

**POVERTY OUTREACH AND
IMPACT ASSESSMENT IN MOZAMBIQUE
WITH THREE PARTNER INSTITUTIONS OF
THE NETHERLANDS PLATFORM FOR MICROFINANCE**

Final version

PHASE A

***CHARACTERISTICS OF THE MICROFINANCE SECTOR
&
OF THE THREE INSTITUTIONS INVOLVED IN THE IMPACT ASSESSMENT***

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LIST OF ABBREVIATIONS

ABSA	-	Amalgamated Banks of South África
BCI	-	<i>Banco Comercial e de investimentos</i>
BCM	-	<i>Banco Comercial de Moçambique</i>
BCP	-	<i>Banco Comercial Português</i>
BFE	-	<i>Banco de Fomento e Exterior</i>
BIM	-	<i>Banco Internacional de Moçambique</i>
BPD	-	<i>Banco Popular de Desenvolvimento</i>
BSTM	-	<i>Banco Standart Totta de Moçambique</i>
CCCP	-	<i>Caixa Comunitária de Crédito e Poupança</i>
FCC	-	<i>Fundo de Crédito Comunitário</i>
GGLS	-	Group Guarantee Loans and Savings
HIPIC	-	Heavily Indebted Poor Countries (IMF/World Bank debt relief initiative)
KkN	-	<i>Kulane ka Ntwananu</i>
MMF	-	Mozambique Microfinance Facility
MPT	-	Maputo
AusAID.	-	Australian Agency for International Development
SARL	-	<i>Sociedade Anônima de Responsabilidade Limitada</i> Public limited liability Company

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Introduction

This report relates to activities implemented during phase A of the Poverty Outreach and Impact Assessment in Mozambique, namely the study of secondary resources on the financial sector and of the key characteristics of the three MFIs involved in the assessment. It gives a short overview of developments in the banking and microfinance sector in Mozambique, specifically in Maputo. An estimate is given of potential demand for micro credit. The report ends with a description of key characteristics of the MFIs including objectives, products, outreach, growth, market share and profitability.

The report is written by the consultants Henriqueta Hunguana (consultancy company ICC in Maputo, Mozambique) and Gabrielle Athmer. The in Portuguese written parts of the report were translated by Ken Hansen (Maputo).

1. General information on Mozambique

1.1. Economic trends

Mozambique is considered to be a country with the potential to become one of the faster growing economies in Africa. From 1995 - 2002, it has an annual growth rate of more than 7 percent with the exception of 2000, with a growth rate of GDP of 1.6%, probably mainly due to the floods. However, a few mega-projects account for such a high growth, for example the huge aluminum smelter Mozal. Mozambique has remained primarily agrarian with only a very small formal sector. This shows that Mozambican economic development is still fragile, despite high economic growth rates¹. The Economist Intelligence Unit expects that in 2004, growth of the real GDP will be around 8%².

Economic growth differs strongly between regions. In 2000, the economic growth was substantial in only 4 of the 11 provinces of Mozambique. Maputo city contributed most to the GDP: almost 37%. This means that in terms of income, Maputo City dwellers were on average better off: the GDP per capita in Maputo City was six times greater than the national average³. GDP per capita was estimated to be 219 USD in 2000.⁴

Income disparities are fairly high, as reflected in the Gini coefficient⁵, which was 0.42 calculated on the national household survey of 2002-2003. For comparison: the Gini coefficient in South Africa was 0.77 (2001) and in the Netherlands 0.33 (1994). As is almost always the case, inequality was lower in rural areas than in urban areas. The Gini coefficient of Maputo was 0.52, where the wealthiest 25 % of the population account for over 64 % of the total consumption in the City⁶.

Average inflation in 2003 was 13.8 %, against a target of 10.8%. The Mozambican currency, metical, fell in real terms, and in nominal terms against South African's rand; the exchange rate of the metical against the US dollar was virtually unchanged in 2003.

1.2. Poverty levels

According to the Household Budget Survey conducted in 2002-2003, poverty levels have decreased significantly over the past years: 54 % of the population was reported to live below the poverty line⁷, while this was 69% at the time of the initial survey in 1996 - 1997. However, an increase in poverty levels was registered in Maputo Province and Maputo City (Maputo City from 47.9 – 53.6 %). This could be due to the rural – to – urban migration. However, the large changes in poverty levels in some of the provinces raised questions to the correctness of data of either the most recent or the initial survey⁸. One of the limitations of the Household Budget survey was that intra-household distribution issues were not captured, meaning that it is not known into what extent poverty reduction of a household leads to a real poverty reduction of each member of the household, namely of women.

¹ Position of women I Mozambican economy, Athmer 2003

² The Economist Intelligence Unit Country Profile 2001-2002

³ UNDP 2002. Mozambique, Gender, women and human development: an agenda for the future, National Human Development Report 2001. Maputo, Mozambique

⁴ The Economist Intelligence Unit 2004 Country Report Mozambique

⁵ The Gini coefficient is a number between 0 and 1, where 0 corresponds with perfect equality (where everyone has the same income) and 1 corresponds with perfect inequality (where one person has all the income, and everyone else has zero income). (www.economist.com)

⁶ Email communication Robert James, *Direcção Nacional de Plano e Orçamento (DNPO)* Maputo, 09-12-2004

⁷ Poverty defined in terms of consumption of food and non-food items, compared with an regional adapted index of basic needs

⁸ The Economist Intelligence Unit, UK 2004 Country Report Mozambique

A national participatory survey about (perceptions of) poverty has been carried out in 2003 (report 2004⁹) among individuals, organizations and enterprises, by organizations of the civil society taking part in the Poverty Observatory, which is a platform for dialogue between the Government and Civil Society about poverty reduction. The different perceptions of poverty were classified in five groups: human poverty, economic poverty, social poverty and political poverty. For the majority of the interviewed (around 8000) poverty means the impossibility of providing for vital necessities, classified as human poverty, such as not having food, not having a house, not having conditions for survival, living in a country plagued by disaster¹⁰. Others found that poverty is derived from low income, social disparities, or from the political situation. For most of the interviewed individuals, poverty was a daily reality: for two third of the interviewed, the quantity of food taken during the last twelve months had been insufficient, and for half of the interviewed, the quantity of available water had not been sufficient during the same period. Moreover, approximately 40% of the interviewed families had one member who had been ill for more than 3 months.

1.3. Informal sector

The growth of the informal sector after the war¹¹ has been enormous, both in urban as in rural areas. However, research on the informal sector is scarce. The informal sector contains the majority of the labor force: around 85% appear to be informal workers, of whom 59% are women. Workers in the informal sector include micro-entrepreneurs, wage labor of informal micro-enterprises, or waged labor of formal enterprises who do not comply with regulations, casual or irregular workers, family workers who are generally unpaid or compensated on irregular basis and domestic servants. Research suggested that the number of women employees in the informal sector has grown significantly, especially among the unpaid workers. Wages paid by the informal employers are generally below the minimum wage and working hours tend to be extremely long. Women are over represented in poor quality employment as more women than men are unpaid workers or receive lower wages.¹²

1.4. Micro-enterprises.

Women and men are increasingly engaged in micro-enterprises, especially in trading and low technology manufacturing. This occurred in rural and in urban areas; a research of northern and central provinces indicated that in 36% of rural households, at least one household-member was engaged in micro-enterprise. However, there was a stark difference between female's ownership of micro-enterprises in the north and in the south. In the northern provinces only about 11.5% of the micro-enterprises was owned by women, while in the central areas the proportion of women of female owned enterprises was much higher, for example one third in the Sofala province (Benfica 1998). A study conducted on the informal sector of Maputo and Beira cities, found that there was no obvious dominance of either men or women.¹³

⁹ G20 2004, Annual Poverty Report. Maputo (www.iid.org.mz/html/3__pobreza.html)

¹⁰ Annual Poverty Report pg 15

¹¹ Peace accord in October 1992

¹² ILO's Southern Africa Multidisciplinary Advisory Team 2001. *Women and Poverty in Mozambique. A Synthesis of an ILO Study on Feminization of Poverty in Mozambique*. Harare, Zimbabwe.

¹³ de Vletter quoted in ILO 2001.

1.5. HIV/AIDS

Data on HIV/AIDS are very limited and not adequately disaggregated by sex. It is estimated that the HIV prevalence rate in 2003 was 13% in the category of 15 – 49 years old (website UNDP). Urban and rural areas are equally infected.

2. The Financial System in Mozambique

2.1. Banking sector

In the decades of the eighties and early nineties, the banking system was state owned and most credit was directed to mainly loss making state enterprises. In the early 1990s, the banking sector was liberalised. New banks were established and, in the late nineties, state-owned banks were privatised. Most banks are majority owned by Portuguese and South African Institutions.

The BIM (Banco de Internacional de Moçambique) is the largest bank. Other important banks include: Banco Comercial e de Investimentos (BCI) Fomento; BNP- Nedbank; and Banco Austral. Banco Austral (formerly BPD) and part of BIM (BCM) are former state banks. Privatisation of the two state-owned banks became a condition for World Bank and IMF support. The Malaysian Southern Behard became the main owner of the BPD, while the BCM was bought by a group including the Banco Mello of Portugal.

The privatisation of the banks was accompanied by corruption scandals. It appeared that the new owners did not conduct a diligence audit, which made it impossible to detect which frauds were done before and which after privatisation¹⁴. The banks declared themselves insolvent in the late 2000; this situation was caused by a high percentage of non-performing loans that were believed to belong primarily to the Mozambican politically well-connected elite. The BCM's owners agreed to a recapitalisation plan with the government, while the Malaysian owners of the former BPD (renamed as Banco Austral) turned their shares over to the government.¹⁵ Since 2001 Banco Austral is owned by ABSA, the Amalgamated Banks of South-Africa. The recapitalisation of the banking system required an injection of US\$128m of the government, meaning 4% of the GDP.

The bank scandals were brought to international attention in 2000 by the killing of the well-known journalist Carlos Cardoso who was investigating the corruption; soon after (in 2001), the head of banking supervision of the Central Bank of Mozambique, who was at that time the acting manager of the collapsed Banco Austral, was killed after he had started to try to collect non-performing loans.

Legislation was adapted in order to limit the possibilities that these problems would occur again. The crisis led to a temporarily suspension of Mozambique's access to debt relief under the HIPIC facility. Moreover, the lack of progress in recovering the non performing outstanding loans contributed to the delay of the negotiations about the extension of an IMF supported programme under the poverty reduction and growth facility, that expired in June 2003¹⁶.

*Financial System Stability Assessment*¹⁷

The IMF assessed the banking system and concluded that remarkable progress has been made over the last decade, when the state-owned banking system developed into to a market based financial system. However, it was noted that the financial system is still small, dominated by banks, concentrated and highly dollarised. Concentrated because the largest bank accounts for 45% of the total deposits, while the five largest banks account for 96% of the deposits.

¹⁴ Hanlon, Joseph, 2004: "Do donors promote corruption? The case of Mozambique". In: Third World Quarterly, vol. 25, No 4, pp747-763

¹⁵ Economist Intelligence Unit, Country Profile Mozambique 2001/2002

¹⁶ The Economist Intelligence Unit Country Report Mozambique April 2004.

¹⁷ This section is written on the basis of Financial System Stability Assessment, March 2004, IMF Country report No 04/52

Dollarised because, in 2002, 51% of the deposits and 70% of the loans were in foreign currency. Dominated by banks as other financial institutions such as insurance companies brokerage firms, pension funds and credit societies are scarce.

Mozambican banks have generally substantial profit margins (in 2002 almost 20% return on equity), which is considered as an indication for limited competition. The ratio of non-performing loans is a high 21 % (end 2002); however, one bank contributes to a great extent to this very high average; 27% of its total loans is non-performing, as against 6% for the other banks.

Intermediation conducted by the Mozambican banks is limited: the aggregate loan-deposit ratio is 61%. The access to credit is limited to a small group of recipients. The intermediation margin¹⁸ – the difference between deposit and lending rate – is wide, which is caused by the large number of non-performing loans and high operating costs. According to the Bank of Mozambique, 80% of the firms reported in 2002 that the cost of credit is the most severe obstacle to improve their business performance. Only 10 percent of new investment appeared to be financed by bank loans. This clearly indicates that the regular banks hardly meet the demand of the small and medium entrepreneurs, let alone of the micro-entrepreneurs.

Contract enforcement is difficult, given legal obstacles. According to the IMF report, it takes on average 540 days to resolve a case in Maputo, while outside Maputo, the judicial system is even less effective. Other obstacles mentioned include the lack of clear property titles and inefficiency and corruption in the property registry. The IMF recommendations include the adoption of a new commercial code and the enhancing of the credit register.

The IMF observations on the micro finance industry included that its outreach is still small and highly concentrated in Maputo. The report mentions the restrictions on deposit taking and the lack of human resources as the most important bottlenecks. It recommends reviewing the draft legislation - under discussion at the time of the IMF mission -¹⁹, to ensure that MFIs would be able to take deposits without ‘promoting regulatory arbitrage and overburdening the supervisor (or the institutions)’ (pg 7 IMF report).

Coverage of the banking network

The coverage of the commercial banking network is still limited and concentrated in Maputo City where 47% of the network is located. Banks are the scarcest the Northern part of Mozambique with only 12% of the banks branches, while 21% is located in the Centre and 67% in the South.²⁰

The total loan portfolio of commercial banks was per June 2004 around US\$ 610,319,300, from which 54% is for working capital loans, and 46% for investment.²¹

Interest rates

¹⁸ Deposit rates fluctuated between 5,9 percent and 2,4 % and lending rate between 20,4 percent and 9,9 %, (90 days maturity) during the last 4 years. (IMF Country report no.04/52)

¹⁹ Alterations on the law were approved in April 2004 by the Parliament; regulations were approved by the Council of Ministers in October 2004; see also section 2.2.8.

²⁰ South: Maputo, Gaza and Inhambane; Centre: Sofala, Manica Tete and Zambexia; North: Nampula, Niassa and Cabo Delgado

²¹ www.bancomoc.mz - Estatística do Crédito - Distribuição de Crédito Bancário - Por Finalidade (2004-06-30)

Interest rates decreased slightly, but are still around the 30% p.a. in June 2004. These are much higher than the inter-bank lending rate, which is 18,5 %²².

2.2. The Microfinance Sector

2.2.1. History

In Mozambique the microfinance industry had its start in the middle of the nineties. The greater part of the operators did not begin their activity with the purpose of creating viable microfinance institutions. Some arose as an ad hoc response in order to meet the needs for income generation on the part of the target population, after the latter had benefited from post-war aid programs. Others constituted learning around methodologies to serve the low-income population. The greater part of them did not possess management structures capable of supporting high levels of outreach and high repayment rates²³.

The first study of the microfinance sector carried out in 1997²⁴ and published in the following year, pointed to the existence of 25 microfinance initiatives/operations, which were serving a total of close to 6,000 clients. The same study indicated that the greater part of the operations were implemented by projects and Mozambican and foreign NGOs, and served urban and peri-urban clients in Maputo City and Nampula Province.

The second study, carried out in 2000²⁵, indicated important developments in the sector, with the following deserving highlight: (i) greater awareness as to ‘good practices’ in microfinance on the part of the donors and operators; (ii) higher levels of outreach; (iii) the appearance of local legal entities and the creation of independent institutions; (iv) greater geographical dispersion; (v) the appearance of some interventions in the rural areas; and (vi) the publication of a decree to regulate micro-credit activities.

In recent years the MFIs have grown rapidly but still have limited outreach and low efficiency levels. In spite of microfinance services being offered by a varied range of institutions—commercial banks, NGOs, credit and savings cooperatives and local associations—the sector is still not very developed when compared with other African countries. The industry is still an essentially urban phenomenon, with a big concentration in Maputo and high concentration of entities in the industry (four institutions hold more than 80% of the portfolio)²⁶.

Average salaries and administrative costs are high, due to a limited supply of qualified staff. That contributes to the fact that in the majority of cases, the return on assets and equity capital is still negative, like in other African countries with still young microfinance industries²⁷. Socremo and NovoBanco already have positive returns.

2.2.2. Outreach and Portfolio

In June 2004 there were 52,019²⁸ active clients, as against the close to 16,000²⁹ in June 2000, which represents growth of 225%. Despite this enormous growth, this number represents not

²² ‘Facilidade Permanente de Cedência de Liquidez’ www.bancomoc.mz - Facilidades Permanentes - Taxas de Juro – Junho de 2004

²³ A. M Chidzero, C. Guevas, C. Frolicch, H. Hunguana - Mozambique Microfinance Study, 1998

²⁴ A. M Chidzero, C. Guevas, C. Frolicch, H. Hunguana - Mozambique Microfinance Study, 1998

²⁵ ICC, Study of the Microfinance Sector in Mozambique, 2000

²⁶ Financial System Stability Assessment of the IMF – Monetary and Financial Systems and African Department, November 19, 2003

²⁷ idem.

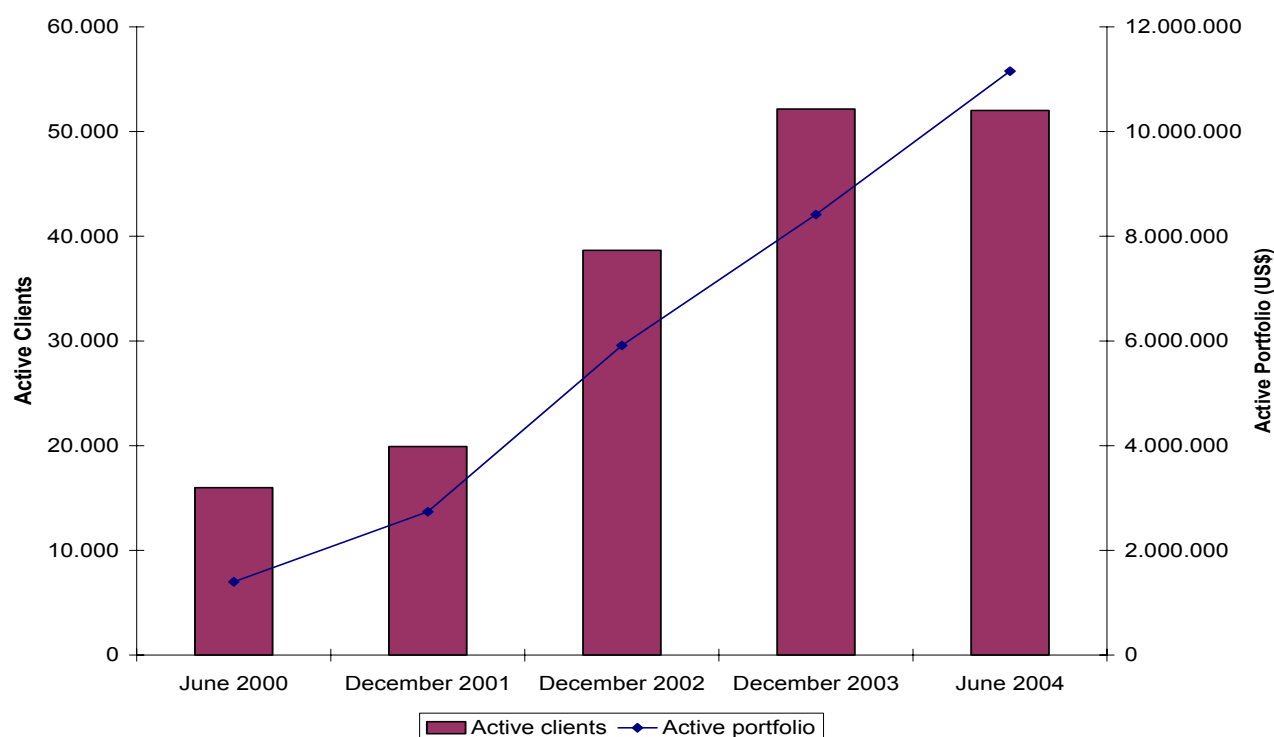
²⁸ Mozambique Microfinance Facility Project, Portfolio Data for Microfinance Institutions in Mozambique as of 30 June 2004

²⁹ ICC, Study of the Microfinance Sector in Mozambique, 2000

much more than half of the government's target of reaching 100,000 clients by the end of 2005 (International Micro-credit Year, according to the 1997 Washington summit)³⁰.

Growth of the loan portfolio was even greater, having gone from around 1,400,000 USD to close to 11,200,000 USD, which is to say it had growth on the order of 700%. In turn, growth in the commercial banking system's loan portfolio (excluding NovoBanco) was 73% from December 1999 to June 2004. The following figure shows that growth.

Chart 1: Growth in the number of clients and in the active portfolio from June 2000 to June 2004



CCCP is the largest MFI in terms of Clients. Disaggregated data per MFI, which presents the ranking in terms of active clients is shown below. Not all the MFIs are included, but only the most important ones who send information about their portfolio to the Mozambique Microfinance Facility on a regular basis.

Table 1: Ranking of MFIs in terms of number of clients by June 2004

Ranking	Institution	No. of Clients
1	C.C.C.P.	11.621
2	Novo Banco	9.921
3	FCC	7.824
4	Tchuma	6.007
5	CRESCE (CARE Mozambique)	5.694
6	Socrema	5.338
7	Karela Microfinanças (WV- Zambezia)	2.210
8	Group Guarantee Loans and Savings (SCF)	1.922
9	Male Yeru- Hluvuku	869
10	Kulane ka Ntwananu (MEDA)	613

³⁰ Speech of the Vice-Minister of MADER at the National Microfinance Conference, May 2004, Mozambique

The contribution to these levels of outreach by the three institutions under analysis—which is to say NovoBanco, Tchuma and Socremo—is enormous. In June 2004, these three institutions had 41% of the total number of active clients served by the MFIs. In terms of portfolio, the contribution of the three institutions is even greater, which is to say, 79%.

Besides the institutions presented above, other organisations offer financial services to the low-income population in rural areas while obtaining a substantial outreach. Through these organisations Accumulating Savings and Credit Associations are trained (Ophavela in Nampula Province and Care Vilanculos in Sofala). The methodology used by Ophavela and Care Vilanculos builds on the traditional rotating savings and credit system in Mozambique – the Xitique. Evolutions in methodology, however, make the methodology more flexible and responsive to needs of participants. The emphasis is on the establishment of self-sustaining and self-replicating savings and credit groups, which help reduce members' vulnerability to seasonal and unpredictable shocks. Most of the groups are trained by community members, who -on their turn- are trained by the organisations. Ophavela and Care Vilanculos consider this bottom-up institutional approach as better suited to rural areas with a dispersed, poor population than the creation of a MFI. By June 2004, groups linked to Ophavela consisted of in total 6,902 members (46% women) and those linked to Care Vilanculos consisted of 5,061 members. These operators do not provide credit outreach information to the Mozambique Microfinance Facility (MMF).

2.2.3. Depth

According to the MicroBanking Bulletin's definition of depth³¹ (which is a measure to determine the MFIs' target market), an MFI's target group is made up of the poorest (low-end) strata, when the average loan balance outstanding is less than 20% of the per capita GNP, broad when it is between 20% and 149% of the per capita GNP, high-end when it varies between 150% and 249%. When the average loan balance outstanding is 250% or more of the per capita GNP, the institution is considered to serve small businesses.

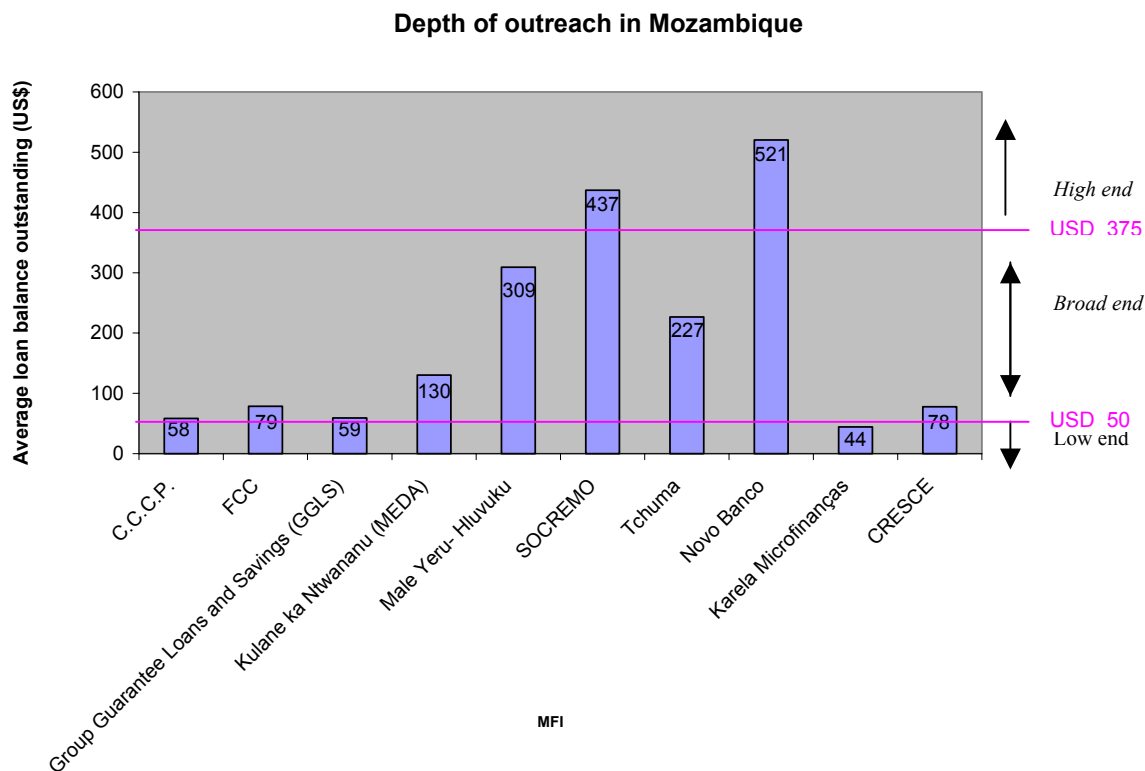
In Mozambique's case, when estimating the per capita GNP around 250 USD in 2004, an MFI is serving the poorest strata of the population when its average loan balance outstanding is less than 50 USD, and the middle stratum when its average loan balance outstanding is situated above 375 USD.

Chart 2 shows that, according to this definition, in general the MFIs are serving the broad stratum. Karela is the institution serving the poorest strata (low -end). NovoBanco and Socremo, which are gradually including SMEs as a target group, serve - on average- the high end.

This situation is quite different from the situation registered in 2000, when in aggregate terms the average loan balance of these same operators was 87 USD as against the current 214 USD, indicating – on average – an up-market trend.

³¹ http://www.mixmbb.org/en/company/our_methodology.html - Our Methodology

Chart 2: Average Outstanding Loan Balances of the MFIs³²



2.2.5. Market and Clients

The geographical coverage of MFIs increased also during the past years. As was mentioned above, in 1998 the greater part of the operators was concentrated in the cities of Maputo and Nampula. Today, all of the provinces in the country are served by at least one operator³³. Based on the data supplied each month to the Mozambique Microfinance Facility Program, it was possible to determine that 63% of the clients are in the southern region, 21% of the clients in the central region and 16% in the northern region.

In addition to that, and unlike the situation recorded in 1998, the MFIs have gradually been coming to serve the rural areas, where it is estimated that between 15% and 20% of the clients served by the MFIs are found.

2.2.6. Products and Services

It was also in the products and services where a considerable advance was noted in the sector. In 2000 credit, which was practically the only financial product offered by the operators analysed in the 2000 Microfinance Sector Study. In addition to credit, which was directed essentially to financing the micro-entrepreneurs' working capital fund needs, savings and insurance were offered on a very limited scale.

³² Amounts calculated based on the data furnished by MMF

³³ ICC – Draft Report, Inventory Survey of Rural Finance and Microfinance in Rural Areas of Mozambique

Since that time, the MFIs have developed other financial products like for example³⁴:

- **Consumer credit:** Presently offered by Tchuma and NovoBanco. Tchuma's product is directed toward employees, initially those in the education sector. NovoBanco's product is offered to the broad public, as long as the borrower possesses a fixed deposit.
- **Housing loans:** Offered by NovoBanco and directed especially toward salaried workers looking to refurbish or expand their houses.
- **Credit to SMEs:** Also offered by NovoBanco (PEMES Credit) and Socremo, directed toward small and medium-sized business.
- **Agricultural loans:** Offered by the Caixa Comunitária de Crédito e Poupança (CCCP) and directed for the purchase of inputs by small-scale farmers.
- **Current deposits:** Offered by Tchuma and NovoBanco
- **Term deposits:** Offered by NovoBanco
- **Money transfer:** Offered by NovoBanco, in cooperation with one of its shareholders—BIM—through an agreement signed with Western Union.
- **Money exchange:** recently introduced by NovoBanco
- **Payment of services (water bills):** recently introduced by NovoBanco

2.2.7. Other Developments

In addition to those mentioned above, there are other developments in the sector, with the following deserving to be highlighted:

- Changes to Law 15/99, approved by Parliament on April 28, 2004 (but not yet published) which foresees the introduction of new kinds of Credit Institutions and Financial Companies, amongst which Micro-banks (see more details in section 2.2.8).
- The appearance of banks specialised in microfinance: the creation of NovoBanco and its recent transformation from a microfinance bank into a commercial bank; the transformation of Socremo into a microfinance bank
- Implementation of programs for support to the sector, specifically:
 - *Microstart Mozambique*, with the goal of “strengthening the capacity of local organisations to initiate or expand their microfinance services”. The program, in the amount of 1.15 million USD, was implemented between February 28, 2001 and the end of 2003 and was funded by UNDP/ADB/AusAID. The partner institutions were Tchuma, Socremo and GGLS, in the category of “organisations with potential for growth and sustainability”, and Kwaedza Simukai Manica (KSM) and the Women's Savings Bank of Nampula (CMN), due to the fact that one considers that they showed opportunities for developing models for community-based financial services which are appropriate to Mozambique's rural areas. At present the possibility is being studied of implementing a second phase with a focus on the rural areas³⁵.
 - *Mozambique Microfinance Facility*, the purpose of which was to strengthen the capacity of the microfinance institutions in Mozambique, supplying credit to a growing number of poor people. This program, in the amount of 4.4 million USD, is financed by CIDA and began at the end of 2000, and has its conclusion

³⁴ Compilation done based on the microfinance sector studies carried out and on the operators' brochures

³⁵ J. MacDade & P. Themba. Mid-Term Evaluation Report of MicroStart Mozambique; January 2004.

foreseen for December 2005. The partner institutions are Cresce, FCC, GGLS, Karela, Male Yeru and Socremo³⁶.

- *Upstream Project*, with the goal of increasing the institutional capacity of the state to adopt policies and take decisions to strengthening the microfinance sector. The value of the project is 550,000 USD and it is financed by the UNDP, AusAID and AMINA.

2.2.8. Legal Framing of Microfinance

The development of banking and others financial activities is regulated by Bank Law N° 15/99, of November 1, 1999. Under the terms of this law, there are two kinds of financial institutions: credit institutions and financial companies. Only the credit institutions are authorised to undertake credit activities and some of them take deposits from the public and other repayable funds. The financial companies are authorised to carry out other financial activities in the foreign-exchange and marketable securities markets.

The credit institutions include banks, leasing companies, credit cooperatives, investment companies and other entities as come to be considered as such by specific regulations. However, only banks and cooperatives are authorised to take deposits.

Notice N° 03/GGBM/2002 of March 27, 2002 establishes the minimum capital for credit institutions and financial companies. These are as follows:

Banks: 70 billion meticaís (approximately 3 million USD). In the case of banks with their headquarter outside of Maputo, this amount may be reduced to 70% or 50%. For banks engaged in microfinance activities, the minimum capital is 25 billion meticaís (around 1.1 million USD).

Credit cooperatives: 200 million meticaís (around 8,700 USD).

Financial companies: 25 billion meticaís (around 1.1 million USD)

Of the credit institutions referred to above, few undertake microfinance activities: one microfinance bank (Socremo) and one commercial bank (NovoBanco)³⁷; 3 credit cooperatives (Tchuma, Angónia Micro-enterprise Owners Credit Cooperative SCRL—CCMA and the Credit Cooperative for Rural Development) and a financial company (GAPI). GAPI intervenes indirectly in microfinance activity, as a wholesaler, granting funds to the MFIs as loans.

The following table shows the main advantages and disadvantages of each one of those forms.

³⁶ I. Paterson, C. Hunguana e B. Murambire, Jr., Draft Report - Mid-term Evaluation of Mozambique Microfinance Facility Project, January 2004

³⁷ SOCREMO operated as a Financial Company up till May 2004, a time at which it obtained its license to operate as a Microfinance Bank under Law 15/99 and Notice 03/GGBM/2002. NovoBanco operated as a microfinance bank and became a commercial bank after the last capital increase in May 2004.

Table 2: Advantages and Disadvantages of some Selected Legal Forms³⁸

Kind	Advantages	Disadvantages
Banks	<ul style="list-style-type: none"> • May undertake a varied range of operations, including collection of savings • The high reporting and reserve requirements demand enormous rigour in the monitoring of the portfolio • Attractive to investors 	<ul style="list-style-type: none"> • High requirements for minimum shareholder capital.(70 billion Meticaais for banks in general and 25 billion for those specialized in microfinance) • High requirements for prudential ratios and limits. • High requirements for publishing and reports to the Bank of Mozambique).
Credit Cooperatives	<ul style="list-style-type: none"> • The requirements as regards minimum capital are easy to meet; • They are qualified to collect savings, although restricted to their members 	<ul style="list-style-type: none"> • High requirements as regards prudential ratios and limits • High requirements for publishing and reports to the Bank of Mozambique; • The members must have a common bond, which may limit possibilities for expansion. The current regulation is not clear as to what may constitute a common bond. Examples given are: living in the same geographical area or having the same profession. • The fact that they are governed by a democratic principle in which each member has one vote, irrespective of their subscribed capital, may make the decision-making process bureaucratic and slow.
Investment Companies	<ul style="list-style-type: none"> • Same as for the banks 	<ul style="list-style-type: none"> • Cannot collect savings; • Not permitted to grant consumer credit; • High requirements as regards minimum capital, prudential ratios and limits • High requirements for publishing and reports to the Bank of Mozambique

Prior to Law 15/99, the undertaking of banking and other financial activities was regulated by Law 28/91, which bore similar disadvantages and restrictions presented above. Due to those disadvantages and as a consequence of the pressure exerted by the operators who were not in the condition to register under any of above-mentioned forms, on September 22, 1998 the Bank of Mozambique issued Decree 47/98 regulating micro-credit activities. Under the terms of this decree, all institutions and individuals that offer credit, registered under any legal form should acquire a license for the exercise of the activity from the Bank of Mozambique.

The main advantage for the licensed bodies under Decree 47/98 is that the requirements are easy to meet. However, they face the following as disadvantages:

- They are not qualified to collect savings;
- The Bank of Mozambique (BoM) can establish the limits of the credit they can grant to their clients (Notice nr. 01/GGBM/99 of 10 February 1999);
- BoM can fix the rules for the establishment of interest rates (BoM liberalized the interest rates, but BoM can decide at any time to establish fixed interest rates to be applied by these institutions);

³⁸ Compilation undertaken based on Law 15/99 of November 1.

- The low requirements in terms of reporting do not encourage a rigorous monitoring of the portfolio;
- They aren't attractive for investors;
- These institutions are not subject to close supervision by the Bank of Mozambique.

In order to improve the legal environment of microfinance, Parliament approved alterations to Law 15/99³⁹ on April 28, 2004. The alterations include the introduction of new kinds of Credit Institutions and Financial Companies, amongst which the micro-banks. The new law defines micro-banks as “credit institutions which have as their main object the exercise of restricted banking, operating specifically in microfinance, within the terms of the applicable legislation”.

Further in accordance with the new law, the credit institutions (within which are found the micro-banks) are firms whose activity consists in receiving deposits from the public or other repayable funds, when the legal system of the respective kind expressly permits it, to grant credit.

The process of design of the regulations involved a working group made up of representatives of the principal operators. Given that only very recently, the regulations for the micro-bank form had been drawn up, it is difficult to comment as to the advantages and disadvantages of these regulations.

According to the regulation for the Central Credit Registry⁴⁰, credit and financial institutions are obliged to provide to information regarding credit operations. By virtue of NovoBanco and Tchuma being credit institutions and Socremo until quite recently being a financial institution, the latter were obliged to furnish information to the Central Credit Registry, and could also access this information.

However, given the different nature of the clients of these three institutions and of the clients of other credit institutions and financial companies, the MMF, in collaboration with the Informal Microfinance Group, presented a proposal in February 2004 to the Bank of Mozambique for the creation of a Risk Centre for Micro-Debtors (MICRODEV), which would also compile information from other not-yet-regulated microfinance operators.

2.2.9. Main Sector Constraints and Challenges

During the III National Microfinance Conference held in Namaacha from May 19 to 21, 2004, various constraints and challenges for the microfinance sector in Mozambique were presented. Based on the various presentations made at the conference, a summary is presented below of the main constraints and challenges.

Main Constraints:

Market, target group and services

- Limited coverage of the financial services for micro- and small- businesses.
- The formal financial services have not been meeting the needs for emergency funds for the poor strata.
- The greater part of the operators is operating exclusively in the area of credit, which results in a lack of savings institutions/systems.

³⁹ The alterations are approved in the Council of Ministers at the end of October 2004 .

⁴⁰ On December 4, 2003 the Bank of Mozambique issued Notice N° 007/GGBM/2003 which alters the title of the Risk Centre to that of Central Credit Registry.

- In various parts of the country, a near-total lack of informal structures such as ROSCAs, money-lenders and savings clubs.

Institutional

- Limited labour market, which results in difficulties in recruiting and creating capacity, especially at senior level

Coordination

- The sector support projects are out of phase with each other (Microstart began in 2000; MMF in 2001 and Upstream in 2003). As a consequence, activities of these projects were overlapping and there was a lack of complementarity of capacity-building activities for the MFIs.
- Due to the delay in the Upstream Project, the Micro-bank Law was developed prior to the beginning of the process of training of the policymakers.

Main Challenges:

Market and Target Group

- Expand the supply of financial services to the rural areas, since at this time they are concentrated in the urban and peri-urban areas.
- Reach the poorest of the economically active population

Institutional

- Expand operations while maintaining quality
- Improve the efficiency levels
- Improve the internal control systems
- Increase the outreach of financial services to the micro- and small-scale entrepreneurs.

3. Microfinance in the City of Maputo

As the impact assessment is limited to 3 MFIs and its clients in Maputo, we will describe shortly the supply of Microfinancial services in Maputo by informal financial systems and by MFIs.

3.1. Informal Financial Systems

From amongst the informal financial systems the following stand out: *xitiques*, treasurers, funeral funds and money-lenders. Given that no exhaustive study has ever been carried out on the informal financial systems, it is not possible to estimate the number of persons who participate in/are served by these different schemes. However, it is clear that, especially in Maputo, more people are served by informal financial systems than by MFIs and banks. In what follows a brief description⁴¹ is made as to the operation of these schemes.

Xitiques (ROSCA: Rotating Savings and Credit Association)

This system is very popular in Maputo, especially among women, and consists in the payment on a periodic basis, generally monthly, of a certain amount of money. The money is paid out in rotation to each one of the members who are part of the group. The amounts vary considerably, in accordance with the incomes of the participants, but in general are not less than 50 thousand meticaís (around 2 USD). Many clients of MFIs participate at the same time in *Xitiques*. Because this system does not imply the safe custody of money, the members don't pay any kind of interest or other rate.

Treasurer (also called: general xitique)

This system is used in the majority by market vendors in Maputo and has as its objective to facilitate access to savings services. The "treasurer" is a person who undertakes the daily collection of amounts which his/her clients intend to save. The savings are made based on monthly contracts, which establish the daily amounts to be deposited. At the end of each month, the user pays an amount corresponding to one day's savings.

From the viewpoint of its users, this system offers some advantages, specifically the fact of the treasurers accepting deposits of small amounts and of it does not involve moving around. However, there are also some disadvantages, specifically: questionable security aggravated by the fact of in some cases no signed contract existing between the parties; the agreed fee is paid in whole, even in the cases in which the client, for whatever reason, does not deposit the amount every day; the safe custody of amounts of money is for a period of one month only; the greater part of the *treasurers* do not accept withdrawal prior to the end of the month, even in cases of emergency. Many clients of MFIs use this system to save for the reimbursements of their loans on a monthly basis.

Funeral Funds

Normally this scheme operates in groups of 20 to 30 persons, often from the same family. Each one of the members pays a monthly amount, generally 50 thousand meticaís. In some cases the place of the payment rotates so as to allow the latter to know all members' places of residence. In the event of a death, the members of the fund and their direct relatives—spouse, parents and children—are entitled to a coffin. None of the other expenses are borne by the fund.

⁴¹ Information used from: ICC – Market Research and Evaluation of the Impact of the Services Provided by Tchuma – Final Report, September 2003.

Money-lenders

In general money-lenders make individual loans in amounts that range from a few hundred dollars to a few thousand dollars. The most commonly used guarantees are the good reputation of the borrower, post-dated cheques and personal possessions. Generally the interest rates vary between 10% and 20% per month and the payment deadlines may go up to 3 months.

In addition to the systems described above, loans from family members and friends at no cost and with flexible time limits are also mechanisms much used by the low-income population, principally to pay for health and education expenses.

3.2. Microfinance operators in Maputo

In the City of Maputo the main microfinance operators are the Caixa Comunitaria de Crédito e Poupança (Community Credit and Savings Office CCCP), NovoBanco, Tchuma, Socremo and Kulane ka Ntwananu (MEDA). These 5 operators have different ages, legal structure and credit methodologies.

Table 3: General Characteristics of the Main Operators in the City of Maputo

	Age	Structure and Legal Framing	Methodologies
CCCP	6	A government project, implemented in partnership with IRAM. License granted to each one of the associations making up the CCCP under the terms of Decree 47/98	Community banks with individual and group credit
Kulane ka Ntwananu (MEDA)	6	MEDA projects with license granted under the terms of Decree 47/98	Individual credit and credit to solidarity groups (5 members)
NovoBanco	4	Commercial Bank	Individual credit
Socremo	5	Microfinance Bank (license granted by the BM in May 2004), registered under Law 15/99	Individual credit
Tchuma	5	Credit cooperative registered under Law 15/99	Individual credit and credit to solidarity groups (4-6 members)

Given that a detailed analysis of NovoBanco, Socremo and Tchuma is presented in Chapter 5, a brief analysis is presented below of the other two most important operators in the City of Maputo.

As is common in the microfinance institutions, micro-entrepreneurs operating in the sector of commerce are the clients most served by CCCP and Kulane ka Ntwananu (KkN). Other clients served are micro-enterprise owners from the sectors of services, production, fisheries, and – to a very limited extent - farmers (such as poultry raising)

As was mentioned in the above Table, KkN applies the methodology of solidarity groups and CCCP that of community banks. In the case of the CCCP, IRAM provides technical assistance in the creation and management of the associations; the associations themselves manage the credit granted to their members. These associations are being registered as legal entities and provide credit to their members under Decree 47/98. Each association may have up to 400 members. At present the average in Maputo is 250 members per association.

Financial Products

As regards the financial products, in spite of CCCP having three credit products, namely credit to traders, credit to farmers and credit for agricultural marketing, only the first is offered in Maputo. For its part KkN has two products (individual and group credit).

Essentially due to restrictions of a legal nature, none of these institutions offers savings services. However CCCP can provide safekeeping of valuables from its members, provided that the valuables are not used as a credit fund.

Outreach

In June 2004, the five institutions had 18,827 active clients in the City of Maputo, as shown in the following table. This number represents 36% of the total for the country. In total Maputo (Province and City), the institutions have 25,564 clients, which is around 50% of the total number of clients in the country.

Table 4: Number of active clients of MFIs in Maputo City

	Maputo City
CCCP	4,362
KkN	613
Novobanco	7,103
Tchuma	3,664
Socrema	3,085
Total	18,827

Portfolio and Quality of the Portfolio

In June 2004 the five institutions had in the entire country a total portfolio of 9,617,700 USD, which is 86% of the total portfolio in the country. In turn, the aggregate portfolio for Maputo City and Province is 7,290,000 or 65% of the country.

In terms of quality of the portfolio, Socrema has the smallest portfolio at risk over 30 days, which is to say 0.87%. NovoBanco follows at 1.96%, KkN with 3.09%, CCCP with 3% and Tchuma with 3.98%.

4. Demand for Micro-finance in the City of Maputo

4.1. Population Profile

The City of Maputo has a population of 1,052,000 distributed over five Urban Districts⁴². The population density is 3,000 inhabitants/km², which facilitates the supply of financial services. The national average is 23 inhabitants/km².⁴³

A large part of the households in Maputo City (42.8%) has more than seven members. The average number of members per household is 6.3⁴⁴ and the dependency rate is 64%, which means that 64% of the members of the households are of an economically inactive age.

In the City of Maputo, 54.4% of the population above 15 years old is economically active (EAP)⁴⁵. The following table shows how this population is distributed by its place in the labour process.

Table 5: distribution population by its place in the labour process⁴⁶

Characteristics	Civil servants	Public Sector	Private Sector	Self-employed	Working for person or household	Employer/Business person	Cooperative Sector	Total
Total country	3.4	0.7	4.7	51.0	36.7	3.4	0.1	100
Men	5.7	1.4	8.5	65.2	12.7	6.2	0.1	100
Women	1.4	0.2	1.5	39.0	56.8	1.1	0.0	100
Maputo City	13.1	2.8	19.7	24.1	10.8	29.5	0.0	100
Men	15.7	3.5	27.8	12.7	3.4	36.9	0.0	100
Women	9.6	1.9	8.5	39.8	21.0	19.2	0.0	100

As can be confirmed from the foregoing figure, only 24.1% of the EAP of the City of Maputo is engaged in self-employment, with a large part working as a employer or businessperson (29.5%); and a considerable portion working for the private sector (19.7%). This situation is different if we look at the female EAP, which in its majority works in self-employment (39.8%) and for a person or household (21%).

Self-employment includes “all those persons who in practising their profession, do so with no employees and the income from whose work goes to themselves. For example, a peasant who works in his/her fields with no employees”⁴⁷. The difference between Maputo City and the country as a whole may be explained by the fact that—in the whole country—55% of people work in self-employment in the agriculture sector⁴⁸.

Employers or businesspersons are considered to be “all those people who possess commercial, industrial, transport, agricultural, etc. establishments, employing workers in exchange for some remuneration”⁴⁹.

⁴² Source: Calculated by Hans Bekkers on the basis of the data base of the Household Survey on Family Budget, acquired from INE

⁴³ Source: Commercial Directory of Mozambique, 2002

⁴⁴ Source: INE, Household Survey on Family Budgets, Final Report, 2002/3

⁴⁵ The economically active population is the entire employed and unemployed population, available to undertake any economic activity

⁴⁶ The division between female and male active population is calculated by Hans Bekkers on the basis of the data base of the Household Survey on Family Budget, acquired from INE

⁴⁷ Page 18, Household Survey on Family Budgets, Final Report

⁴⁸ Table 2.5 Household Survey on Family Budgets, Final Tables

⁴⁹ Page 23, Household Survey on Family Budgets, Final Report

It is to be noted that there are fewer businesspersons who work for themselves than businesspersons who employ staff⁵⁰. The report from the survey indicates that there may have been an error on the part of some of the survey interviewers, who instead of writing down that a person works for an employer or businessperson (who in this case should be included in the private sector), wrote that he/she was a businessperson⁵¹.

In fact, the final tables from the Basic Indicators of Welfare Questionnaire, carried out in 2000-2001⁵², indicate that in the City of Maputo, 35.8% work in self-employment and only 5.5% are employers or businesspersons, as against the 24.1% and 29.5% respectively as reported in the Survey.

When using the data from NovoBanco for clients of more than two years' standing as a point of reference, for two selected branches in Maputo, the percentage of persons who work for themselves is also higher (58%) than the percentage of employers (42%).

Unfortunately it wasn't possible to cross-check the information from the Household Survey on Family Budget with the data from the Companies Census carried out by INE in 2001, since the latter considers the markets to be one big company and its vendors to be employees. As a result, the total number of firms in the city is rather under-estimated (8,085).

Those clients potentially interested in business loans from the MFIs are persons who work for themselves and the businesspersons, who constitute a total of 53.6% of the economically active population of Maputo.

Those clients potentially interested in consumer credit secured by their salaries, are those people who work for the state apparatus, for the private sector, and for the public sector, which is to say, 35.6% of Maputo's economically active population.

On the other hand, there is a percentage of salaried workers (functionaries in the state apparatus as well as in the public sector and private sector) who in parallel undertake business (e.g. making sweets and savouries outside of working hours, selling clothes or other imported articles) who are also current and potential clients of the MFIs.

4.2. Sectors

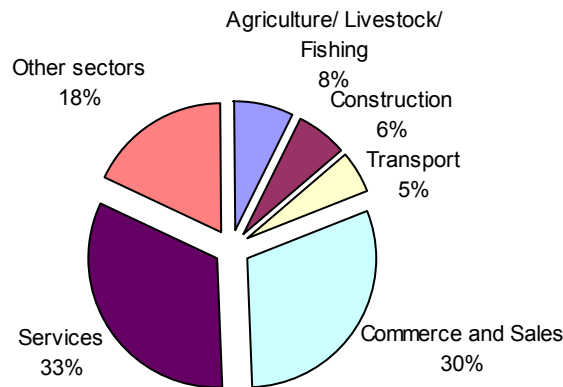
As regards the branches of activity, in the City of Maputo the greater part of the EAP is involved in two sectors of activity, namely commerce/sales and services. These two sectors are also the sectors where the greater part of the MFIs' clients work.

⁵⁰ The businesspersons employ the people who work for the private sector, and who work for a person. According to the results, 30.5% of the population works for 29.5% of the population, which is unlikely.

⁵¹ Page 23, Household Survey on Family Budgets, Final Report

⁵² INE, Basic Indicators of Welfare Questionnaire, Final Tables, 2002

Chart 3: Sectors in Maputo



Other sectors include extractive industry, manufacturing, education, health and administration.

4.3 Demand for credit in the markets of Maputo City

In February 2004 the MMF commissioned a study to evaluate demand for credit in the markets of the City of Maputo⁵³, having as its objectives: (i) to evaluate the needs of the market vendors and understand the demand for credit in Maputo; and (ii) to improve the knowledge and understanding of the clients operating in the Maputo markets.

The study was carried out in the three biggest markets of the city, namely Xipamanine (7,724 registered vendors); Xikhelene (2,660 registered vendors) and Fajardo (1,300 registered vendors), and a sample of around 5%, 10% and 10% was interviewed respectively, coming in total to 800 vendors (registered and unregistered). In reality, the number of vendors in the markets is higher, given that there are many unregistered vendors operating on their “margins”. Of these, 62% are women and 38% are men.

However, as this study was directed essentially toward the small market vendors, it is difficult to extrapolate the conclusions obtained here. The MMF is carrying out a second phase of the research, which will focus on the medium-scale vendors. The research project will be carried out based on focus group discussions, and it is foreseen that the results are published at the end of November⁵⁴. In this way, the conclusions of the study presented below should be seen as only an indication of the characteristics of the demand in the markets of the City of Maputo.

According to the conclusions of the study, the greater part (63%) of the vendors’ businesses have been getting weaker. Only 10% of the interviewees stated that their businesses have improved in recent times. On the other hand, these vendors’ revenues are also low. Around half of the interviewees stated they had less than 20 clients per day, a large part of which makes purchases in amounts of less than 1 USD.

In relation to access to financial services, the study presents the following findings⁵⁵:

⁵³ Katie Murdoch, Study of the Demand for Credit in Markets in Maputo, Mozambique, February, 2004

⁵⁴ Oral communication representative MMF

⁵⁵ Given that the report presents some differences in relation to the percentages, the amounts presented here were calculated based on the data in Appendix 3: “Credit Demand Survey Results”.

- 10% of the vendors had a loan, of which 78% from an MFI. The others had loans from their family (2%), a moneylender (4%), a bank (5%) and other sources (11%)⁵⁶.
- 32% had never heard of any MFI. In general, the interviewees' knowledge concerning the MFIs varies according to proximity to the MFIs' branches.
- 85% of the vendors interviewed do not use any kind of banking services
- 71% did not have savings at home or in a bank
- 27% belong to a Xitique (ROSCA)
- 90% of the interviewees had not taken a loan, of which 38% said that they were interested in taking a loan and 62% stated they weren't interested in taking a loan. Of the latter:
 - 44% stated they didn't want to take on a loan (fear of assuming such a responsibility, fear of goods being confiscated, very complicated and expensive to request a loan)
 - 39% stated being unable to take on a loan (lack of guarantees or the business was very new)
 - 11% stated they did not need a loan

Many vendors use advances from their suppliers, and think that these advances involve fewer risks than loans. Unfortunately the survey does not include data on the percentage of interviewees who had this kind of advances.

This survey suggests that the potential unmet demand in these markets would be 38%, out of the total of 11,684 existing vendors, which is to say around 4,440. The MMF recommended MFIs to increase MFI product promotion together with addressing the business skills of the vendors, which the researchers assumed to be poor on the basis of the weak businesses of most of the interviewed vendors. Moreover, the MMF recommended the MFIs to consider the possibilities of including the practices of local supplier credit lines.

4.4. Estimate of the magnitude of demand in the City of Maputo

The estimate of demand was done based on the distribution of the Economic Active People by labour process, so as to identify two large groups of demand: demand for business loans and demand for salary-based loans. It was thus considered that the following would be potential clients for business loans:

- People in self-employment;
- Employers / businesspersons.
- One part of the people working for the other sectors, given that a part of the latter have a parallel income-generating activity.

On the other hand, it was considered that salaried workers from the state apparatus, public sector and private sector would be potential clients for salary-based loans.

One used the assumptions presented below so as to undertake an estimate of the magnitude of gender-disaggregated demand. These assumptions were determined based on the data from the Household Survey on Family Budget furnished to the team of consultants by INE.

Additionally, we assumed that the potential outreach could be a market penetration of 15%. Hereby we took into account that the microfinance industry in Maputo is relatively young and the dropout rate is probably high. In some African countries, a market penetration of 15% is considered to reflect a well-developed micro-finance market⁵⁷. In rural areas in Mozambique,

⁵⁶ Novo Banco was grouped within the MFI category

⁵⁷ Email communication Abenaa Addai, LFS

10% of potential demand is used as an indicative potential outreach⁵⁸. In the table below, the estimation of the demand is presented.

Table 6: Estimation of potential demand

Estimation of potential clients for business loans	Men	Assump-tions	Women	Assumptions
a. Maputo Population	507.812	543.922	493.109	543.922
b. Population of 15 years and more years old	314.843	62%	320.521	65%
c. Economic Active Population	204.648	65%	144.234	45%
d. Entrepreneurs	75.720	37%	27.837	19,3%
e. Self-employed people	26.195	12,8%	56.828	39,4%
f. People working for the State and public and private sectors	95.980	46,9%	29.424	20,4%
g. People of f. having also a business	3.935	4,1%	883	3,0%
h. People that would potentially demand for business loans: total demand (=d+e+g)	105.850		85.548	
Potential outreach for the MFIs	15.878	15%	12.832	15%
Clients currently served by MFIs (estimate m/f)	6.840	40%	10.261	60%
Clients not served	9.037		2.572	

On the basis of these assumptions the City of Maputo would possess a potential demand for business loans of 28,710 clients, of which 15,878 (55%) are men and 12,832 (45%) women. Assuming that 40% of the clients presently being served are male and 60% female, the unmet demand for this kind of loan would be 9,037 and for men and 2,572 for women.

However, this outcome is counter-intuitive to the fact that MFIs without targeting specifically women reach a higher number of female than male clients. It is because the assumed large number of entrepreneurs - of whom only 27% is female - that the potential demand for loans for men appears relatively high. Of the self-employed, 68% is female. As was indicated in section 4.1., the percentage of entrepreneurs in Maputo found by the Household Budget Survey, is probably not correct. The results of the before mentioned Basic Indicators of Welfare Questionnaire indicate that only 5.5% of the EAP in Maputo City is entrepreneur. In that case, the MFIs would have already exceeded a market penetration of 15% for business loans. The report of the Welfare Questionnaire does not present the percentage of female entrepreneurs. Calculating on the basis of the assumptions that 5,5% of EAP is entrepreneur (Welfare Questionnaire) and 27% of the entrepreneurs is female (Household Budget Survey) while the other assumptions in the table above remain the same, the potential outreach for business loans would be 6,621 for men and 9,434 for women, which is 59% for women.⁵⁹

Demand for salary based lending was estimated at 18,811, of which 77% are men and 23% women. Out of the total, around 11% are already being served, which presumes that the as-yet-unmet demand is 90%, which is to say 16,811 clients. More details are presented in the following table.

⁵⁸ Athmer 2001, proposal Ophavela, commissioned by CARE Mozambique

⁵⁹ 5,5% of EAP entrepreneur: 19189. 27% of those are women: 5180; 73% men: 14009 men. Other assumptions remain the same as in the table: number of self-employed, number of people with a salary plus a business, 15% market penetration.

Table 7: Estimation of potential clients for salary based loans

Estimation of potential clients for salary based loans	Men	Assump- tions	Women	Assumptions
Maputo Population	507.812		493.109	
Population with 15 years and more	314.843	62%	320.521	65%
Economic Active Population	204.648	65%	144.234	45%
People working for the State and public and private sectors	95.980	46,9%	29.424	20,4%
Potential outreach for the MFIs	14.397	15,0%	4.414	15,0%
Clients currently served by MFIs (estimate m/f)	1.000	50%	1.000	50%
Clients not served	13.397		3.414	

The uncertainties with regard to the figures presented, specifically with regard to the number of entrepreneurs, mean that conclusions can only be indicative. The general conclusion is that the market for business loans in the City of Maputo is quite developed and competitive, while there is still a lot of room for growth of salary-based loans. The MFIs involved in the impact assessment, targeting partly the same market segment, do not have a common view on the market potential. For example, although NovoBanco finds the market for business loans in Maputo well developed and competitive, it believes that there is still quite some room for growth of business loans. Tchuma considers the market for real-security based business loans almost saturated.

4.5. Wealth levels of the population by occupation

The Household Survey on Family Budget, divide the population in five groups. The first group contains 20% of the population with the lowest level of per capita household expenses, meaning the poorest groups. The fifth group contains the 20% of the population with the highest level of household expenses. The results of the Household Survey indicate that families in the highest quintile consume eight times the average consumption in the poorest quintile⁶⁰.

It is notable that, at national level, around 52% of each of these five wealth groups is self-employed, with the exception of the fifth and most wealthy group, in which 46.7% is self-employed. The employers are more represented in the fifth and fourth group (6,5% and 3,9%), but are also in the first three groups.

At the moment, we do not dispose of information on the division of Maputo's population in these five wealth groups. We intend to calculate these groups on the basis of the data of the household survey, during phase C of the assessment, when we will conduct a poverty outreach assessment of Tchuma's clients. This will give us more insight in the wealth levels of the potential clients by occupation.

⁶⁰ Email communication Robert James, DNPO Maputo, 09-12-04

5. Key characteristics of the MFIs involved in the impact assessment

5.1. Background of the three MFIs

5.1.1. History

Both Socremo and Tchuma were preceded by projects, while NovoBanco was launched as a commercial bank. Socremo's history goes back as far as 1992, when GTZ initiated an integrated training and credit program for start-up businesses owned mainly by Mozambican contract workers returning from the former German Democratic Republic. The Mozambican Ministry of Labour was the local executing agency. Initial lending results were disastrous and the project was considered a failure. Consequently, an alternative concept involving transformation into a microfinance institution was developed. In 1998, Socremo was authorised to become a "non-bank financial intermediary"; in 1999 lending activities started under the name Socremo. In May 2004, Socremo was given licence to operate as a Microfinance Bank (MFB)⁶¹.

Tchuma started in 1996 as a Swiss funded project, but the initial implementation of the pilot lending activities were not well managed, leading to the recruitment of additional personnel at the end of 1997. In 1998, the new team developed a new methodology and control systems and prepared a business plan and the proposal for the creation of Tchuma for submission to the Central Bank. This proposal included FDC (Fundo de Desenvolvimento Comunitário), a large and well-known Mozambican NGO, and SCI, a holding company with a minority interest in BCI as its major shareholders. In March 1999, Tchuma started operations as a licensed credit cooperative targeting emerging entrepreneurs, particularly women. Tchuma is the only significant MFI that was not launched by an external agency.

NovoBanco was founded by the development oriented commercial investor IMI, together with the Banco Internacional de Moçambique (BIM), and the State of Mozambique through its housing development fund, Fundo de Fomento da Habitação (F.F.H.). NovoBanco began operations November 2000 as the first explicitly profit oriented MFI in Mozambique, established as a commercial bank targeting micro and small entrepreneurs.

5.1.2. Mission and vision

Both Socremo and NovoBanco's aim to become a 'housebank' of low and medium income strata in Mozambique, i.e. creating a lasting relationship between the bank and its customer while rendering all necessary financial services. Socremo's mission is "to provide – in a transparent, professional and sustainable way – financial services to low and middle income groups, with a special focus on micro and small entrepreneurs". NovoBanco defines itself in its mission statement as "a development-oriented financial institution" offering "excellent customer service and a wide range of banking products". In relation to its credit operations, NovoBanco states the following: "we focus on lending to micro, small and medium-sized enterprises, as we are convinced that these businesses create the largest number of jobs and make a vital contribution to the economies in which they operate."

Tchuma's mission is "to provide credit and savings services to the emerging entrepreneurs of Mozambique, particularly women". Its aim during the next three years is to increase its penetration of Maputo City and the district of Matola, and expand throughout Maputo Province and to other provinces while achieving financial viability.

⁶¹ For information on the legal status of a Microfinance Bank, please refer to the chapter on the Microfinancial Sector

5.1.3. Targeted market segment

Both NovoBanco and Socremo target low and middle-income groups, specifically micro entrepreneurs⁶². Tchuma aims for a deep outreach, while NovoBanco and Socremo do not specifically target poor but rather low and middle-income groups. While NovoBanco is already focussing on lending to micro, small and medium-sized entrepreneurs, Socremo is currently enlarging its client focus to also include SMEs. Tchuma intends to reach even deeper in the market, by improving its group-lending product to those micro-entrepreneurs who do not have sufficient assets to use as collateral, specifically women.

5.1.4. Gender strategy

A MFI with a gender strategy takes explicitly into account the different needs, priorities and characteristics of women and men in relation to product and human resources development. In this way, the MFI aims to ensure that services are equally attractive for men and women, and to create a good working environment for both sexes.

When a MFI decide to prioritise women, there are essentially three types of arguments⁶³ used:

- 1) The poverty argument: women are disproportionately represented among the poor. Microfinance helps to mobilise women's productive capacities to eradicate poverty.
- 2) Efficiency and sustainability argument: women's repayment behaviour is generally better and women are seen to be more cooperative.
- 3) Empowerment argument: providing microfinancial services to women is seen as an effective means for empowering women and thus promoting more gender equality.

None of the MFIs have an explicit gender strategy with regard to both product and human resources development. With regard to product development, Tchuma takes into account different characteristics of female and male clients through the re-launching of its group-lending product; Tchuma considers this as an important product because its accessibility to women, who cannot always offer real guarantees. While access and control of household assets is limited for women (married or in free union) in general, Tchuma focuses with its group-lending product on poor women. Tchuma's choice for targeting women is congruent to its poverty focus: its rationale being that women's increased earning power is most beneficial for the family – improved nutrition, and access to education and health services.

With regard to human resources development, NovoBanco mentions as one of its environmental and ethical standards that it believes in equal compensation for equal work, equal access to opportunities and non-discrimination on the basis of race, gender or ethnicity.

Socremo showed interest in the conduction of a gender audit, which was implemented in 2003 (commissioned by Hivos). A follow up on this audit has not been evident.

⁶² With reference to the terminology used in chapter 4; a micro-entrepreneur can be classified as both self-employed and entrepreneur. A micro-entrepreneur can be defined as an entrepreneur with 0 –10 employees. Both salaried people as entrepreneurs can fall in the categories low and middle-income groups.

⁶³ I.Dubel (HIVOS) 2002: Microfinance : the impact and challenges of women's empowerment. Presentation Africa Conference Evert Vermeer Stichting.

L. Mayoux 2001: Microfinance for women's empowerment: a participatory learning, management and action approach.

5.2. Organizational Structure

5.2.1. Legal structure

Socrema is registered as a Microfinance bank, NovoBanco as a commercial bank and Tchuma as a credit cooperative, which is licensed as a financial institution. In Mozambique, the structure of *cooperativas de crédito* is similar to corporate entities with private investors. While clients must become member of the *cooperativa* to access its services, they do not maintain majority control or play a key role in the strategic decisions of the institution (Tchuma 2003). Even so, Tchuma is considering the possibility of transforming into a bank. Tchuma feels that the legal structure of a cooperative might limit Tchuma's possibilities for geographical expansion, as the members of the cooperative must have a common bond. The current regulation is not clear as to what may constitute a common bond; geographical area or profession are given as examples. Moreover, according to Tchuma, a bank is more attractive for investors than a cooperative, which is subject to some restrictions in its operations.

5.2.2. Ownership

A major task for Socrema was to identify investors to diversify its ownership structure. In 1998, Socrema was founded with three shareholders (1) Gabinete de Promoção de Emprego (Gabinet for the promotion of employment) as representative of the State of Mozambique, (2) União Geral das Cooperativas Agropecuárias de Maputo (General Union of Agricultural Cooperatives, UGC), and (3) Conselho Cristão de Moçambique (Christian Council of Mozambique CCM). 94% of the share capital was owned by the State. In a difficult restructuring process the influence of the state was reduced to 29% of voting rights. GAPI (a local Small Investment Promotion Company) and LFS Financial Systems became shareholders of Socrema. With the entry of KfW (Kreditanstalt für Wiederaufbau) in 2004 as new shareholder with around 32%⁶⁴, and the increase of capital by LFS to 15% of shares, the Labour Ministry will eventually hold around 34%, GAPI to 12% and UGC and CCM to less than 3% each. UGC and CCM are two large Mozambican NGOs (General Union of Cooperatives and the Christian Council of Mozambique).

Tchuma is owned by its founding organisations: the Mozambican NGO FDC and the holding company SCI, both owning 49,9 percent of shares. Because Mozambican law requires a minimum of 10 people to launch a credit cooperative, the founding members include 8 clients, whose contribution was approximately 60 USD. In addition, all clients must become members, through a capital contribution of Mts 80,000 and Mts 20, 000 in shares (total around 4 USD) (Tchuma 2003).

Besides the founders of NovoBanco mentioned above (IMI, BIM and the FFH), the other shareholders are IFC and two Dutch development oriented funding agencies: FMO and Stichting Doen. Shareholders possess between 10 – 30% of the shares, with the exception of the state fund FFH, owning 3,9% of the shares. Stichting Doen, FMO, USAID and IFC are NovoBanco's TA donors (see Annex 1 for an overview of shareholders and partners of the three MFIs).

5.2.3. Personnel

The number of personnel of the three MFIs differs significantly. For example, of the total number of loan officers employed by the three MFIs, NovoBanco employs 46%, Socrema 32% and Tchuma 23%.

⁶⁴ As the shares have not yet been invested, the percentage might change slightly, according to the exchange rate

Table 8: Personnel of the three MFIs by June 2004 (October 2004 for NovoBanco)

	<i>Management*</i>		Middle management**		Loan officers		Savings officers		Total # personnel***	
	Total	Fem	Total		Tot	Fem	Tot	Fem	Total	Fem
NovoBanco	4	1	22	9	68	10	35	29	124	49
Socremo	1		6	2	47	17			97	52
Tchuma	4	2	8	4	21	9	1	0	87	42
Total	9				149					

* Such as Executive Director, Deputy Director, Financial Director, Director Operations

** Branch managers, coordinators/supervisors

*** Excluding cleaning personnel and guards (additionally, for NovoBanco and Tchuma, excludes Loan Officers trainees; for NovoBanco, excludes internal security and drivers)

5.2.4. Technical assistance and external expertise

There is a lack of qualified human resources in Mozambique. The 3 MFIs make all use of external expertise, however, to different degrees and in different ways. IPC provides management consultants to NovoBanco, which is usually the case with institutions in which the investment company IMI has acquired a stake. IPC staff assume overall responsibility for the key aspects related to the operations of NovoBanco, while junior local staff is being trained. The General Manager and the Operations Managers are from IPC, while the Financial and Administrative Managers are Mozambican. Three regional managers are expatriate.

LFS Financial Systems is a consultancy firm involved in Socremo since the beginning of its existence. LFS provides 2 long-term experts and a pool of short-term experts, such as an IT specialist and an MSE specialist. At the end of June 2004, LFS had 4 advisors. LFS's services include all areas of Socremo's business such as organisational design; human resource policy (including training); implementation and development of LFS MicroBank System software; accountability and internal control; savings and credit product development and in addition improving the governance structure and the identification of new shareholders and creditors. LFS consultants are advisors and supervisors and consequently do not occupy key management positions like IPC staff in NovoBanco; however, LFS consultants play a decisive role in Socremo's management. LFS's technical assistance is amongst others financed by GTZ and DFID. Also Hivos has been a technical assistance donor.

Tchuma makes use of less TA and non-Mozambican expertise than NovoBanco and Socremo. The expatriate deputy director was recruited locally. Tchuma established a partnership with ACCION at the end of 2000, thereby becoming the ACCION's first African partner. ACCION provided technical assistance to streamline Tchuma's credit processes, to the management of the branches, to set up an internal audit function, to access funding sources and to improve the solidarity group-lending product. In 2002, Tchuma became also partner of Caixa Cataluña, a Spanish savings bank, who provided technical assistance to the development of a savings product, to back office operations and branch manager development. Also MicroStart Mozambique (UNCDF) provided technical assistance (financial rating exercise, review financial controls).

5.2.5. Financial support and loans.

Socremo received loans from several institutions, including *Banco de Fomento* in Mozambique and the Deutsche Bank Microcredit Development Fund. With regard to Dutch agencies, it

received a syndicated loan of the Triodos Bank on behalf of the Hivos Triodos Fund and Novib, (June 2003 to May 2006) and a loan of the Hivos Triodos Fund (September 2002 – September 2005).

Tchuma received loans from two Mozambican institutions (GAPI and EMOSE) and from the Fundación Um Sol Mon from the Caixa Cataluña. Moreover, Tchuma received grants from several partners, including USAID and MicroStart Mozambique. From Hivos, Tchuma received a seed-capital grant, which is a grant with conditional tranches based on attainment of agreed performance targets (January 2004 – June 2005). For an overview of the partners of the MFIs, please refer to Annex 1.

5.2.6. Network of branches

Currently, the three MFIs are each other's competitors in Maputo City and Matola, the capital of Maputo province, while Socremo and NovoBanco operate both in Beira. Tchuma is the only MFI with satellite offices in rural areas of Maputo Province.

Table 9 : Network of branches per September 2004

	Total	Maputo City South	Province Maputo Matola	Province Maputo Rural	Beira Centre	Nampula North	Chimoio Border Zimbabwe
NovoBanco	6	4	*		1	1	(1)
Socremo	6	3	1		1		1
Tchuma	3	2	1	3 Satellite offices			
Total 3 MFIs	15	9	2		2	1	1

* NovoBanco serves clients in Matola and other locations in Maputo Province from its branches in Maputo.

(1) NovoBanco scheduled the opening of a branch in Chimoio mid November 2004

The three MFIs intend to serve clients in several locations in the country. NovoBanco intends to expand its branch network to several cities in Mozambique. Socremo strives at clustering branches around the two locations Maputo and Beira, because, according to Socremo, opening of branches in other provinces is accompanied with relatively high costs for communication and control, due to the large distances between the main cities in Mozambique. Socremo's objective is to expand along the Beira corridor (economically important corridor from Beira to Zimbabwe). The recent opening of the branch in Chimoio (September 2004) lies within this regional expansion strategy⁶⁵. Tchuma is planning to expand to the Gaza province, situated 200 Km away from Maputo City and intends to expand later to other provinces.

5. 3. Financial products

5.3.1. Credit products

All MFIs provide individual business loans for micro-entrepreneurs, while Tchuma provides also group loans, although by June 2004 only 1 % of the total number of loans outstanding was provided to group members. Currently, the group-lending product is being improved and re-launched; borrowers form groups of 4 to 6 people to mutually guarantee each other's repayment. The solidarity group loans are considered as an entry point; the expectation is that clients move

⁶⁵ email communication Abenaa Addai

to individual loans after completing two or three loan cycles. NovoBanco and recently also Socremo provide loans to small and medium enterprises.

NovoBanco provides also housing loans to mainly salaried workers (for rehabilitation or expansion of houses) and consumer loans to customers who can use their term deposit account as security. Moreover, it offers overdraft facilities. Tchuma started recently to provide consumer loans to employees, initially those in the education sector. Tchuma's clients can use their savings account as security for a loan.

Both Socremo and NovoBanco consider introducing agricultural loans. Moreover, Socremo intends to introduce housing and consumer loans.

Characteristics of business loans to micro-entrepreneurs

Because the assessment focuses on financial services for micro-entrepreneurs, these loans are presented with more detail. In line with its poverty focus, Tchuma defined a maximum loan amount for the first loan. Also for subsequent loans, a maximum increase is established. Tchuma offers the lowest minimum loan amount (65 USD); Socremo the highest (131 USD). Recently, Socremo increased the minimum loan amount drastically (it was 22 USD), as one of the changes it introduced in a restructuring process in relation to its transformation to a bank. According to Socremo, in its current locations the costs for credits below 120 USD could not reasonably be covered by the prevailing interest rates charged. In addition, Socremo found that the vast majority of these clients did not graduate to higher loans (which would over time allow covering costs) and that the repayment behaviour compared to the segments of higher loan sizes was quite poor. In the future, with the expansion to more rural areas Socremo might revise the lower lending limit.⁶⁶

Hereunder a table with some characteristics of the business loans to micro-entrepreneurs:

Table 10: characteristics of the business loans to micro-entrepreneurs

Loans to micro-Entrepreneurs	NovoBanco	Socremo	Tchuma
Loan amount	Min: 110 USD,	Min 131 USD	Min: 65 USD Max first individual loan: 218 USD Max amount loan in group: 218 USD
Loan term	Maximum 24 month	Maximum 12 months	4 months first loan Group loan 6 months Individual loan 12 months
Instalments	Fixed instalments, weekly, biweekly or monthly	Fixed instalments, weekly, biweekly or monthly	Monthly
Nominal Interest rate	5,9% - 5,5% p.m, depending of amount (declining balance)	5,5% – 6,25 % p.m. (declining balance)	5% (declining balance) p.m.
Other fees	2% of the value of the loan		4 US # to become member of the cooperative

⁶⁶ email communication Abenaa Addai, SOCREMO

Securities	Coverage of 120% Domestic assets, stock, fixed business assets and personal guarantor. Assets can be mixed Salary only when employer signs for paying instalments in arrears. ⁶⁷	Coverage of 120%, can be reduced for good clients. Domestic assets, stock, fixed business assets and /or personal guarantor. Assets can be mixed.	Coverage of 125 %, can be reduced to 100% for good clients. Domestic assets and/or guarantor. Assets can be mixed. Alternatively monthly salaries that represents 300% of the monthly instalment
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5.3.2. Savings products

Tchuma started in 2000 with a pilot project for stamp based savings. Moreover, in 2003, Tchuma piloted a passbook savings product, which will be introduced in all branches in 2004. Tchuma does not pay interest on the passbook savings; on the stamp-based savings Tchuma pays 4% on 1 million meticaais (43 USD) left on deposit for 6 months. An interest bearing second savings product will replace the stamp based savings product.

NovoBanco introduced current accounts and term deposit accounts in 2001, and introduced the accounts in all branches in 2002. Even though other commercial banks offer these facilities, NovoBanco succeeded to attract in a short period of a large number of deposit customers (see table 15). Both Tchuma and NovoBanco's requirements for minimum deposit when opening accounts are lower than those of the regular commercial banks: 100 000 meticaais (4 USD). In commercial banks, most savings accounts requiring an average minimum deposit of Mts 5 million (218 USD)⁶⁸. NovoBanco's term deposits pay – competitive - interest of 6% - 12,5% p.a., depending on the amount and the term.

Socrema intends to offer saving accounts, current accounts and time deposits. It started its deposit business very recently.

5.3.3. Other products

NovoBanco introduced in 2003 Western Union money transfers, in cooperation with one of its shareholders, the bank BIM. In 2004, NovoBanco introduced several new products: salary accounts, payment of services (water bill), money exchange. NovoBanco will soon introduce cheques and accounts in foreign currencies.

Socrema plans to introduce also money transfer and money exchange.

5. 4. Outreach and portfolio size

5. 4.1. Average loan size, female and male

As can be seen in the table below, the average loan size of NovoBanco's male and female clients is the highest. Because Tchuma and Socrema provide almost exclusively business loans, NovoBanco's average loan size of all loans and business loans are presented separately. The average business loan size of Socrema's female clients is the highest.

Table 11: average loan size by June 2004

⁶⁷ According to the Mozambican law, employers cannot deduct more than 30% of the monthly salary for paying of the employees debts.

⁶⁸ ICC, Inventory Survey of Rural Finance and Microfinance in Rural Areas of Mozambique

	Male and female	Female
NovoBanco; all loans	521 ⁶⁹	425 ⁷⁰
NovoBanco: business loans	448	377
Socrema ⁷¹	439	408
Tchuma ⁷²	234	n.a.

5.4.2. Loans outstanding and portfolio size

NovoBanco has the highest number of loans outstanding by the end of June 2004, and Socremo the lowest number, although the difference with Tchuma is small. All MFIs have the largest portion of their loans outstanding in Maputo City.

Table 12: Number of Loans outstanding by June 2004

	NovoBanco	Socrema	Tchuma
# of loans outstanding	9921	5338	5875
Maputo	72%	58%	61%
Matola		12%	39%
Beira	14%	30%	
Nampula	14%		

With regard to the volume of the loan portfolio, the differences between the MFIs are larger: with NovoBanco with the largest portfolio size and Tchuma with the smallest:

Table 13: Volume of loan portfolio outstanding by June 2004

	NovoBanco	Socrema	Tchuma
Volume of loan portfolio	5.164.066 USD	2.374.098 USD	1.361.893 USD
Maputo	70%	60%	62%
Matola		12%	38%
Beira	16%	28%	
Nampula	14%		

5. 4.3. Market share

Because the assessment concentrates on the impact and outreach of the services of the 3 MFIs in Maputo, an overview is given of the market share of each of the three MFIs in Maputo. The other two MFIs in Maputo, the *Caixa Comunitária de Crédito e Poupança* (CCCP) and the – much smaller - *Kulane Ka Ntwananu* (KkN) are grouped together⁷³. The overview includes also Matola, a city near Maputo. Tchuma, Socremo and CCCP have branches in Matola, while NovoBanco and KkN serves clients in Matola from its branches in Maputo. The table below presents the percentage of the total number of loans outstanding per MFI. NovoBanco has the largest share of number of loans outstanding in Maputo and CCCP in Maputo / Matola.

⁶⁹ Calculated from: IMI loan statistics June 2004

⁷⁰ Average loan amount for women is calculated from: dados do MIS Junho 2004. Same exchange rate used as was used for IMI loan statistics June 2004: 23 001, 87 = 1 USD

⁷¹ Calculated from: Informe Geral Carteira Vigente 30 de Junho 2004. Exchange rate used 23001,87 = 1 USD

⁷² Calculated from: Tchuma relatório da carteira Junho 2004.

⁷³ See for number of clients per MFI Table 3

Table 14: Market share MFIs: number of loans

	Maputo	Including Matola
# loans outstanding of MFIs	18,827	25,565
NovoBanco	38%	28%
Socrema	16%	15%
Tchuma	19%	23%
CCCP and KkN	26%	34%

The table below presents the percentage of the total volume of loans outstanding in Maputo and in Maputo / Matola. Novobanco has again the largest volume of loans outstanding; the CCCP and KkN the smallest.

Table 15: Market share MFIs: volume of loan portfolio

	Maputo	Including Matola
NovoBanco	58%	50%
Socrema	22%	23%
Tchuma	14%	19%
CCCP and KkN	6%	8%

5.4.4. Female clients

The percentage of female entrepreneurs active in the informal sector is much higher in the Southern and Central part of the country, than in the North. This means that percentages of number of outstanding loans to female clients are only comparable per region. In the table hereunder, the percentages of number of outstanding loans to female clients are presented separately for all branches of the MFI and for branches in Maputo and Matola. With regard to NovoBanco and Socrema, the information⁷⁴ refers to two branches in Maputo – providing micro-credit - selected for the impact assessment. The percentages of female clients of Tchuma (specifically targeting women) and NovoBanco in Maputo (and Matola) do not differ very much.

Table 16: Percentage of number loans outstanding to female clients

	% of number loans outstanding to female clients	% of number loans outstanding to female clients in Maputo and Matola
NovoBanco; all loans	45%	53%
NovoBanco: Business loans	49%	60%
Socrema	50%	61%
Tchuma	64%	64%

A large percentage of the loan portfolios is outstanding to female clients, especially in Maputo/Matola. It is notable that, in the case of Tchuma the percentage of the number and of the volume of loans outstanding to female clients is the same; this is also the case with Socrema with regard to the overall portfolio.

⁷⁴ The three MFIs provided detailed information on the loan portfolio of the two selected branches and of the entire institution over the last three years on request of the consultants. This information will be further analysed and presented in phase B of the assessment.

Table 17: percentage of volume loans outstanding to female clients

	% volume loans outstanding to female clients	% volume loans outstanding to female clients in Maputo and Matola
NovoBanco: all loans:	38%	45%
NovoBanco: business loans	41%	55%
Socremo	50%	56%
Tchuma	64%	64%

5.4.5. Categories

Loan size was chosen as the criterion for segmenting the client portfolio: loan sizes were divided in three categories. The first category includes loans up to 7,499, 999 MT (around 327 USD); the second category includes loans from 7,5 million MT– 19,999,999 MT (from 328 – 872 USD); the third category includes loans of 20 million MT and more (873 USD).

In the table below, the percentages are presented of % number of clients per category, per MFI. Not surprisingly, the highest percentage of Tchuma’s clients is in category 1 and the lowest percentage in category 3. It is notable that, in terms of number of clients, the second category is almost equally important for the three MFIs.

Table 18: percentage clients per category

	Category 1	Category 2	Category 3
NovoBanco all loans	30 %	44 %	26 %
NovoBanco business loans	35 %	44 %	21%
Socremo	39 %	36%	25%
Tchuma	54 %	41%	5%

In terms of volume of outstanding portfolio, is the second category the most important for Tchuma, while the third category is the most important for both NovoBanco and Socremo.

Table 19: percentage of volume of loans outstanding per category

	Category 1	Category 2	Category 3
NovoBanco all loans	8%	29%	61%
NovoBanco business loans	11%	32%	57%
Socremo	12%	27%	61%
Tchuma	30%	53 %	17%

Female clients are more represented in category one, according to information NovoBanco and Socremo provided to the consultants on the number of female clients per category. However, in the case of the two selected branches of NovoBanco in Maputo, as well as in the case of the overall clientele of Socremo, women are almost equally represented in category 1 as in 2. Striking is the high percentage of Socremo’s female clients in the third category in Maputo.

Table 20: percentage women per category

	Category 1	Category 2	Category 3
NovoBanco: all loans	53%	43%	37%
NovoBanco: all business loans	55%	48%	42%
Socremo: all loans	55%	54%	49%
NovoBanco: 2 branches in Maputo	65%	64%	50%
Socremo: 2 branches in Maputo	66%	61%	58%

5.4.6. Growth in outreach and portfolio size

In the table below, growth of portfolio size and number of clients of the three MFIs is presented. While to different extent, the growth of the volume of the loan portfolio of the three MFIs was larger than growth of number of clients, meaning that average loan sizes increased. In the case of Socremo, the number of clients decreased during the last period, while the volume of the portfolio increased. This reduction in client numbers is a result of a series of internal measures such as focussing on improving portfolio, the increase of minimum loan amount and the servicing of larger clients. In Socremo's view, the reduction of number of clients cannot be linked to limitations with regard to the existing market⁷⁵.

In the case of NovoBanco, the increase of the gross loan portfolio was mainly due to the increase of number of clients in the period of June 2002 – June 2003, because loan amounts for existing clients did not increase in the pace that had been expected⁷⁶. After adjusting the lending methodology, average loan sizes increased. NovoBanco assumes that the market for micro-finance is not limited when diversified products are offered. Tchuma assumes that the market in Maputo for micro-credit secured by real guarantees is almost saturated; one of the reasons why Tchuma introduced the consumer loans secured by salary and re-launched the group-lending product.

Table 21: Growth in outreach and portfolio size

	June 2003- June 2004	June 2002 - June 2003
NovoBanco: Gross loan portfolio	143%	49%
Number of clients	35%	37%
Tchuma: Gross loan portfolio	30%	48%
Number of clients	14%	22%
Socremo: Gross loan portfolio	35%	98%
Number of clients	-7%	51%

5.4.7 Deposit accounts

With regard to NovoBanco, the number of deposit accounts increased rapidly: it doubled from end 2002 to end 2003 from around 8000 to more than 16,000. By the end of June 2004, the number of deposit accounts was almost twice the number of outstanding loans.

Table 22: deposit accounts NovoBanco, by June 2004

	Current accounts	Term deposit	Total
Number of clients	18,425	739	19,164
Value deposits (US\$)	\$ 816,219	\$ 1,412,047	\$2,228,266
Average value of deposits (US\$)	\$44	\$1,911	\$116

With regard to Tchuma, the passbook savings was only piloted in one Branch in 2003, while the stamp based savings were to be replaced by another savings product. In the table below, the figures by June 2004 regarding the deposit accounts are presented.

Table 23: deposit accounts Tchuma by June 2004

	Stamp based savings	Pass book savings	Total
Number of clients	220	1,236	1,456
Value deposits (US\$)	\$ 6,674	\$ 18,256	\$24,506
Average value of deposits (US\$)	\$30	\$14.8	\$16.8

⁷⁵ Email communication of Abenaa Adai, SOCREMO

⁷⁶ Annual report 2003, NovoBanco

5. 5. Financial analyses

5.5.1. Portfolio at risk

The quality of the loan portfolio as expressed by the portfolio of risk > 30 days is good to extremely good, as can be observed in the table below:

Table 24: loan portfolio at risk > 30 days

	December 2003	June 2004
NovoBanco	2,2	1,96
Socrema	0,3	0,86
Tchuma	2,9	3,96

Clients with the smaller loans (from the first category) appear to have the most repayment problems, as can be seen in the table below.

Table 25: portfolio at risk per category

	Category 1	Category 2	Category 3
Tchuma	6,8 %	2,9%	2,3%
Socrema	2 %	0,4%	0,25%
NovoBanco	2,19%	1,48	0,63

Women's repayment behaviour is better - into different extents - in the case of the three MFIs (this will be presented in more detail in the report of phase B)

5.5.2. Operational efficiency ratios

In the table below, some operational efficiency ratios are presented of the three Mozambican MFIs and, for comparison, of medium African MFIs (MicroBank Bulletin Peer Group). The 'peer group' MFIs have loan portfolios of between 800 000 and 5 million USD. On average, these MFIs are older than the three MFIs in Mozambique (7 years) and the average number of clients is higher (16 907), while the average outstanding loan size is only 112 USD. Given the high number of clients per loan officer and the low average loan size, most of these MFIs employ probably group-lending methodologies.

Table 26: Operational efficiency ratios by December

Operational Efficiency ratios	NovoBanco	Socrema	Tchuma	Medium African MFI's ⁷⁷
Administrative costs/ Average Loan portfolio	90.6%	73,25%	73.8%	70.8%
Costs per active client (US\$)	269	221	150	60
Average Clients / Loan officers Dec 03	97	119	176	408
Operational Self sufficiency ⁷⁸	86%	109%	89.1%	90,5%

5.5.3. Profitability Ratios

⁷⁷ Source: MBB, Issue nr. 8, Peer Tables

⁷⁸ Operating revenue / (Financial expense+ loan loss provision expense + operating expense) Financial self-sufficiency cannot be calculated, because of lack of information to make adjustments, e.g. the costs of technical assistance.

In the table below, some profitability ratios are presented. The information on these ratios is provided by the MFIs. The profitability ratios of Medium African MFIs are calculated on the basis of adjusted financial data⁷⁹.

Table 27: profitability Ratios

Profitability Ratios	NovoBanco⁸⁰		Socremo		Tchuma		Medium African MFI⁸¹
	Dec 03	June 04	Dec 03	June 04	Dec 03	June 04	
Return on Average Assets	-8.3 %	5.3%	6%	9.54%	0.04%	1.7%	-7,3%
Return on Average Equity	-23.5%	12%	15%	23.89%	0.09%	2.4%	-11%

5.6. Achievements and challenges

The three MFIs are important players in Mozambique and successfully provide financial services to low- income groups without access to services of traditional bank. Partly, the MFIs are competing for clients in the same geographical areas and in the same market segments. Partly their target clients, services and geographical coverage are complementary. The establishment of NovoBanco, the youngest MFI of the three, made the micro-financial market more competitive, especially in Maputo, and formed an extra stimulus for the MFIs to further develop and diversify its products. The percentage of portfolio at risk of all MFIs varies from extremely low to well acceptable, which is even more an achievement given the fact that the IMF qualified the repayment culture in Mozambique as weak⁸². Each MFIs has a particular key accomplishments, including the following:

NovoBanco:

- The largest portfolio volume of MFIs in Mozambique within a short period of time
- Relatively diversified financial products
- Rapid increase of number of deposit accounts
- Rapid establishment of network of branches, including in the North and in the Centre of the country

Socremo:

- Transformation of an intergovernmental project into a financial institution
- Acquisition of a licence for a Microfinance bank
- Gradual diversification of ownership structure and attraction of important international financial institutions as shareholders
- Change of organisational culture from project to commercial financial institution

Tchuma:

- Only significant MFI not launched by an external agency
- Local senior management
- Loyal to its poverty focus and its intention to reach specifically female entrepreneurs
- Start of expansion to rural areas

The MFIs mentioned the following challenges, which are partly overlapping:

Market and products

⁷⁹ Adjustments relate to: Inflation, subsidies (e.g. for TA), and loan loss provisioning and write-off.

⁸⁰ source: www.imi-ag.com/statistics

⁸¹ Source: MBB, Issue nr. 8, Peer Tables: adjusted net

⁸² March 2004, IMF Country Report No 04/52, Financial System Stability Assessment.

All MFIs:

- Gradual expansion to rural areas and development of agricultural credit
- Diversification of products to meet the needs of micro-entrepreneurs and low income groups in general

NovoBanco:

- In the case of loans for small and medium entrepreneurs: slow processing of hypothecation, which endangers the competitive advantage of MFIs of rapid analysis and approval of loan requests.

Tchuma:

- In Maputo, the market of micro-credit for entrepreneurs who are able to meet the collateral requirements is almost saturated.

Human Resources:

All MFIs:

- Capacity training of middle and senior level staff

NovoBanco and Socremo:

- The creation of an organisational culture shared by all the employees

NovoBanco:

- Reduction of operational costs by creating a culture of cost awareness

Operations:

Tchuma:

- MIS is not adequate and should be improved or replaced. Reporting possibilities of MIS is very limited.

Socremo and NovoBanco:

- Distances between Maputo, Beira (and Nampula) cause high costs for communication and control

Institutional:

All MFIs:

- Reduce operational costs

Tchuma

- Possible transformation into a Bank
- Expand branch network while keeping self-sufficiency ratio at acceptable level.

In relation to investors:

Tchuma and Socremo:

- Winning new strategic investors, which will bring value added to the organs of Socremo.

In relation to donor agencies:

Tchuma:

- Disbursements of donors are frequently delayed. Tchuma is dependent of timely disbursements to be able to reach defined targets.
- Generally, funding agencies are too optimistic in their expectations of the number of years needed for MFIs to become self-sufficient. Tchuma, as many other MFIs, defined at its start unrealistic targets, in order to qualify for funding. Consequently targets are not reached, and donor agencies tend to impose supplementary (reporting or monitoring) requirements, while the MFI is doing reasonably well with regard to client and portfolio growth.
- Some donors require monthly reporting, which requires a lot of extra time, especially when the reports should be in English.

Annex 1. Investors and Partners of the MFIs

Table 1: Shareholder structure Socremo⁸³

Shareholder	Percentage of the shares (16 January 2004)
Cabinet for promotion of Labour (Moz. State)	34%
GAPI Society for the promotion of small investments	11%
LFS	15%
UGC (General Union of Cooperatives)	3%
CCM (Christian Council Mozambique)	3%
KfW	34%

Table 2: Partners of Socremo, in 2004

Partner	Loans	Technical assistance / subsidy
ACDI (Spanish Microcredit Fund)	X	
Banco de Fomento (MZ)	X	
Deutsche Bank Microcredit Development Fund	X	
NOVIB	X	
Hivos Triodos Fund (HTF)	X	
Triodos Bank	X	
GTZ (German Technical Cooperation)		X
CIM (Centrum für internationale Migration und Entwicklung) (part of GTZ)		X
DFID Financial Deepening Challenge Fund		X
LFS		X

Table 3: Shareholder Structure Tchuma:

Investors	Percentage of shares
FDC (Fundo de Desenvolvimento Comunitário)	49,9
SCI (Holding Company)	49,9
Founding members	0,2

Table 4: Partners Tchuma, in 2004:

Partner	Loans	Subsidy / Technical Assistance
Hivos		X
Accion International		X
Caixa Cataluña/ Fundación Um Sol Mon	X	X
MicroStart Moçambique		X
Action Aid		X
USAID/IGP		X
GAPI	X	
EMOSE (insurance)	X	

⁸³ Shares are denominated in Meticaís. As the investment of KfW is in EURO and will be converted to MZM, the final percentage of shares depends on the exchange rate on the day of investment.

Table 5: Shareholder structure NovoBanco

Shareholder	Percentage of the shares⁸⁴
BIM - Banco Internacional de Moçambique	30%
IMI - Internationale Micro Investitionen	25%
IFC - International Finance Corporation	10,39%
Doen Foundation	20,32%
FMO - Nederlandse Financierings Maatschappij voor Ontwikkelingslanden	10,39%
FFH - Fundo para o Fomento da Habitação	3,9%

TA partners NovoBanco: Doen Foundation, FMO, USAID

⁸⁴ From 19 de May 2004