions: there is very little evidence that any of the programmes had the future economic survival of the demobilized soldiers and their families as their primary objective. The overall strategy in terms of income generation was one that pushed for the creation of small productive activities. As an objective this was laudable, but the execution was lamentable. Since these programmes, almost no microfinance has targeted small productive activities.

As Peace prevailed and as the development world began to recognize the effectiveness of sustainable microfinance, Mozambique quickly became a laboratory for microfinance practitioners bringing in their internationally proven methodologies. But taking the first step was however seen as only for the brave or foolhardy. Local financial experts were extremely skeptical about World Relief’s seemingly radical idea of providing small loans to large numbers of the poorest strata of peasant women. The reaction to this initiative a year after Peace is an indication of how unlikely it was to expect microfinance to have been adopted as a viable strategy for the demobilized. Microfinance had simply not yet
proven itself enough for donors to consider it as possibility. Given the overwhelming need to adopt a strategy that ensured maximum satisfaction amongst the demobilized, microfinance would have been seen as too risky.

World Relief kept the results of its seemingly risky initiative close to its chest. It was not until 1995 that its success was announced. Some 2,000 women had received small loans (about $50) through a village banking methodology that recovered almost 100% of the loans. Some observers were initially skeptical: a visit by the Governor of the Central Bank elicited a remark that such initiatives prejudiced the role of the formal banks. Since then, the Government, especially following the participation of the Prime Minister at the first Microcredit Summit, has committed itself to support microfinance as a poverty alleviation tool and, as such, microfinance has now been given priority by the donors.

In the past few years, the microfinance industry has been boosted by the entry of serious international microfinance practitioners (CARE, MEDA, IRAM) as well as some local microfinance practitioners (e.g. Tchuma) who are proving themselves to be equally serious and capable of operating a microfinance programme. A national seminar with microfinance luminaries, a national survey and directory, CGAP support for training and legislative reform have all contributed to the evolution of a now well-established industry.

At the February 1996 Credit for the Poor Conference, the question of whether credit should be given to petty trading as well as productive activities provoked an emotional debate. In a country with such porous borders and so few locally produced goods, it is easy to sympathise with those who call out against what they feel is the *dumba nengazication* of the economy (*dumba nengue* being the popular term used for describing the informal vending stalls of Maputo). The debate, unfortunately, remains purely emotional as long as commercial activities provide the largest margins from the smallest investments.

Soon afterwards, the FAO, in collaboration with UNDP, drew up elaborate proposals for a "Master Plan" for rural finance. Though much attention was devoted to the development of suitable models in various seminars, the initiative seems to have fizzled out. So far there has been no serious attempt by any NGO or MFI to enter into the risky area of providing microfinance for agricultural activities. The few attempts to enter into this area were undertaken by inexperienced national NGOs under pressure from members, but soon exposed the pitfalls of lending to this sector without proper experience and backup.

The only attempt to enter into microfinance at a serious scale for productive activities, such as those initiatives supported for the demobilized soldiers, was the Programme to Support Rural Industry (PAPIR) financed by the Danish NGO IBIS. This project originally started out as a training programme for rural and peri-urban artisans, but as other aspects of assistance developed such as centralized input outlets, it was only a matter of time before microfinance became an
important element. The programme started showing some impressive results and the microfinance component became well-developed, especially as the portfolio was diversified to bring in the short-term, rapid turnover lending requirements of informal sector vendors. Unfortunately, after 10 years of assistance, IBIS withdrew with the hope that another donor would continue to support the project. However, problems at the Ministerial level over ownership of the project was unlikely to draw much donor interest and the project ultimately closed. Until recently, the only other project that could be regarded as serving a rural clientele was the Spanish NGO Intermon working in the southern part of Maputo Province.

Two recent initiatives to bring microfinance to the rural areas should be mentioned. One is the Dutch-funded project in Nampula Province which has subcontracted CARE to deliver financing to producer associations supported by the Cooperative League of the USA (CLUSA). CLUSA works with several hundred producer associations and only those who have attained a certain level of management competence are eligible for the loans. Loans are generally to be used for agriculturally related activities, but it is envisaged that the associations be allowed to lend on to their members for non-agricultural activities. The other initiative is the UNOPS project "Human Development at the Local Level" (PDHL) targeting the three provinces of Sofala, Manica and Maputo. The project targets rural districts and has a large microfinance component about which little is yet known.

Most microfinance practitioners establishing themselves in the post-reintegration phase, such as World Relief, were under strong pressure from their head offices to show performance indicators that approached GCAP standards. Focus was given to portfolio quality and sustainability while issues such as the impact on the target group were sidelined. Until now, no noteworthy report on client impact has been produced by any of the practitioners. An interesting debate is now emerging as to whether microfinance practitioners may not have lost sight of their objectives. By focusing on sustainability and the creation of viable MFIs, we may have ultimately ended up choosing our clients by the same criteria as formal banks and adopting the same lending patterns that the formal banks were criticized for following i.e. pursuing relatively low risk, short-term commercial credit at the expense of the higher risk, longer term productive loans.

The George Soros funded Open Society Initiative for Southern Africa is currently developing a microfinance support strategy for the region. However, it is attempting to turn the clock back and revisit the sort of support that was so badly executed during the reintegration of demobilized soldiers, arguing that microfinance should not only be redirected towards more productive activities, but that it should form part of an integrated package of comprehensive support involving capacity building for microfinance practitioners, basic business training for microenterprises and a more proactive role for business associations. It is inevitable that, as MFIs build up portfolios of thousands of informal vending activities, questions about poverty alleviation versus development will be raised.
It is likely that some donors will want to break away from the strictures imposed by GCAP and wish to pursue alternative forms of financing aimed at expanding the productive capacity of the country.

5. Institutional Changes

At the time of Peace, all banks with the exception of one were state owned. Donor-funded credit programmes such as IFAD’s CCADR, the World Bank’s Urban Microenterprise Support Fund and the African Development Bank’s Poverty Alleviation Fund were all managed by the People’s Development Bank with disastrous results. It has now been generally recognized by both donors and Government itself that commercial banks – particularly state-owned ones – are not suitable for housing microfinance programmes. All government owned banks have since been privatized and no bank to date has entered into the realm of microfinance. Unfortunately, the Government, despite the increasingly progressive views of the likes of the Prime Minister, is still under the illusion that it has the capacity to operate viable financing programmes. Despite a string of failed credit programmes and the growing recognition of the importance of the sustainability of microfinance programmes, the Government recently introduced the highly subsidized FARE programme which offers credit to small businesses and commercial holdings in selected provinces.

Another interesting institutional change appears to be largely connected with the increasing minimalist tendencies of microfinance providers. During the earlier days of microfinance, basic business training was usually a prerequisite for credit. The National Institute for the Development of Small Industry (IDIL), having the monopoly for the ILO’s Improve Your Business training programme, provided training to a large number of NGOs and development agencies throughout the country. Now, despite a broader range of training options (a Portuguese version of Start Your Business has been made recently available) as well as the German-designed and highly popular CEFE course, the demand for such training has been significantly diminished. IDIL with its mandate for promotion of microenterprise promotion is now virtually defunct, probably reflecting a combination of poor management and changing development priorities as evidenced in shifting microfinance paradigms. There are indications, however, that the demand for basic business training may be rekindled. The recommended programme for the reintegration of retrenched railway workers calls for training in basic business methods for those wishing to develop self-employed activities (complemented with microfinance services). A recent arrangement between the large agro-business Agrimo and GAPI will provide microfinance ($100-150) for smallholders, but only on the condition of having undertaken the CEFE course.
6. Current Stakeholder Analysis

6.1 Analysis of Microfinance Operators Listed in 1998 Directory

A recent (1998) survey conducted by MEDA/World Bank for all those programmes offering the bulk of their loans for values of up to $10,000 covered 40 operators. These are listed in the Annex. A brief analysis of them is summarized in diagrams 1-5 (see Annex 2). As can be seen from figures 1-3, the programmes are relatively small in terms of active loans, the number of loans offered to date and the total value of loans conceded to date. Figure 4 shows that although there are still a significant number of operators offering loans at subsidized interest rates, the majority charge interest rates substantially higher than the commercial banks. Figure 5 shows that the majority of the programmes are concentrated in the provinces of Maputo, Sofala, Nampula and Manica. Almost all started their programmes after the Peace Accord and all have an eye on attaining sustainability started after World Relief’s Village Banking initiative.

6.2 Typology of Microfinance Operators

Before any useful strategy for supporting microfinance operators can be considered, a meaningful typology of operators is necessary. In Mozambique, a broad spectrum of types exists, with a scale of operational efficiency ranging from highly subsidized appendages to development projects, to pure "best-practice" microfinance programmes. Given the accumulated international experience in microfinance today, it will be clear to those with some knowledge of performance indicators that many of the initiatives should not be supported while others striving to maximize their performance indicators and having significant impact on poverty reduction, will most likely require further assistance and, in many cases, should be encouraged to broaden their geographic coverage.

International Microfinance Specialist NGOs

In 1993, World Relief announced to a very skeptical audience that it would introduce village banking to poor women in Gaza province. It has since become the showcase programme in Mozambique and has expanded to various centres in the province. It has achieved repayment rates approaching 100% and is expected to become self-sustaining within a year or two. CARE has introduced various microfinance programmes, specializing in solidarity group lending. Though not yet reaching the volumes of World Relief, performance indicators from some projects are equally impressive. MEDA set up a project in 1997, focusing on solidarity group lending in one of Maputo’s largest informal markets. After initial problems, MEDA Mozambique is not only approaching acceptable
portfolio performance but has made significant strides towards its objective of establishing a fully Mozambican operated institution. FINCA is currently studying the possibility of joining this group of operators. The French institute IRAM, since the early 1990s, had carefully prepared for the implementation of its credit programme that began operation through the Central Bank in 1997. In effect it works in a similar fashion as do the other international NGOs working with solidarity groups organized into associations which receive funds for on-lending to their member groups.

**International General Development NGOs**

These NGOs have generally been around since the Emergency years of the 1980s, confronting the relief requirements exacted by years of war, drought and other causes of deprivation. Much of their activities are related to health, education, rehabilitation and agricultural assistance. Relatively little attention was paid to the promotion of small economic activities outside of agriculture and animal husbandry. With the relief-to-development transition, there was a gradual movement towards the promotion of sustainable livelihoods. With this transition, appeared countless small lending schemes as components to integrated (mostly rural) projects. Many of these appendage credit schemes were conceived well before "best practice" concepts were heard of. On the whole, these schemes, though often very well-intentioned, are too small to ever reach sustainability and too poorly managed to achieve respectable performance levels. Some of these NGOs such as Action Aid are making concerted efforts to develop new and more sustainable microfinance programmes. Until such commitments are made, these approaches to microfinance will fail to achieve much more than assisting a few beneficiaries at highly subsidized costs, as these NGOs are unable or unwilling to divert a significant portion of their resources towards microfinance.

**Donor Agency Project-Linked Microfinance Initiatives**

Donor agencies often have a variety of sectoral initiatives, many of which have integrated programmes involving microfinance components. Such components are generally not much different than the preceding category in terms of scale and performance.

**National NGOs**

National NGOs are generally modeled on the second category, international NGOs. With some exceptions, they are usually further constrained by a severe lack of resources and inexperienced personnel. Through lack of exposure to best practice principles, representatives of national NGOs are often heard to advocate subsidized interest rates for their constituents, convinced that the poor are unable to bear commercial rates. Poor financial control has resulted in many of these NGOs being marginalised by donors wishing to promote microfinance. The recent establishment of the pure microfinance operator Tchuma demonstrates
that the adoption of internationally and locally tested methodologies can be successfully applied by local operators. Although still too early to tell, Tchuma seems well on its way to reaching the performance levels of the better international operators.

**Specialist Non-Bank Financial Intermediaries**

Until recently, the only non-bank financial institutions in Mozambique – GAPI lda. and the FFPI, offered loans generally considered higher than the norms of microfinance i.e. substantially higher than $1,000. The first ‘independent’ microfinance institution – SOCREMO - has just been inaugurated with 3 principal shareholders (the Ministry of Labour and two national NGOs). The institution was created after many years of operating as a microenterprise development project (credit and training). It must be noted that the level of ‘independence’ has to be questioned as it will continue to be heavily reliant on technical assistance from GTZ.

GAPI has recently entered into an agreement with the agro-industry Agrimo (specializing in cotton) by which it offers microfinance (loans of approximately $50-100) to smallholders with the prerequisite of CEFE training.

**The Formal Banking Sector**

Two attempts by the former state bank the BPD (now Banco Austral) to get involved in microfinance failed dismally. The first, the CCADR was meant to give special subsidized credits to ex-combatants of the liberation war but, predictably few of the loans were repaid, given the combination of poor bank management and beneficiary attitudes (treating the ‘loans’ as pensions). The second, the Poverty Alleviation Fund was undertaken with poor judgement by the ADB, placing a huge $6m microfinance fund under the management of the BPD, with no competence whatsoever to operate such a programme.

Recently, the commercial banking sector has been looking with great interest at the potential of microfinance. In the first concrete step towards collaborating with microfinance operators, the cooperative bank CreditCoop is expected to enter into an agreement with MEDA to open a savings branch in an urban market, operating for two hours a day from the MEDA market office, taking in savings deposits from market vendors.

6.3 State Initiatives in Microfinance

Despite its failure with the CCADR fund, the State continues to persist in implementing credit programmes which are highly subsidized, inadequately monitored and likely to suffer poor repayment rates. The FARE credit programme
offers funds for about 6% vs. commercial rates of more than 20% for small enterprise support, for which more than 80% of the requests are for grain mills which, if viable, should be financed by GAPI or the FFPI. The Government has recently announced the establishment of a rural finance fund which would offer subsidized credit to peasants and small farmers. Ironically, much of these funds would be channeled through INDER, the Government institution selected to champion best practice microfinance initiatives.

### 6.4 Strengths and Weaknesses of Microfinance Operations in Mozambique

**Strengths**

- Good dialogue between stakeholders on issues such as regulatory reform, training and capacity building, best practice application, MIS share-ware, etc.
- Solid accumulated experience in various lending methodologies, particularly village banking, solidarity group lending and individual lending. All have proven very successful.
- Tolerance on the part of monetary authorities in allowing all microfinance initiatives to operate without interference (and even turning a blind eye to some small 'illegal' initiatives that mobilized savings)
- Efforts by key donors (World Bank, UNDP, SIDA) and INDER has resulted in a timely and constructive evaluation of microfinance programmes in Mozambique
- The Action Research Programme (World Bank funded) has promoted networking and produced a widely-read newsletter
- A national directory of microfinance programmes has, for the first time, provides stakeholders with a comprehensive reference on almost all principal operators in the country
- The Eduardo Mondlane University has introduced a course on microfinance for 4th year agronomy students
- Training programmes for microfinance operators have begun and will continue systematically with the support of CGAP/World Bank
- There are positive signs of greater collaboration between microfinance operations and the commercial banks (e.g. CreditCoop establishing a savings branch with MEDA)

**Weaknesses**

- The majority of microfinance operators do not apply best practices
- Much of the stakeholder dialogue on microfinance is occurring amongst the already "converted"; there is a need to involve other operators who are potentially serious microfinance providers
There is a growing divergence between category 1 microfinance operator and the national NGOs

Despite the proven success of certain methodologies, coverage is extremely limited

Almost all successful schemes operate in peri-urban settings and cater almost exclusively to commercial (essentially informal) activities; there are virtually no notable schemes which focus on small productive activities, except PAPIR which is about to close

With the exception of Intermon operating in southern Maputo Province and PAPIR in Sofala, there are no successful large-scale projects with rural clients

There are virtually no Mozambican staff (and very often expatriate staff) working with microfinance programmes (all levels) who have even the most elementary training in microfinance principles

Despite stated adherence to CGAP donor guidelines for microfinance support, many donors operating at the local level do not exert the application of best practice principles on their beneficiaries; some donors in fact promote practices that are damaging to the efforts of others towards attaining sustainability (cheap, poorly managed credit has been known to undermine other more serious lending programmes operating in the proximity)

Networking is working well in Maputo, but still needs to be developed in other regions, though efforts by the ARP are beginning to have positive results

There are no training institutions offering microfinance-related courses

Monetary regulations effectively prohibit most non-bank financial intermediaries from mobilizing savings

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Arising from the National Workshop on Microfinance in Mozambique

(April 1998)

Perhaps the most important document to influence the future course of microfinance in Mozambique is a two page summary of issues, points for consideration and recommendations arising from the April 1998 National Workshop on Microfinance in Mozambique. The main points arising from the document are summarized below:

Establish Common Vision and Define Stakeholder Roles
The stated objective is to continue and strengthen the process of dialogue among the stakeholders that was started 18 months previous (through the informal microfinance group) and to define a vision/strategy for microfinance in Mozambique. In achieving this goal, it was recognized that the three task forces on microfinance would have to work closely together in elaborating such a vision and clarifying the roles of the stakeholders. The 3 task forces are the INDER reference group, the informal working group and the Action Research Programme's regional network.

**Models for Starting A Microfinance Institution**

The stated objective is to develop a vibrant and diverse microfinance industry in Mozambique with the ultimate goal of sustainability. The document stresses the point that no one model will be considered as optimal and the Government and donors should be supportive of many different models as long as the ultimate objective is sustainability and commercial viability.

**Training**

The stated objective is to develop a cadre of well-trained and professional MFI staff and to support the institutional capacity building of MFIs. The document mentions that important initiatives have already started through CGAP and the World Bank, but that eventually a private sector local training capacity with Mozambican trainers should be developed. It was recommended that a local committee (possibly a sub-committee of the informal microfinance working group) would be established to monitor, develop and provide financing for training programmes.

**Legal and Regulatory Framework**

The stated objective is to define a legal and regulatory framework that would legalize operations and ensure a favourable environment without heavy regulation and supervision at this stage. The document suggests that careful consideration be given in defining the legal and regulatory environment so as to permit the existence and development of the full range of institutional structures and that further consideration be given to the reporting capacity of the MFIs, and the supervisory and enforcement capacity of the Central Bank.

**Networking/Institution Building**

The stated objective is to strengthen local MFI networks in the south, centre and northern regions of the country. In this regard, the Action Research Programme has initiated stakeholder groups on a regional basis as well as a newsletter. The ARP recently got a shot in the arm with USAID assistance of $80,000 for the next two years.
Performance Monitoring

The stated objective is to gradually move the MFI community towards a more rigorous application of financial and operational performance standards and monitoring. Many MFIs do not keep adequate information on their operations and financial situation. It is therefore suggested that minimum indicators be endorsed for all MFIs relating to outreach, financial viability and portfolio quality as well as introducing indicators to measure impact.

8. Review of the Main Recommendations Arising from the Mozambique Microfinance Study

The Mozambique Micro Finance Study (1998) feels that microfinance in Mozambique is poised to move from the initial exploratory phase into a second phase of significant expansion. During this phase a few MFIs would emerge, adopting recognized performance standards, achieving significant scale and a high degree of financial viability. Movement into the second phase implies the recognition and application of the minimum performance standards endorsed during the National Micro Finance Seminar (April 1998). These standards include: financial reporting (income statements and balance sheets as well as portfolio reports); financial performance indicators; and delinquency management. The report also stresses the importance of microfinance operations becoming institutions and not continuing as projects. Governance then becomes a critical issue.

For the smooth transition to the second phase, donors and governments must be supportive of such an evolution. This would imply that donors abide to common guidelines for supporting MFIs and that the performance of these institutions be regularly monitored. From the Government side, it is expected that a regulatory environment conducive to the development of the microfinance will be put into place.

The report recognizes the importance of the process of dialogue and encourages the continuation of the informal microfinance group and the Action Research Programme networking initiatives. It also mentions the INDER Reference Group on Microfinance, the role of which remains unclear. These dialogue groups would be expected to deal with the following key issues during the second phase transition:

- the creation/upgrading of capacity at the Central Bank as the regulator/overseeing agency;
• creation/upgrading of technical capacity in the private sector (specifically in terms of auditing, advisory and management information services, training, etc);
• support to practitioners (e.g. grant facilities for MIS equipment, software and operator training); and
• donor co-ordination, agreement and application of funding principles.

9. Who is Currently Benefiting from Microfinance and How?

It is likely that the vast majority of current microfinance beneficiaries in the country are peri-urban/urban small-scale vendors, of which the majority are women. Very few are producers. Although it is of course important to promote the productive sectors, support for commercial activities will predominate for some time, not only because it the most suitable activity to benefit from small short-term loans, but also because of the strong pressures on donors and in turn operators to promote sustainable schemes which consequently tend to stay clear of higher risk and longer term loans.

As pressure for microfinance programmes to reach sustainability increases, so are we likely to see microfinance become increasingly used as a poverty alleviating instrument and not one to promote economic development. PAPIR, the only programme in Mozambique that actively targeted artisans with technical as well as microfinance support, has now closed as its principal donor felt, that following more than 10 years of support, it was time for Government and other donors to commit more to the project. Unfortunately, no other donor took the baton. As a result, almost all remaining major lending programmes are supporting predominantly commercial activities.

Rural producers, in particular peasants, are probably last in line to receive conventional microfinance, mainly because of the risk associated with the vagaries of agricultural production. The microfinance of itinerant traders is expected to indirectly boost peasant production with better prospects of selling surplus crops for cash. A recently implemented experiment by CARE with Dutch funding in Nampula is helping to finance productive peasant associations established by the Cooperative League of the USA (CLUSA). Although the risks associated with crop failure are still high, lending to well managed associations will hopefully help bridge the evolution towards convincing the conventional banking system to lend to such formal entities.

How microfinance clients have benefited so far is largely up for conjecture as, with the exception of CARE’s CRESCE project in Chimoio, no systematic impact evaluation methodology has been set up by any of the microfinance
programmes. From casual interviews and observation, it seems evident that most clients have benefited significantly as the value and variety of merchandise displayed increase along with their loan sizes. However, the impact on the poor in terms of quality of life for the clients' families is still not known and will require attention soon. The impact on gender considerations is also not known.

10. Gender Considerations

One of the biggest challenges for Frelimo at Independence was to redress the severe gender distortions inherited from the colonial regime. Inter-census data from 1960-1980 show some interesting trends, indicating that the participation of women improved significantly in only three sectors. Over those 20 years, women increased their contribution in industry and energy from 3.2% to 8.1%, in commerce from 6.1% to 19.3%, and in non-productive services from 8.4% to 15%. In 1980, 97% of the female labour force was found in agriculture. Of wage employees, women accounted for barely 10% of the total, but accounted for 61.5% of those self-employed or family workers. The impact of education was also highly skewed: almost two-thirds of illiterates were women; women also never represented more than one-sixth of enrolment at any level of education. Although still to be verified, it appears that females have borne the disproportionately heaviest brunt of retrenchments over the past decade in the formal sector.

By 1991, women still accounted for about the same proportion in subsistence agriculture. A large proportion of them are in domestic service (46%) and small business (including vending) (38%). Women now hold 35% of university degreed technical posts. In Maputo, wage employment plays a relatively important role for women, accounting for 35.6% of the female labour force, but only 12% in the provincial capitals.

Female-headed households in both urban and rural areas were found to be the most prone to poverty. In rural areas, about one-quarter of the households are female-headed. Such households tend to be short of labour, and thus cultivate smaller areas. Of households with 1 ha or less, female headed households outnumbered male headed ones by two to one. In urban areas, one quarter of the absolutely poor households are female-headed; the non-poor female-headed households are only 12 per cent. Poorer households in both rural and urban areas had significantly higher populations than other groups.

Almost without exception, women have been the principal beneficiary of Mozambique's microfinance programmes. It is usually assumed that women dominate the informal sector in Mozambique, but studies have shown that this sector is reasonably gender balanced: certain sectors such as food are
dominated by women, whereas productive activities, hardware sales, shoes, watches, music, etc. are dominated by men.

It has long been said that women make better credit risks than men in microfinance. MEDA's experience of microcredit in one of Maputo's largest informal market would cast serious doubt on that assertion as no strong gender pattern was observed between men and women in terms of portfolio performance. On the other hand, given the fact that the gender balance in the market may be even, the fact that two-thirds of MEDA's clients are women, suggests that they may be more organized and more willing to form solidarity groups than are men.

To what extent microfinance may have contributed to the economic and social empowerment of women is not yet clear. In the case of MEDA, its Executive has adopted a proactive gender policy and it is expected that an impact evaluation with an emphasis on gender issues is imminent.

11. The Regulatory Environment

In comparison to a country like Tanzania, Mozambique has still quite some way to go in developing its financial regulations for the microfinance industry. It was only recently that during a visit to World Relief’s community banks that a very senior official from the Central Bank complained that projects like these were putting the formal banks out of business. Such attitudes notwithstanding, there are encouraging signs from the Mozambican banking authorities and government that microfinance is now being recognized as an important development tool and that steps to create an enabling regulatory environment are being made.

Recently passed banking legislation has alarmed some donors and microfinance practitioners, but fears have been allayed by the introduction of a draft Decree on Microcredit which overrides some of the more restrictive elements of the legislation.

The decree will now require microfinance operators to register (they have hitherto been effectively illegal), but the actual process is comparatively light. The decree also allows for credit operators to impose compulsory savings as part of loan contracts. Only certain types of operators (e.g. cooperatives) are able to mobilize savings. There has been some concern by the operators about such limitations, but this is not yet regarded as a serious constraint to the development of the industry.

The drafting of the decree involved an unprecedented amount of dialogue between the Central Bank and the actual operators and donors. These sessions
were organized by the informal microfinance group and contributed greatly to fostering a better understanding between the principal stakeholders.

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**12. The Role of Donors**

**12.1 The Need for Better Donor Co-ordination**

A common and legitimate criticism of donor assistance to the country is that it is "territorial" (both literally and figuratively) and badly articulated. Until recently, there has been very little co-ordination. Whenever the Government tried to direct agencies or NGOs into perceived priority areas, it was resented. On balance, development assistance is largely donor driven projects being designed by mainly foreign consultants, often having only the vaguest notion of the predetermined development priorities of the country.

Recent years have been marked by a variety of initiatives to more effectively co-ordinate programmes and projects at different levels. The World Bank has taken a leading role in donor co-ordination, especially for priority issues tabled at the Paris Consultative Group which in its 1995 meeting recognised the need for better donor co-ordination. The "Like-Minded" (Scandinavian countries, Canada and Switzerland) group of donors holds regular meetings to discuss issues of common interest. The UN agencies have, for the first time, made a concerted effort to join forces to reach common ground, in collaboration with the Government, through what is called the Common Country Assessment (essentially a description of priority problems) which forms the point of departure for developing each agency’s specific country programme. UNDP has established a donor counter-part to the Government’s Poverty Alleviation Unit through its own inter-agency Poverty Eradication Unit under which the Social Action Task Force has been given the responsibility of promoting sustainable livelihoods.

The post-conflict transition offered some interesting experiences in terms of donor co-ordination. A special Commission --CORE-- was established for the reintegration of demobilised soldiers. The commission, comprising Government and donor representatives, was intended to co-ordinate the various programmes targeting the demobilised. Though it was clear that each of the principal agencies had their own agendas, a semblance of co-ordination was effected by CORE. However, following demobilization, the Unit for Programme Co-ordination (UCP) rarely met and the principal agencies -- the IOM, GTZ, UNDP, ILO -- operated quite independently of each other, not to mention the dozens of other lesser initiatives. Without any strong co-ordinating mechanism at the national or provincial levels, a type of donor anarchy prevailed. Conditions for credit (ranging from commercial to grants), training, tool kits, etc. differed widely and, understandably, was often the source of anger. Disregarding the dubious nature
of many of the projects, the reintegration funds were an important boost to the developmental work of NGOs who implemented a wide variety of projects, often in co-ordination with the IOM and GTZ. In the wake of the confusion which prevailed in the immediate post-conflict transition, a consensus that much better co-ordination was necessary grew. This was particularly obvious in the realm of credit.

12.2 Donors Take a Common Position on Microfinance

On December 15, 1998, the main donor agencies in Mozambique met to consider a draft statement of common standards for Small and Microfinance Practitioners. At the time of its writing, it was not known what the final text of the statement was. The draft states: "The stakeholders in the sector have now recognized that the policies for funding, as well as the way services are provided, need to change and focus on supporting sustainable lending methodologies capable of reaching substantial numbers of poor. Microfinance financiers in Mozambique therefore need to agree to support organizations that work with a medium-long term cost coverage strategy. Acceptance of minimum common standards which serve as eligibility criteria for funding decisions by donors can be one of the most decisive elements in terms of the successful development of a sustainable and viable Microfinance sector in Mozambique. The end result should be acceptance among donors and other stakeholders of a shared vision for the MF sector:

- The intent of donor support for MF is to help build a sustainable, local financial system that serves the poor.
- Any request for funding should be presented to the financier as a business plan and should include financial projections which indicate progress toward financial viability.
- Organisations receiving donor support should either be local institutions wherever possible, or have a clear and active plan to establish themselves as local institutions.
- Donor supported programs are accountable and consistent with intentional best practice and national objectives for the sector as a whole."

The statement then presents a simplified set of standards, drawn from CGAP, required from microfinance practitioners as a condition for receiving financial assistance or otherwise from the signatory donors.
13. Informal Savings and Credit Practices and Their Relevance to Current Microfinance Strategies

Microfinance programmes tend to be clones of programmes developed by specialist NGOs in other countries. Remarkably little research is done prior to establishing these programmes on existing credit and savings practices. Mozambique is no exception. Only in the case of the local microfinance initiative Tchuma has a thorough investigation of prevailing practices amongst their intended target group been undertaken (reference). Not a lot is known about informal credit and savings practices nationally. Only recently has an attempt to study urban and rural practices in each province been carried out. The African Development Bank in collaboration with MEDA has recently completed a survey of 1,000 interviews, the results of which are still being awaited.

Little is known about informal and traditional practices relating to credit and savings. It is likely, however, that the war had a significant negative effect on such practices in the rural areas, but may have helped to stimulate such practices in urban areas to help cope with the deteriorating economic situation.

The best known practice is what is generally known as xitique, a form of rotating savings and credit association (ROSCA) which is most common in urban areas, especially with salaried workers and market vendors. Members normally vary between 5-10 and the rotation period is usually a month, although daily and weekly schemes are also common, especially amongst vendors. Each member deposits a common amount, the total of which is used by one of the members during a specific cycle. These schemes are particularly useful for purchasing consumer durables, such as refrigerators or videos or for working capital (bulk merchandise purchasing) for small vendors. Some of these xitiques, especially as practiced by some Indian merchants, involve large amounts and are sometimes used for buying substantial capital equipment.

Another informal practice found exclusively in the Maputo area and only introduced in the early 1990s, is what is known as xitique geral or "general xitique" although having nothing in common with the xitique groups. This is a system of mobile banking similar to that found in Ghana. It is so far only known to operate in the Maputo markets. Mobile bankers enter into agreements with between 75-150 participating members who each agree to deposit a predetermined amount every day until the end of month. Deposits are checked off on cards. At the end of each month, the banker returns the accumulated deposits minus one day's deposit which he/she keeps as their commission. Members are prepared to receive negative interest on their deposits because the system forces them to save and accumulate a lump sum at the end of the month with which to buy merchandise. Many market vendors have been found to belong
to such schemes, partly because there are risks of losing their deposits through assaults and the occasional disappearance of the mobile banker.

With the help of some imagination and creativity, such informal schemes have great potential as models for microfinance programmes.

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The Mozambican experience of "microfinance" in a post-conflict situation will win no prizes. The financing (mostly in the form of grants) of economic activities was guided more by volume and speed than by the criteria of viability. The mechanisms for issuing funds were not intended to last past the duration of the project (one or two years) i.e. there were no plan to establish anything on a sustainable basis or of hitching the project on to an existing NGO or institution. The result from a purely economic perspective was predictable. There are probably only a handful of activities operated by demobilised soldiers or refugees that became viable and still exist today. Whether or not the millions of dollars that were poured into these activities were wasted or not will probably never be known simply because it is too difficult to isolate the extent to which these funds helped prevent the demobilized soldiers and other beneficiaries from reverting back to armed malfeasance to make ends meet.

Is the Mozambican experience relevant to anything other than academic conjecture and possible similar situations in the future? Mozambique faces some very large retrenchment exercises as some of the biggest state-owned-enterprises face privatization or concessional partition. The National Railways of Mozambique (CFM) has recently commissioned a study on how to reinsert some 13,000 of its 20,000 current workers. Though small scale, the exercise is not dissimilar to the demobilization of ex-soldiers. The proposed strategy draws heavily on the lessons learned from the demobilization experience. One very important aspect of the study on which the recommendations were based was the fact that some 3,000 workers were interviewed in terms of their skills, expectations, aspirations and choice of options from a menu. This exercise proved absolutely essential in determining what workers wanted and reflected significant differences by region, underscoring the importance of recognizing the socio-cultural and economic variations of the country’s different regions. Such an exercise could have easily been carried out for demobilized soldiers as each one was asked to supply basic bio-data, but unfortunately little effort was made to extract information on career aspirations.

The proposed strategy of the CFM is composed of the following principal elements:
• a counseling service not unlike the successful Information and Referral Service (IRS) established for the demobilized soldiers
• a training option based somewhat on the training and kits programme of the ILO, but excising the weaker elements of the programme i.e. the training component would be longer to allow for more marketable and useful skills, accompanied by basic business training, supplemented by proper credit support instead of a virtual handout by way of a kit which in many cases were just sold;
• a microfinance component that would allow for a variety of activities to be supported with a broad range of loan sizes, depending on the level of co-participation (made easier by lump sum indemnity payments – see next item);
• lump-sum indemnity payments instead of being paid out over a period of years, allowing beneficiaries to make the initial capital investments necessary for establishing longer term income generating activities, or to help potential loan beneficiaries to leverage larger loans;
• the provision of loans through recognized microfinance providers with acceptable performance indicators
• the provision of loans to beneficiaries who have prepared adequate business plans
• transport to all those workers wishing to dislocate from their present residences
• agricultural start-up packs to all retrenched workers.

15. Reassessing the Demobilized as Microfinance Clients

In retrospect, income generating projects designed for the demobilized were at best a strategy for buying time to minimize the probability of resumed hostilities. There are very few cases of demobilised who are pursuing any of the activities for which they received training, financial assistance or kits. The social contract between government and donors with former soldiers clearly had a short term perspective. Not unlike many other countries, memories fade quickly when things go well and the fate of the demobilized is now of little interest to politicians or donors.

Two questions are raised here. First, what could we have done to more effectively help the demobilized if we were to re-do the exercise today? Secondly, should we consider financing the demobilized now, after 7 years of peace.

At the time of designing the reintegration programme for the demobilized, there was virtually no proven microfinance methodology in the country. World Relief
started its current successful programme only about a year after Peace and very little in general was known by the involved consultants about microfinance. Those few consultants who felt that credit should be offered to the demobilized were in the minority against those representing the donors who saw their role as one of dispersing short term grants during a short-term presence. One cannot fault the involved organizations for creative ideas. All sorts of imaginative income-generating schemes could be encountered over the country. However, most failed for the following reasons:

- almost no technical assistance was provided for individuals/groups pursuing activities which needed some technical knowledge (animal breeding was popular and a common activity, but many beneficiaries had little knowledge about correct feeding and disease control)
- small (and not so small capital grants) were not complemented with working capital requirements or supporting funds to ensure continued operation of the activities (typically one found carpenters with good equipment but without the means to acquire wood or welders without electrolyte)
- most beneficiaries were not only poorly educated but had virtually no business skills, resulting in the mismanagement of these activities
- many activities were funded only on condition that the demobilized form groups to reduce the average running costs (group activities invariably failed because of unfamiliarity or resentment towards working collectively – cases were often cited of groups raising animals where the collectively owned animals were starving because of the unwillingness of group members to share the financial responsibilities of feeding, while individually owned animals remained healthy)
- training programmes were often only long enough to give the trainee the most basic of skills which were hardly marketable (projects that offered kits to complement training often had poor results as many beneficiaries ended up selling their kits, commonly found resold in local markets)
- the demobilized were given support in activities in which they were generally inadequately trained, creating a market disequilibrium of poorly skilled artisans with new production kits and some start-up capital, while much better skilled artisans, many of whom lost everything during the war, or who for many years were unable to import the necessary capital equipment for them to produce at sustainable levels (no market studies were undertaken to assess the real need for new artisans in a particular skill).

Benefits to the demobilized were often compartmentalized without much thought about the potential complementarity of the programmes. This was the expected result of typical donor competition recently emerging in post-conflict situations which, cynically viewed, was becoming a growth industry in which some donors clearly have an agenda to demonstrate the marketability of their specialized skills. Thus, although CORE was established as a coordinating commission,
individual project conception and implementation was done quite independently of other similar or potentially complementary initiatives. A good example of the isolation between projects is demonstrated in the failure to take advantage of the Reintegration Supplementation Scheme (RSS) which effectively provided regular (quarterly) payments—linked to previous salary levels—for 2 years after demobilization. This was done as a last minute gesture from the donors who remained skeptical about how effective the proposed benefit package would be in keeping the demobilized happy. Regrettably, no financial institution or proposal was developed to take advantage of the exciting opportunities that such guaranteed future income streams offered for credit and small business promotion.

Recently, one of the specialized microfinance providers MEDA was approached by the association of disabled veterans ADEMIMO about the possibility of providing credit to its members. It was persuasively argued that many of its members have acquired training and, in many cases, capital. MEDA loans, initially, are only limited to $100 and are given only to solidarity groups of 5 (each member eligible for $100). ADEMIMO members, on the basis of their disabilities receive regular pension payments until death, thus providing an excellent loan guarantee. ADEMIMO has entered into an agreement with the Ministry of Planning and Finances which assures that pension payments can be used, on contractual consent from loan beneficiaries, to cover defaults.

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### 16. Summary and Conclusions

Peace accords are often slippery and elusive, as the Angolan situation has only too clearly demonstrated. In Angola, the many years of "imminent" peace has resulted in a variety of blueprints for microfinance projects and microenterprise support. Unfortunately, none have ever had the opportunity for application. The Mozambican situation resulted in quite the opposite scenario, where little forward planning had taken place with the exception of the demobilization process itself.

The literature made available for the preparation of this report (principally Nagarajan (1997) and Doyle (1998)), though excellent works in their own right, fail to assess the role of the agencies brought in to implement the reintegration strategy for the demobilized, returning refugees and dislocated families. These agencies played a proactive role in the maintenance of post-conflict peace, forming part of a huge exercise, involving food distribution, transport, information dissemination, counseling, and the promotion of income generating opportunities. In her analysis of microfinance in Mozambique’s post-conflict situation, Karen Doyle focused only on agencies playing a more passive role within an exogenously determined environment of peace. This paper takes the position that agencies involved in the immediate post-conflict period (i.e. agencies with
programmes directly influencing the elements that would ensure peace) had a major impact on the environment for the development of microfinance.

Peace came at a time when Mozambique had no noteworthy experience in microfinance. Microenterprise credit experiences, led by the disastrous CCADR, the institutionally paralysed Urban Microenterprise Support Fund, and the inflation-plagued first phase of GAPI, formed the list of unimpressive precedents on which the design for the support of demobilized was to evolve. Given the difficulties associated with loan recovery of these previous experiences, it is little wonder that many donors did not want to get involved in the apparent futility of loan provision and recovery.

The immediate post-conflict reintegration package was a mish mash of programmes reflecting agency specializations, tacked together with a semblance of coordination through coordinating and supervisory commissions. Many of the agencies involved were anxious to produce concrete results in as short a period as possible, eyeing new post-conflict challenges on the horizon, especially Angola.

Though no comprehensive evaluation has been made of programmes that should have had longer-term development perspectives (in particular those associated with income generating activities), available information suggests an almost complete failure to create any sustainable activities amongst the beneficiaries. Such activities were usually badly conceived with little back-up technical advice and no supporting finance for working capital needs. Some agencies, conscious of the time factor for completing their objectives, refused to collaborate with relevant Government agencies. Under more ideal circumstances, the combination of agency skills, had all the potential of generating a good maximalist approach to microenterprise promotion. The reality, however, was more like a worst practice show case.

Arm chair critics will be quick to identify the more obvious weaknesses in the DHA-led reintegration strategy and the difficulties such programmes pose for successive more sustainable approaches. Reintegration programmes, however, should not only be judged in terms of its micro impact, summing the overall result of mediocre individual initiatives. The resulting macro picture was one of lasting peace and stability – the cornerstones for effective and sustainable microfinance. No one will ever know to what extent enduring peace and stability was due to the heavy investments made by the donors in the reintegration programme. Whatever the case may be, in retrospect, the high costs of the time are insignificant in terms of the enormous socio-economic benefits that the country has enjoyed since October 1992.

It was only in a relatively peaceful and stable environment that serious best practice microfinance began to emerge in Mozambique. Despite the success of some of the more famous early microfinance initiatives such as the Grameen
Bank and the Banco Sol, locally based experts associated with microenterprise development felt that the conditions for microfinance in Mozambique were not yet suitable. Thus, when World Relief announced in 1993 that it was to start a village banking operation targeting the poorest of the poor, the initiative was met with extreme skepticism. At that stage and for some time afterwards, microfinance was of the maximalist variety associated with NGOs transitioning from emergency relief services to development programmes which typically encompassed a number of integrated components such as basic business training, credit (often subsidized), skills training, agricultural extension, etc. Since the early 1990s, the French institute IRAM had been studying the possibility of establishing a sustainable microfinance programme in a number of provinces. Eventually a pilot programme involving associations of solidarity groups was established in 1997 in Maputo. A year or two after World Relief’s Village Bank initiative, CARE began a programme of solidarity group lending in several large towns. As microfinance became internationally recognized as an effective development tool and as donors and NGOs witnessed the impressive results of the World Relief programme, microfinance of the minimalistic variety was adopted as a priority strategy. To date, the overall performance of microfinance operations in Mozambique remains fairly checkered, although there is a clear tendency by both international and national NGOs alike to adopt CGAP type minimalist approaches leading to institutional sustainability. The recent $3.5m CIDA initiative for promoting sustainable microfinance programmes applying CGAP best practice principles with the possible reinforcement of a UNDP MicroStart programme (as well as likely further financial support from Sweden), will further encourage the development of sustainable microfinance.

Though these are very encouraging signs, a healthy debate has recently begun in relation to the impact of minimalistic microfinance. Critics point out that emphasis on attaining CGAP performance standards has resulted in credit policies similar to the formal banks i.e. lending to low risk clients, particularly short-term commercial loans. Consequently, we have seen progressive distancing by NGOs from their more productive clients such as carpenters, mechanics and tinsmiths. The George Soros funded Open Society Initiative for Southern Africa (OSISA) is encouraging the return to a more maximalist approach involving the capacity building of MFIs, the promotion of both vocational skills and basic business training and a more proactive role for business associations (e.g. in creating a more enabling legal environment). The spectre of massive retrenchments from the privatization or rationalization of the largest state-owned companies, likely to affect around 30,000 workers, has prompted a reassessment of the immediate post-conflict reintegration programmes. A recent consultancy for the national railways, expecting to retrench 13,000 workers, produced a strategy which drew heavily from lessons learned from the experiences with the demobilized soldiers. The strategy involves a closely coordinated programme of counseling, training (re-skilling), basic business training and microfinance (for those assessed suitable).
Microfinance, the world over, has found it difficult to support agricultural activities.

Mozambique has been no exception. An attempt by the FAO to get donors and Government to adopt a "Master Plan" for rural finance failed. CARE has entered into an agreement with the Dutch Government and CLUSA to finance the activities of selected producer associations with the longer term perspective of financing individual members or solidarity groups of members for non-agricultural activities. More recently, GAPI, normally giving loans in excess of $10,000 to small enterprises, has entered into an agreement with a large agro-business specializing in cotton production and processing to provide microfinance to small producers, requiring prerequisite basic business training. These are encouraging signs that microfinance is breaking away from the relatively easy, low risk commercial vendor lending paradigm of the past few years.

The Mozambique experience, in terms of developing a "code of conduct" or some form of guidance for future post-conflict situations has provided some important insights. To keep the issues of microfinance and post-conflict in perspective, it must be borne in mind that Peace came to Mozambique before microfinance became a household word in development. Even though good examples of microfinance existed internationally, few agencies were brave enough to pursue strategies that made more developmental sense in the long run but that carried the unexpected risks associated with untested innovations. The adopted reintegration policy essentially was a composite of conservative highly subsidized programmes offering free training, free kits and small capital grants. Although there is little in the way of palpable results of such assistance, the strategy may have "bought" peace by keeping the beneficiaries happy over the critical threshold post-conflict period.

The process of reintegrating returning refugees and dislocated persons did not allow the opportunity for introducing family-specific development assistance outside of standard agricultural inputs. It is questionable if agencies such as the UNHCR should even contemplate microfinance within the highly fluid situation of post-conflict resettlement. The immediate short term requirements of 1 million returning refugees and even more dislocated, requires enormous logistical resources accompanied by the urgent need to rebuild minimum social infrastructures to avoid the possible return of the refugees in the absence of minimum health and education conditions. Much time was also spent in delicate diplomatic discussions between former antagonists and the handing over of administrative responsibilities from the rebels to the Government. Given the expertise needed for good microfinance and the critical need for microfinance programmes to demonstrate that their presence in an area will be long term, it is the author’s opinion that transitory agencies such as UNHCR should not contemplate microfinance, but should rather focus on establishing the right conditions for effective microfinance.
Mozambique is now approaching 7 years of sustained peace, economic stability and surging investor confidence. It is one of the few examples today of a peace process that was cut and dry without resumed hostilities. The way in which microfinance developed within a framework of peace and significant political/economic reform cannot by itself be said to be in any way significantly different than the development of microfinance in other countries not recently affected by war. What is significant is that the microfinance beneficiaries surviving a highly destructive and cruel war of some 16 years, managed to so quickly adapt themselves to microfinance opportunities - the underlying caveat being that prevailing socio-economic conditions ensured that sustainable microfinance was possible with vulnerable groups. What is not yet clear is to what extent we can introduce CGAP type microfinance (i.e. good portfolio performance leading to - if not already achieving - sustainability) in more volatile situations.

It is recommended that when talking about a "post conflict" situation, we look at it as a two-phase transition leading up to the emergence of the "facilitating conditions" or "preferred conditions" as discussed by Doyle, after which the country should be seen as returning to normality – at least in terms of a microfinance environment. The first phase – call it the **consolidation phase** - probably lasting a year or so after peace (depending whether peace endures) is one of instability, a high degree of population movements, the presence of many emergency and relief agencies, peace-keeping troops, shaky government administrations in once high conflict areas, etc. Microfinance under these conditions would be left to the very brave or the foolish. It is only after populations settle and government establishes an uncontested presence in most of the country that we reach the second phase – call it the **recovery phase** – when microfinance becomes an effective tool to stimulate economic activities. During this phase, conditions are not ideal for microfinance but are at least minimally satisfactory for its operation.

If the Mozambican Peace process were to be restarted today, would we have done it in anyway different in terms of relief and development programmes? Today we know much more about microfinance and its potential than we did 7 years ago. Today we know that the millions of dollars spent on establishing economic activities for demobilized soldiers was largely wasted in terms of creating long-term sustainable sources of income. Despite this, it is unlikely that the reintegration strategy and donor priorities would change very much. Donors would focus on ensuring the quickest and smoothest execution of the consolidation phase, normally resulting in substantial over-expenditures on grants programmes to literally buy off the most vulnerable or volatile population groups. Microfinance would not be considered appropriate for this stage both from the perspective of the client (past experience has shown that demobilized, with some justification, are likely to be consider loans as their deserved right) and from the perspective of the microfinance provider who would be operating in a very unstable environment. One lesson that the 1993/94 reintegration exercise
has hopefully taught us is that virtually all the money spent on start-up capital, training and kits for the demobilized was wasted in terms of microenterprise development. Without technical assistance, supporting working capital, effective business training and monitoring, one cannot expect grant beneficiaries to succeed over the long term.

It is only during the recovery stage that we are likely to see the appearance of serious microfinance organizations and in much greater numbers than we witnessed in 1993 with World Relief, whose initiatives at that stage were felt to be foolhardy. In light of past experience, it is now recognized that microfinance can operate successfully in environments with only a minimum of conditions (with the possible exception of the highly unstable consolidation phase).

Microfinance, though a very effective tool for kick-starting small economic activities, is far from a panacea for post conflict situations. To date, no successful formula has been developed for an effective microfinance methodology that supports agricultural activities – the mainstay of the vast majority of the Mozambican population and almost all the war-affected groups. Rural non-agricultural activities are also difficult to finance because of the dispersed location of the clients. Much as it grates those advocating sustainable development programmes, grants for the reactivation of these activities may be the only way to emerge with dignity and safety from a post conflict situation. Ideally, such grants should be distributed during the consolidation phase of the post-conflict transition.

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Annex 1

CASE STUDIES: SUCCESSES AND FAILURES OF MICROFINANCE IN MOZAMBIQUE

1. World Relief Community Banks (targets largely women vendors in peri-urban areas in Gaza and Inhambane Provinces)

Internationally, one of the most successful strategies for stimulating sustainable livelihoods amongst the poor has been village banking. The idea of introducing village banking to Mozambique was initially viewed with much skepticism as few felt that rural Mozambicans were ready for such a system. World Relief’s introduction of community (village) banking to Mozambique in 1993 was a courageous experiment with ambitious objectives. Until then, few credit schemes exceeded more than a few hundred beneficiaries, rarely achieving repayment rates of more than 80%, while none had charged a real positive rate of interest. There was very little evidence of “best practice” credit applications.
Village banking is based on a centralized system of fund control with dispersed project centres for loan disbursement and monitoring, each serving hundreds of "banks". Initially, an NGO such as World Relief plays the role of the centralized lender and manager, a role which might eventually be taken over by a union of community banks or credit and savings associations. It is important to appreciate the experience acquired in the field of village banking by an agency such as World Relief which has allowed it to "de-bug" and evolve the model which includes essential specially designed software for monitoring the thousands of loans. Community banks borrow a lump sum during fixed cycles which is then distributed to their members. The guarantee on the loan is the high degree of peer pressure between members ensuring that all pay back on time.

A World Relief community bank promoter with considerable previous experience in the formal banking sector described the village banking system as "the perfect bank". An exaggeration perhaps, but one could understand his enthusiasm, coming from a state bank running up huge losses and having avoided the poor because of the allegedly high risks involved. The relationship between what we will refer to as the source bank and the community banks is very simple and can be summarized with 2 basic rules. The easiest and most fundamental is that a community bank does not get a follow up loan unless the previous cycle’s principal and interest are paid in full. The second rule is that the loan allocation for each cycle is calculated on the basis of each member's previous loan allocation plus increment and savings. Virtually everything else such as policies for fining late payments or actions against defaulters is left to the internal management of each community bank. The loan cycle in the case of Mozambique and in many other countries is 4 months with weekly repayment collections. Sustainability is achieved through low transaction costs, charging interest rates well above inflation and through effective savings mobilization.

The project was initiated in Chokwé District, an area supplying Mozambican labour for the South African gold mines for more than a century. Household surveys suggest that the majority of the households are headed by women.

More than 80% of the beneficiaries are women and the vast majority are very poor. Though difficult to gauge during the brief visit, most members would appear to be "single" or widowed. Many looked like they could be eligible for GAPVU (social welfare) handouts. Male members in many cases are husbands of female members, thus allowing a family grouping to double (and in cases where children are over 18, more than double) their loan allocations. Membership is not only determined by geographic proximity but often by peer interests. Thus, many groups belong to the same church, others are vendors belonging to a certain market. Although meant to be a mechanism for targeting the poorest, community banks are flexible enough to be of interest to some of the more entrepreneurial and better off members of the communities.
Community banking, due to the smallness of the loans offered, must be seen as a means by which recipients can supplement their income and rarely promote activities which can independently sustain a family, although in several cases, especially where loans were leveraged through multi-membership, the ability to do so was demonstrated. Due to the shortness of the lending cycle, loans were generally not used for agriculture, although loans did allow for the possibility of households to acquire agricultural inputs and repay through remittances. Loans were principally used for vending, common items being sugar, maize flour and clothes. Many women were also engaged in small productive activities, mainly baking. Most activities yielded high margins or high turnovers so that the 24% interest rate on the 4 month cycle was not of great concern.

The initial catalyst for most community banks is the promoter who will choose areas or target groups which he/she feels would be receptive to the community bank concept. Now that the concept has become widely known in the area, it is not uncommon to receive letters from a group (particularly a church group) requesting assistance to set up a bank. Procedures to set up a bank include 6 meetings with various themes on how to set up a bank as well as the election of the bank committee.

From the inception of the project in October 1993 to August 1998, 179 banks were created with an average of 28 members. There are currently more than 5,000 members receiving loans, more than half of the total loan clients of the whole microfinance industry. Average loan balance per client has grown from US$26 in 1996 to US$56 in 1998. Delinquency rate has generally been 2-3% but in 1998, due to a case of fraud, increased to 11%. Operational self-sufficiency jumped from 38.2% in 1996 to 70% in 1998.

The project expanded from its original base Chokwe and established new banks in the more urban setting of Xai Xai, the provincial capital of Gaza.

2. The PAPIR Model for Promoting Small Productive Enterprises (targets peri-urban and rural artisans)

It is glibly argued time and again that efforts for promoting sustainable livelihoods should be directed at productive activities and not towards supporting small commerce or anything that smacks too much of a highly import-dependent informal sector. The promotion of micro and small enterprises in Mozambique has received an inordinate amount of attention from donors and NGOs, but very few of these support projects have met with success.

In contrast to straightforward credit programmes promoting petty trading which demonstrate almost immediate results, effective support to productive activities is much more complicated. Small producers require, in addition to their production skills, basic business skills, start-up capital, working capital, minimum market
access, regular input supplies, etc. Because of the initial start-up capital, loans usually cannot be repaid within a period of less than a year and often up to 5 years or more. Support from donors usually comes by way of one of these requirements - usually credit or training.

The Project for the Support of Small Rural Industry (PAPIR) covering Sofala Province is an exception, providing a fully integrated approach to microenterprise development. The project offers assistance through productive skills training, basic business courses, credit, input supplies, marketing as well as establishing an association and newsletter for its beneficiaries. In addition, PAPIR has contracted studies of the various issues affecting microenterprise development, such as the excessively bureaucratic regulatory environment, marketing, etc.

The PAPIR experience is a particularly interesting one because it represents a project which evolved over more than a 10 year period, changing as the needs of the small producers became clearer. The growing complexity of the project reflected the complicated nature of microenterprise needs. It showed that there was no quick fix to promoting the small producer. A project of this nature, however, faces the danger of losing donor support as well as Government commitment because of the protracted timing needed for palpable results. It also faces the danger of being evaluated according to its own sustainability rather than the sustainability it generates amongst its beneficiaries. At the moment, its credit programme, though quite successful in terms of repayment rates and impact, is not sustainable because of inadequate volume. Other income generating activities such as training, material supplies, etc. also fail to cover costs. But it would be myopic to judge such a project by its financial prospects. The true value of a project such as PAPIR, and hopefully other similar ones to be introduced in other provinces, would have to be measured by its long term economic impact resulting from the creation of successful microenterprises, which in turn generate employment, taxes, foreign exchange savings, etc.

Projects such as PAPIR, which are housed within Government structures, will always reach a point where the decision to hand over to Government has to be made. The institutional capacity of the host becomes crucial to the continuation (sustainability) of the project. In 1998, the Ministry of Agriculture declared that the project could not be justified under its responsibility. This combined with the apathy on the part of other ministries to assume stewardship, as well as the absence of any other donor to commit itself to the project's continuity, led to the funding organisation's (IBIS's) cancellation of the project.

3. CARE's CRESCE Programme in Manhica Province (solidarity group lending in mainly urban areas and benefiting mostly commercial activities)
Methodology: Solidarity Groups of 5 members, 2 receiving the first loan and the subsequent 3 receiving their loans only once the first 2 successfully have paid off half of their loans without problems

Target Group: Currently urban and peri-urban residents of Chimoio and nearby towns, carrying out small informal trading and productive activities, in the longer term the project envisages servicing rural households

Gender: 30% of the clients are women

Loan Terms: 35% per annum (flat); effective annual interest rate of approximately 70%; 10% guarantee deposit; collateral declared in contract; 1st cycle 3 months and subsequent cycles increase by one month

Loan Ranges: minimum 300,000mt; maximum 1.2m mt 1st cycle; 1.5m mt 2nd cycle; 2m mt 3rd cycle and 2.5m 4th cycle (graduation is not automatic) (approximately 12,000 Mt = $1)

Number of Clients Receiving Loans: 923

Number of Loans Conceded: 1,438

Portfolio at Risk: 2.15% (loans in arrears from 31-90 days)

Repayment Rate: 97.85%

Active Number of Solidarity Groups: 164

Current Number of Current Contracted Clients: 820

Following the successful implementation of the village banking methodology (World Relief in Gaza) and urban individual loans (GPE/GTZ in Maputo and Beira), a third microfinance methodology using urban/peri-urban solidarity groups now appears also to be heading towards sustainability. CARE’s CRESCE project (acronym for Credito Sustentavel para o Crescimento dos Empresarios) or Savings and Credit for Micro-Entrepreneurs in Sofala and Manica, was initiated in January 1996 and conceded its first loans by July 1996. Results to date are very encouraging: by the time of this evaluation, only 2 of the more than 1,400 loans conceded were likely to be written off. Moreover, despite its being a relative newcomer on the Mozambican microfinance scene, positive steps will soon be taken towards giving full control of the project to Mozambicans.

The project has so far operated in the centre and bairros (suburbs) of Chimoio as well as the nearby town of Gondola. There are good prospects for expanding the project into small towns along the Beira Corridor in Sofala Province. Solidarity groups are not considered a viable methodology for lending to rural households,
so a pilot project applying village banking techniques is expected to be launched soon.

Eligibility is essentially determined by whether a client has an established microenterprise with not more than 2 employees and is a member of a solidarity group of 5 members.

Emphasis has been placed on regularity of payment, to the extent that, despite all but 2 clients repaying their loans in one form or another, more than 300 clients have been rejected from further loans. Such high rates of loan recovery have not been witnessed elsewhere in Mozambique. Although, largely attributable to rigorous control, other, as yet unidentified, socio-economic factors, may have played a role, one of which may have been the relative absence of poorly monitored and/or subsidized "credit" programmes in Manica Province.

Virtually all clients operate within the informal economy, the majority of which are involved in various forms of trading (ranging from sedentary market vending to travelling long distances to buy and sell agricultural produce). An encouraging number of artisanal producers (carpenters, tinsmiths, bakers, bicycle repairers, etc) benefited from the programme. These clients usually used the loans for increasing their inputs, sometimes resulting in the doubling of their production. Though not enough time was available to make an objective judgement on the impact of the loans (a baseline survey to measure project impact, having just been launched), it seemed clear that the loans had benefited almost every client in terms of increasing their volumes and income. Perhaps most importantly, for the long-term development of the country, is the ability for such small loans to launch a small percentage of clients into a variety of other activities, demonstrating entrepreneurial qualities which should be encouraged through further loans and training.

Two developments in the local economy are likely to have important implications for CRESCE. One is that, as the Beira Corridor develops, the informal sector should flourish through increased road transportation and tourism that will substantially increase the demand for the types of services and products offered by project clients. The second is that, with the imminent mass retrenchments of the national railway (CFM) workers, many of which live in Gondola, the project offers the possibility for pursuing alternative income generating activities. With 3 of the country’s leading micro credit programmes operating in the Beira Corridor (the other 2 including SOCREMO and the PAPIR credit programme), there exists exciting possibilities for collaboration between different methodologies. In particular, CRESCE clients after 4-5 loan cycles are likely to want larger individual loans. CRESCE would thus be able to pass on its best clients to receive larger individual loans from SOCREMO, now limited to Beira, but open to the idea of expanding to Chimoio, knowing that potentially hundreds of low-risk clients are being groomed by CRESCE.
Though almost all clients expressed great satisfaction with the programme, there were two issues which were regularly raised: one was the tightness of the weekly repayments which many clients such as itinerant traders and relatively low-turnover producers such as carpenters and tinsmiths would prefer to expand to fortnightly payments. The second was the application of the 2/3 disbursement system which effectively prolonged the loan period by 50% without the benefit of a loan. Clients felt that after having proven to be reliable borrowers, their solidarity groups should be given their loans simultaneously.

As the project enters into its second phase, two major new directions will be developed. One will be to develop a rural credit methodology based on the village banking approach. The other would be to set the project on a more autonomous course, weaning itself from technical assistance received from CARE and giving greater responsibility to a Management Board. Essential for such a board would be to include members with a strong interest to participate and should include inter alia members representing the clients and the project. An important first step would be to give the project greater independence over its financial procedures, which up to now have been totally controlled by CARE Atlanta.

Apart from establishing a sustainable national microfinance institution, the project will have an important future role to play in the province in terms of helping to promote better microfinance practices amongst NGOs in Manica Province as well as developing a viable methodology for rural microfinance. The project will also form a key link in establishing a complementary regional microfinance programme, combining different methodologies for different client needs.

4. CARE’s FISH Programme in Angoche District (component targeting small itinerant traders in agricultural commodities)

In 1997, the Dutch Embassy co-financed a component of the IDPPPE/CARE’s Financial Services to Households (FISH) Programme to credit to small itinerant traders of agricultural products in Angoche District. The justification behind choosing this target group lay with the assumption that many peasants in remoter areas of Nampula were not getting adequate access to the market to sell their crops. It was felt that giving financial assistance to itinerant traders would strengthen the capacity of the market to reach the peasant who was often too far away to sell to the rural shops (lojas).

It now appears that most areas of Nampula are being effectively reached by either the lojas or itinerant traders. Progressively, as roads improve and the competition for agricultural production grows, market efficiency is expected to improve. Itinerant traders are expected to play an increasingly important role in the evolution of rural trade. The principal constraint to their emergence as a leading force in the commercialization network is the shortage of operating capital.
Itinerant traders were observed to have the following characteristics:

- they were generally young males, having developed their diverse entrepreneurial skills mainly through vending in the informal markets
- they were often engaged in a variety of activities, including selling an assortment of goods through their barracas (market stalls), and often productive activities such as fishing and other small artisanal activities; they often employed several workers
- agricultural trading patterns usually followed the seasonal patterns of the main products of the district i.e. maize, groundnuts, beans, mandioc (cassava), cashew, fish (dried or salted), frozen prawns, etc. though most traded in groundnuts and maize during those seasons, other seasons were marked by a much more diverse range of activities including the sale of calamidades (used clothing), capulanas (brightly coloured cloth), quinquilharia (diverse, cheap consumer goods), while some specialized in procuring off-season surpluses to exploit the high market prices

Assistance to this group was originally justified with the argument that itinerant traders could extend commercialization into remoter areas. The evaluation suggests that their role is, in fact, much more complex and important than originally perceived.

In assessing the performance of the credit portfolio for this target group, two important considerations were borne in mind. First is that, with few exceptions, the performance of credit programmes in Nampula Province has been poor. Programmes for demobilized soldiers which were effectively handouts combined with a variety of NGO programmes which, because of poor conception and follow-up - as in the case of one in Angoche town itself - have been treated as gifts by the "borrowers", making it very difficult for more serious programmes under NGO management to foster a credit culture among their clients. The second is that, the pilot programme did not, in the evaluation team's opinion, provide for sufficient preparation to allow agents to get to know their prospective clients better and for solidarity group members to acquaint themselves with their partners. Despite these impediments, and bearing in mind that the target group, with very particular needs, was hitherto untested, the team felt that the portfolio performance was satisfactory with a strong possibility for improvement towards the end of the first loan cycle. About half of the 60 individual members managed to pay all their weekly instalments on time. 4 of the 12 groups did not have a single outstanding repayment. On the other hand, 4 groups appeared to have serious repayment problems. However, it was premature to draw absolute conclusions about such groups as defaulting clients continued to surprise project staff by paying up to 10 late instalments in one go. It was felt that many defaulters were soon discouraged from settling their debts because of the excessively punitive penalty system. Defaulters in some of the groups where good members dominated, had been forced to sell their collateral.
The evaluation team felt confident that, with certain methodological changes, the loan portfolio performance would improve substantially. These changes take into account the particular trading patterns of the itinerant traders as well as allowing for more information and control between clients and agents.

It is believed that there are a few hundred itinerant traders who could benefit from these types of loans in Anoche town. Financial sustainability for such a programme would only be possible if implemented in several other districts. In the project formulation report, the mission recommends that a programme using the revised methodology be applied in four distinct areas during an initial two year phase.

Annex 2

GRAPHIC ANALYSIS OF 40 MICROFINANCE PRACTITIONERS

(SOURCE: MEDA/WORLD BANK MICROFINANCE DIRECTORY: MOZAMBIQUE)

Annex 3

Microfinance Institutions and Programmes (taken from MEDA/World Bank Directory of Microfinance Programmes in Mozambique (1998))

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1 The case study on Mozambique was prepared by Fion de Vletter, consultant. The virtual conference helps to prepare for an international technical workshop, jointly organized by ILO and UNHCR, to be held September 15 - 17, 1999, in Geneva.