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

Synthesis report

*THE MICROFINANCE MARKET IN MAPUTO,
MOZAMBIQUE:
SUPPLY, DEMAND AND IMPACT*

A CASE STUDY OF NOVOBANCO, SOCREMO AND TCHUMA

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December 2006

Opening Note from the Steering Committee of the Netherlands Platform for Microfinance (NPM)

The poverty outreach and impact assessment study in Mozambique has resulted in findings and contains observations, which we - the NPM steering committee of this study - would like to share with the wider audience of microfinance practitioners and interested members of the public.

This study is conducted by independent researchers; therefore the conclusions are entirely theirs.

With thanks to the work delivered by the researchers,

The Steering Committee

Preface

This is the synthesis report of the poverty and impact assessment study of three MFIs (microfinance institutions) in Mozambique, commissioned by the Netherlands Platform for Microfinance[1] and funded by some of its members[2]. The MFIs involved in the assessment are Tchuma, SOCREMO and NovoBanco. These MFIs are supported by members of the Netherlands Platform for Microfinance - Novib, Hivos, DOEN Foundation and FMO, Triodos Bank (on behalf of Hivos and DOEN Foundation) - through different financial instruments (subsidy, loans and equity).

The initiative for this assessment has been taken by Hivos, the president of the Netherlands Platform for Microfinance in 2004. The Terms of Reference were designed in close cooperation with the MFIs and members of the Platform and aimed to accommodate as much as possible the different priorities of all parties involved.

The assessment took place in the period from June 2004 to February 2006. The research took much longer than had been planned for, mainly because the methodological and logistical difficulties of this complex study had been greatly underestimated.

The research has been implemented in a participatory way with the management of the MFIs having a considerable input in each stage of the study including: the definition of hypotheses, the choice of indicators and the design of the questionnaires. Moreover, the management of the MFIs commented on the reports of the different phases of the study. MFI staff provided MIS (management information system) data, or facilitated the access to credit files and helped locate the clients. The time spent on the study by the MFIs should not be underestimated. On behalf of the impact assessment team, I would like to thank the many MFI staff for their assistance during the course of this study, specifically the following. From NovoBanco: Anila Denaj (general manager and manager operations), Carla Abrantes de Figueiredo (administrator), João Tovela (branch manager), Nelson Bila (branch manager), Celeste Mutumane (credit manager), Ilídio Langa (credit manager), Matteo Snidero (technical assistant for information technology), Bodo Lieberam (ex general manager), Karin Derflinger (ex supervisor), Christine Heitzhauzen (ex branch manager), Jorge Chicamba (ex IT staff). From Tchuma: Gildo dos Santos Lucas (manager), Kathryn Larcombe (deputy manager), Natércia Nabunda (manager operations), Candido Sozinho (financial manager), João Zita (IT staff), Noémia Nhantumbo (branch administrator), Sergio Guiamba (branch manager), Custodia Mavie and Anselmo Zandamela (supervisors), Carlos Nhatave (branch manager), Janeta Biza and Julia Matlombe (supervisors). From SOCREMO: Luis Garate (consultant GTZ/LFS), Abenaa Adai (consultant LFS), Christoph Diehl (Regional manager Africa LFS), Martin Rohler (Credit and operations manager), Gildo Daniel (branch manager), Erico Chauque (branch manager), Samuel Sambo (substitute branch manager). We also wish to thank the many friendly loan officers for their patience in guiding us to clients.

Very importantly, I would like express my gratitude to the many interviewed clients for volunteering their precious time for the interviews.

The Netherlands Platform for Microfinance participated in the research through a steering committee, members of which provided input on the research instruments and gave their

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ACRONYMS

ASCA	Accumulative Savings and Credit Associations
ATM	Automatic Teller Machine
BCI	Banco Comercial e de Investimentos
BCM	Banco Comercial de Moçambique
BIM	Banco Internacional de Moçambique
BOM	Banco Oportunidade de Moçambique
BPD	Banco Popular de Desenvolvimento
CCCP	Caixas Comunitárias de Crédito e Poupança
CCOM	Caixas Comunitárias de Operadores de Microfinanças
CGAP	Consultative Group to Assist the Poor
DNE	Direcção Nacional de Estatística
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden
GDP	Gross domestic product
GTZ	Gesellschaft für Technische Zusammenarbeit
ICC	International Capital Corporation
ICCO	Interkerkelijke organisatie voor ontwikkelingssamenwerking
IMI-AG	Internationale Micro Investitionen Aktiengesellschaft
INE	Instituto Nacional de Estatística
ING	Internationale Nederlanden Groep (Financial Institution; banking & Insurance)
IT	Information Technology
KkN	Kulane Ka Ntwananu
LWF	Lutheran World Federation
MEDA	Mennonite Economic Development Associates
MFI	Microfinance Institution
MMF	Mozambique Microfinance Facility
MIS	Management information system
MT	Metical (national currency)
NGO	Non Governmental Organization
NPM	Netherlands Platform for Microfinance
PPP	Purchasing Power Prices
QUIP	Qualitative Impact Protocol
ROSCA	Revolving Savings and Credit Association
SIDA	Swedish International Development Agency
SME	Small and medium enterprise
SNV	Netherlands Development Organization
SOCREMO	Banco de Microfinanças de Moçambique
TA	Technical assistance
UNCDF	United Nations Capital Development Fund/Special Unit for Microfinance
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States Dollars

Executive Summary

1. Introduction

This study, entitled *The Microfinance Market in Maputo, Mozambique: Supply, Demand and Impact – A case study of NovoBanco, SOCREMO and Tchuma,* undertaken on behalf of "The Netherlands Platform for Microfinance" (NPM) [3] and funded by some of its members[4], is a study of the Maputo-based business microcredit clients and depositors of three large operators. The study took place over the period June 2004 to February 2006. The multi-phase impact assessment study was undertaken with two principal goals: to justify the use of public funds and to inform strategic planning of the microfinance institutions (MFIs).

The MFIs involved in the study were SOCREMO (Banco de Microfinanças de Moçambique, formerly known as Sociedade de Crédito de Moçambique), NovoBanco and Tchuma, in which various members of the Netherlands Platform for Microfinance had different interests.

2. Approach and methodology

The research was implemented in a participatory way with the management of the MFIs having a considerable input in each stage of the study.

An important feature of the assessment was the division of clients into categories, premised on the understanding that the impact of microfinance varies for different types of clients. The participant MFIs chose loan size as the criterion for the stratification of the clients. Loan sizes were divided by three categories: the low loan category includes loans up to 7,499, 999 meticais[5] (MT) (around USD 327); the middle loan category includes loans from 7.5 million MT– 19,999,999 MT (from USD 328 – 868); the high category includes loans of 20 million MT and more (USD 869)[6].

It was assumed that impact would more fully manifest itself after a period of at least 2 years. For that reason the assessment focuses on the more-than-two -year-old micro credit clients of the 3 MFIs and depositors from two MFIs.[7] To a limited extent ex-clients (dropouts) were studied and defined, for the purposes of the assessment, as clients who did not return to the institution within a period of 6 months after the repayment of the previous loan. To be able to compare the interviewed dropouts with the interviewed active clients, "dropouts" must also have been for more than 2 years with the institution prior to leaving. SOCREMO and NovoBanco also provided general information on the number of all dropouts per loan category.

The research used a mix of research methodologies, enhancing the reliability of its findings by examining similar issues from different perspectives. Historical loan portfolio information

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[3] Members of the Netherlands Platform for Microfinance include: Hivos, Novib, FMO, ASN Bank ,ABN Amro, Cordaid, DOEN Foundation, ICCO, ING, Interpolis, Ministry of Foreign Affairs, Oikocredit , Rabobank Foundation ,SNV, Triodos Bank (see: www.microfinance.nl)

[4] Hivos, Novib, FMO, Doen Foundation and the Netherlands Platform for Microfinance with the support of the Ministry of Foreign Affairs

[5] National currency. In 2006 the metical (singular of meticais) was gradually replaced by the "metical da nova familia" (metical of the new family) resulting the loss of three 0s for simplification. i.e. 1,000 MT became 1MTn. Full conversion took place at the beginning of 2007. This report will present national currency figures as they were *before* 2007

[6] Exchange rate: 23,000 MT = USD 1(June 2004)

[7] SOCREMO had only introduced deposit facilities at about the time of the in-depth interviews.

was analysed, divided by category. Moreover, changes over time in the businesses of more-than-2-year-old clients were assessed on the basis of loan appraisal data. In total, the loan appraisal information of 1,287 clients and 78 ex-clients (having left after a period of at least 2 years) was analysed. The poverty level of Tchuma's at least 2 year old (ex) clients has been assessed through a sample survey among 164 (ex) clients. In-depth interviews were conducted with 140 clients: 90 active clients divided by loan category per MFI, 30 ex-clients who dropped out after a period of 2 years and 20 clients with deposit accounts at Tchuma and NovoBanco. The study focused on clients of two branches in Maputo of each MFI.

3. Characteristics of the MFIs

The support and ownership structure (investors, funding agencies and technical assistance) of the banks SOCREMO and NovoBanco is more extensive and solid than of the cooperative Tchuma which is currently considering transforming into a bank to attract more investors. The poverty oriented Tchuma is the only MFI not launched by an external agency. Tchuma strives for striking a balance between sustainability and reduction of poverty through reaching poorer clients. Despite its poverty focus and strong portfolio performance, it has difficulties to attract sufficient funding. NovoBanco and SOCREMO have a more commercial approach and aim for increasing breadth of outreach including also SME (small and medium enterprise) lending. NovoBanco is the youngest MFI (from 2000); its establishment made the micro-financial market in Maputo more competitive and formed an extra stimulus for the other MFIs to further develop and diversify their products.

The low loan category clients constitute more than half of Tchuma's clients; in the case of NovoBanco and SOCREMO more than one third. The total number of low loan category clients of (poverty oriented) Tchuma is largest, but only slightly larger than the number of NovoBanco's low loan category clients. The average loan size of the low loan category clients is about the same for the three MFIs.

The three MFIs provide individual business loans for micro-entrepreneurs; collateral requirements are similar. Tchuma also provides group loans, although to a very limited extent. NovoBanco's, and increasingly SOCREMO's range of products and services is wider than of Tchuma. SOCREMO and NovoBanco compete with each other for a specific segment of the loan market, limited at the lower end by the need for collateral or individual guarantors and at the upper end by what are essentially working capital loans with interest rates considerably higher than the commercial banks. Tchuma has recognized the limitations of up-market growth and decided to improve its solidarity group lending in a bid to service the lower end of the market.

NovoBanco had more than twice as many depositors as borrowers (June 2004), attracting many clients who are not interested in credit.

4. Characteristics of the assessed credit clients

While the majority of those involved in informal sector activities in Maputo are found to be younger than 35 years, the majority of the MFIs' more-than-2-year-old clients was older than 40 years. Reasons mentioned by the MFIs for not targeting younger clients included the lack of stable residence and perceived risky behavioural traits.

Females dominated the 3 loan categories, though in diminishing proportions as loan categories increased (except in the case of Tchuma which specifically targets women). Clients were relatively well educated when compared to the Maputo population. Most of the clients were involved in a wide range of trading activities and had ample business experience. The majority of SOCREMO's and NovoBanco's clients have fixed business assets while a minority of Tchuma's does. Fewer women own business assets than men, the difference being rather large in the case of Tchuma. Between a third to a half of the clients had employees, with men having a slightly higher propensity to employ workers than women.

Only a small minority of the more-than-2-year-old clients had a current account at their MFI[8]. Only 1 % of NovoBanco's 2 year old clients had a term deposit. Interviews showed that most of the middle and high loan category borrowers had previous experience with commercial banks in terms of holding accounts but little in terms of previous loans.

5. Poverty profile of Tchuma's clients

A small part of the households of more-than-2-year-old clients of the poverty focused Tchuma could be considered to be poor as defined by living under the poverty line, while this is the case for more than half of Maputo's households. Individual guarantee-based loans require the ownership of assets, most of which operate with electricity.

Almost half of the more-than-2-year-old clients of the poverty-focused Tchuma (43%) and presumably a larger portion of the clients of the other MFIs belong to the top 20% income group of the Maputo. These clients are not wealthy, but better off than the majority of Maputo´s population. Most of these clients can be considered to belong to the lower end of an emerging middle class.

It can be assumed that the more-than-2-year-old clients are wealthier than the average client of the institution, given the fact that the majority of clients who drop out before 2 years are from the low loan category. Moreover, the wealth level of successful clients improved probably over the course of the years, as is confirmed through the in-depth interviews.

6. Borrowing patterns

From an institutional point of view, the ideal microfinance clients are the ones taking sequential loans over a protracted period of time. These clients were found to be far in the minority in the case of the assessed MFIs. Only a quarter of clients continue to take loans during a period of more than 2 years. Many clients rest substantial periods in between loans, suggesting that they take rational decisions on when to take a loan[9]. Clients of the low loan category, who are probably poorer than from the other categories, rest longer periods, drop out more frequently and have more repayment problems. However, the more entrepreneurial of the low loan clients succeed in increasing their loan size and become very good clients.

Annual or monthly dropout rates show the level of client turnover but do not provide insight about how long and what type of clients remains with the institution. A more longitudinal approach to retention rate is important, both from the institutional point of view (clients start to become profitable only after a minimum number of loans) and from the point of view of the client in terms of impact on business and household welfare (significant impact can only

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[8] This finding relates to Tchuma and NovoBanco. SOCREMO only introduced deposit accounts in 2005
[9] 16% of NovoBanco's resting clients rest more than 180 days.

be expected after a certain number of loans). Many 2 year old clients dropped out voluntarily (without repayment problems) due to crises they faced in the business or in the family. Of the 3 MFIs, Tchuma has the lowest dropout rate, which could be due to its more tolerant policy towards late payments.

7. Impact on the level of the business

The majority of the retained clients experienced growth in the level of sales. This is also the case for a minority of clients who drop out after a period of 2 years. The percentage of women and men with growing sales is around the same. The level of increase is higher in the case of women than of men, although the differences are very small. In-depth interviews with clients of different loan categories as well as dropouts showed an overall positive impact on the supported economic activities. Many of those whose businesses did not experience growth claimed that, without credit, the situation would have been worse.

Credit provided by the MFIs proved to have most impact on those borrowers who tend to have basic entrepreneurial skills and who started with small loans. During times of general economic difficulties, clients who had climbed to higher loan categories continued to increase their loans, suggesting loans were also important to confront such difficulties. Low loan clients, on the other hand, found it more difficult to cope with economic downturns, many significantly reducing their loans.

Our evidence also showed that even the majority of clients remaining with loans from the low loan category (accounting for between a quarter to a third of the more-than- two-year-old clients) succeeded in increasing their level of sales.

Although instrumental in promoting the growth of small enterprises into larger ones, loans have not been very successful in promoting the growth of the existing relatively larger clients. This suggests that the available loan products are good at stimulating growth from small to larger micro-enterprises but are limited beyond that.

On average, the value of stock of the clients increased. Only a minority of clients succeed in increasing the fixed asset base while the overall effect on employment numbers was negligible.

8. Impact on the level of the household

In-depth interviews with the more-than-2-year-old clients of different loan categories as well as dropouts showed an overall positive impact on household welfare. Microcredit, though contractually stipulated for business purposes, also plays an important role in improving living standards through direct application into housing construction or renovation and household durables. Households prefer small, sporadic injections into housing, reflecting their often volatile financial situation.

9. Influence of crises

The qualitative interviews showed that most of the clients faced one or more crises in the past 3 years. This percentage was considerably higher for credit clients who had dropped out after at least 2 years. A significant minority of the dropouts indicated that they stopped borrowing

as a result of the crises they faced. Crisis might also be an important factor for many of the clients who stop borrowing before being 2 years with the institution.

Most of the crises clients faced were related to health problems (either of client or within family) and deaths of family members. Due to the high prevalence rate of HIV/AIDS (16.2%) in Mozambique, it is likely that some of the health problems and deaths in the family were HIV/AIDS related, as some clients revealed spontaneously during the interviews (questions were not HIV & AIDS specific).

10. Deposit accounts and the use of informal services

Current accounts reduced the vulnerability of clients towards emergencies and helped to manage their businesses. The experience of the rapid growth of the number of current accounts with NovoBanco, exceeding the number of borrowers by approximately two times[10], demonstrates the enormous demand for this product. Only a small minority of the clients use term deposits (provided by NovoBanco) as clients prefer accessible savings.

Most of the clients used the MFI current account for longer term saving. Clients saved for specific purposes e.g. for starting or running a business and acquiring business or household assets. However, less than half of these clients succeeded in using their savings for these purposes. The most common reason for savings withdrawal was emergencies like theft and illness. Clients running a business in the markets near the branches generally used the current accounts on a daily basis for business management. The use of the account by those clients who had also credit from the MFI was generally related to credit: saving for reimbursement and facilitating credit transactions

Informal financial systems still play a very prominent role in helping urban households cope with their erratic fund flows. Rather than substituting, microfinance products (whether credit or savings) seem to complement these arrangements. The ROSCA's (Rotating Savings and Credit Associations) are instrumental for accumulating lump sums. Particularly women showed preference for using the ROSCA groups, saving more frequently and with higher amounts per month in the groups than in their bank account.

11. Client satisfaction.

Clients positively responded to all the issues raised in relation to loan products and related services. However, lesser degrees of enthusiasm were evidenced in relation to guarantor policy; guarantee requirements and valuations/depreciation rates; and high interest rates (felt particularly by high loan categories). Although the MFIs were seen in a very similar light, there were some features that distinguished one MFI from another such as arrears tolerance, rapidity of loan processing, interest rates, etc. Some clients reported that loan officers recommended that they increase their collateral (sometimes urging the replacement of functioning household appliances that were older and therefore written off) in order to increase their borrowing capacity. Some dropouts claimed that the treatment by loan officers as a result of common repayment problems resulting from crises caused them to stop borrowing.

Most clients with exclusively deposit accounts were satisfied with the MFIs' products and services. Clients were most positive about the treatment, the proximity of the branch to the

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[10] As at June 2004

house or market and the low costs to open an account. Many clients would appreciate the introduction of ATMs and payment of interest on accessible savings. Tchuma had developed a flexible savings account product but could not introduce it due to limitations of its MIS.

12. Conclusions and recommendations

Looking at the two major objectives of the impact assessment, the following conclusions are drawn and recommendations given:

Goal 1: Justification of the use of (public) funds of the members of the Netherlands Platform for Microfinance.

On the basis of the overall positive impact on both economic activities as well as household welfare of more than two-year-old MFI clients, one can conclude that the use of (public) funds is justified for these microfinance institutions.

However, there are some important concerns:
- The overall impact of the microfinance services could be highly overestimated as the assessment was limited to only the more than two-year-old clients and to a specific group of dropouts i.e. those who had been a client for more than 2 years. The assessed microcredit clients represent a minority of all clients, as about three quarters of the clients drop out before having taken loans during a period of 2 years.
- Most of the clients who drop out before they have taken loans for 2 years are from the low loan category and probably poorer than the clients of the higher loan categories. Donors should consider channelling more research into the distributional effect of microfinance, so that interventions can be more focused on microcredit delivered to those clients with the most potential to benefit from these services.
- The MFIs supported by members of the Netherlands Platform for Microfinance (NPM) in Mozambique mainly retain relatively old and experienced micro-entrepreneurs from the lower end of an emerging middle class. To increase the outreach and retention of lower income groups, NPM members should also consider to support other MFIs and/or to encourage the current MFIs to conduct market research and to pilot test other possibly more appropriate products e.g. more diversified savings products tailored to the needs of clients for both easily accessible and less easily accessible savings (liquid and illiquid savings).
- Tchuma, the locally rooted MFI with a specific poverty focus has the weakest support and ownership structure (investors, funding agencies and TA) and has the most difficulties to attract funding. The members of the Netherlands Platform for Microfinance should better coordinate and balance their support to international and local MFIs: greater technical and financial support should be provided to locally rooted and well-performing, (potentially) sustainable poverty focussed MFIs to enhance their capacity to cope with the increased competition due to the establishment of international MFIs.
- The low loan category clients are more costly per unit of currency loaned. Donors and investors should realize that the route to sustainability of exclusively poverty focused MFIs is generally longer.

Donors and investors can play an important role in ensuring that the social mission of MFIs remains of central concern, despite the increased focus on commercialization and scale of

microfinance. Donors should promote the development of systems to manage, monitor and report on social performance[11].

Goal 2. Inform strategic planning of the MFIs

The research provided insights in several areas important for strategic planning of the MFIs. Looking at the client characteristics, there seems to be potentially unexplored market segments such as the age group below 35 years, less educated people, and poorer clients. There are signs that the market for collateralised microcredit is saturated. Savings products are in high demand and have the potential to reach deeper into the market. Market research and possible introduction of new products might open other import income segments within the competitive market currently being served by the MFIs.

Client retention is important because longer term clients increase average loan balance and reduce loan delivery costs. Moreover, higher client retention rates become critical in the increasingly competitive and saturating microfinance market of Maputo City. Tchuma has the lowest dropout rate of the three MFIs, possibly explained by its more tolerant policy towards late payments. Crises are important factors in causing client dropout.

Overall, it is recommended to the MFIs to become more client- needs driven, especially with regard to product development, product delivery and internal tracking and monitoring systems.

More specific recommendations include the following:

In relation to product development:
- Factor in the reality (and probability) of crises and introduce products (besides the existing micro-deposit products) that are specially designed to cushion the impact of a crisis e.g. insurance products and short-term emergency loans.
- Undertake market research for younger micro-entrepreneurs (younger than 35) to develop appropriate products for this under-served client group.
- Introduce a flexible interest bearing savings product whereby savings can be more easily accessed than is the case with term deposits
- Tchuma should undertake market research to develop risk-management financial services for vulnerable populations.

In relation to product delivery and custom service:
- Consider to train loan officers to better respond to clients with minor repayment problems caused by crises.
- Revise arrears policy to allow greater tolerance for clients with a clean track record.
- Introduce incentives for loan officers to improve retention rates
- Conduct research into the effect of being more tolerant for clients in arrears on client dropout

In relation to internal tracking and monitoring systems:
- Monitor more effectively the retention rate of clients, by keeping track of the length of borrowing periods of (different types of) clients.

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[11] Social performance is defined as the 'effective translation of an institution's social mission into practice'Bart de Bruyne & Johan Bastiaensen 2006: how to put social performance management into practice?" Trias, Brussels

- Conduct research on reasons for dropping out of clients who were with the institution for a period of less than 2 years
- Consider setting up a social performance reporting system, to ensure that the social missions of the MFIs are put into practice. Selected data collected for loan appraisal could be used to assess changes over time in e.g. business size and repayment capacity. Additionally, it should be considered to conduct periodically a limited number of in-depth interviews, to obtain an understanding of causes of registered trends.
- Tchuma should assess the poverty level of new and repeated clients in comparison with the poverty level of Maputo households by using the short list of durables and household characteristics developed by this study for this purpose. In this way, both poverty profiles of new clients and changes in the poverty level of retained clients can be assessed.

1. Introduction

This report consolidates the research results of the *Poverty Outreach and Impact Assessment Study of Three MFIs in Mozambique: NovoBanco, SOCREMO and Tchuma.* The report synthesises and compares the findings from the different phases of the research as presented in 11 reports. Because of reasons of confidentiality, the MFI specific reports were exclusively presented to the MFIs concerned and to the steering committee members. For the Terms of Reference of the research, please refer to Annex 1.

1.1. Goals of the assessment

The overall general goals of the impact assessment were divided in an external and internal goal:

External goal: to provide reliable evidence of diverse impacts of micro-financial services on different categories of clients, in order to be able to justify the use of public funds.

Internal goal: to provide reliable evidence of diverse impacts of micro-financial services on different categories of clients, to inform strategic planning of the MFIs.

In addition, a poverty outreach assessment has been conducted of retained clients of Tchuma, as Tchuma has a poverty focus and aims to further deepen its outreach. The general goals of this assessment were also divided by the same external (justification of use of public funds) and internal goals (deepening outreach).

By combining the internal and external goals, the impact assessment aimed to accommodate the different priorities, interests and concerns of all parties involved[12]. The MFIs were most interested in obtaining a better understanding of the clients and the market, of client satisfaction and reasons for dropping out, and in obtaining insights into potential demand for additional products. Many of the Netherlands Platform for Microfinance members are interested in obtaining reliable evidence of the impact of microfinance on poverty reduction.

1.2. (Ex) clients and client categories

Impact is assessed on the client level. Within this level, the following units of assessment are taken into account: the individual, family/household, enterprise and to a certain extent the community (e.g. employment opportunities). The impact assessment distinguishes between impact of microfinance on men and women, given the fact that gender equity is an objective of several members of the Netherlands Platform for Microfinance.

An important feature of this assessment is the division of clients into categories, premised on the understanding that impact of microfinance is different for different types of clients. The MFIs chose loan size as the criterion for the stratification of the clients. Loan sizes were divided by three categories: the low loan category includes loans up to 7,499, 999 MT (around USD 327); the middle loan category includes loans from 7.5 million MT– 19,999,999 MT (from USD328 – 868); the high category includes microfinance loans of 20

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[12]Impact assessments that have both the objective to prove impact to a reasonable degree and to improve programme performance are categorised by Hulme as assessments with a ´moderate approach´, taking 15 – 30 months. Hulme, David (1997) *Impact assessment methodologies for microfinance: a review.* Discussion paper Washington, DC: AIMS / USAID/ Management Systems International

million MT and more (USD869)[13]. The MFIs provide microfinance loans up to an amount of approximately 100,000 meticais (around USD 4,400)

It was assumed that impact would only occur after a period of at least 2 years. For that reason, the assessment focuses on the more-than-2-year-old clients. To a limited extent[14], ex-clients (dropouts) were studied. For the purpose of the assessment, dropouts were defined as clients who did not return to the institution within a period of 6 months after the repayment of the loan. To increase the comparability of impact on dropouts and clients who continued taking loans, the impact and poverty assessment focuses on dropouts who had been clients of the institution for more than 2 years.

1.3. Selection of branches.

To enable comparison of findings within an MFI and to limit costs, the assessment has been conducted with 2 branches of each MFI in Maputo. In the case of Tchuma, these branches constitute all its branches in Maputo; for SOCREMO, the branches are the only two in operation for more than 2 years at the time of starting the research; in the case of NovoBanco, two branches providing microfinance loans[15] were selected.

1.4. Consistency in time frame

An important date in this research is June 2004, as the loan appraisal information was collected of more than two-year-old clients who were active on June 30, 2004 or considered as dropouts as at June 30, 2004. The historical loan portfolio information concerned 3 periods of 1 year between July 2001 and June 2004. Loan portfolio data has not been updated in this report to maintain internal consistency.

1.5. Correction for inflation

The amounts are analysed in local currency (metical), to avoid distortions caused by the fluctuation of the dollar. The values derived from the most recent loan appraisals of the more-than-2-year-old clients are corrected on the basis of monthly inflation rates from Maputo City to make them comparable with the information at the first loan appraisal.

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[13] Exchange rate meticais / USD June 2004: 1 USD = 23,002 meticais
[14] Due to both budget limitations and time constraints of the MFIs to provide loan appraisal information of dropouts who had been with the institution for at least 2 years
[15] Defined as up to 100 million MT (around USD 4,400). The provision of SME loans is provided by one branch of NovoBanco in Maputo. Tchuma does not provide SME loans, and SOCREMO did, to a limited extent, at the time of the research.

2. Methodology

It is well known that assessing impact on the client level is a methodological challenge because of the question of attribution; many factors influence impact, such as macro economic influences, client characteristics and product features. Moreover, loan fungibility makes it very difficult to trace the use of the loans. In the ideal world, if a client applies credit to increased merchandise and business performance increases, the *impact chain* is clear and the impact is obvious. Unfortunately, the world is more complicated and it is better to speak of an *impact web* made up of many factors influencing each other whereby it is difficult to disentangle what the causes are and their effects.

This research has dealt with this challenge by using a mix of research methodologies, thus enhancing the reliability of its findings by examining similar issues from different perspectives. The impact assessment did not employ positivist methods, making use of a control group (with/without, before/after), because these methods make the survey inflexible and risks being of limited strategic benefit to the financial institutions themselves. The approach of the assessment was rigorous, by triangulating quantitative and qualitative information from many sources on different categories of current clients and ex clients. The differences of impact on different groups were assessed and an insight was obtained about the reasons why the changes occurred. Moreover, the findings with regard to clients of three MFIs are compared, thereby strengthening the basis for conclusions on general impact trends.

The following methodologies have been applied:

- Analysis of historical loan portfolio data of each MFI, divided by loan categories, to obtain an understanding of characteristics of the MFIs and the borrowing and repayment patterns of each category.
- A sample survey to assess the poverty level of Tchuma´s retained clients by category in comparison with the Maputo population.
- Statistical analysis of loan appraisal data of a sample of more-than-2-year-old clients of each MFI providing an insight of client characteristics and changes over time (possible impact) per client category.
- In-depth interviews with a large number of more-than-2-year-old clients and ex-clients of each MFI, providing the clients' perspective on impact and quality of services of the MFIs.

A brief description of each of the methodologies is provided below.

2.1. Analysis of loan portfolio data.

MFIs provided historical loan portfolio data over a period of three years (July 1, 2001 – June 30, 2004) divided by categories and sex from the 2 selected branches in Maputo and from the entire institution. The information provided included the following: number of active clients; number of new clients; value of portfolio outstanding; number of exits; and portfolio at risk. The exits were divided by those rejected after the first credit application and the dropouts. For the purpose of the assessment, dropouts were defined as clients who were either expelled after having received a loan or left for their own reasons and did not return to the institution within a period of 6 months after the repayment of the loan.

Additionally, NovoBanco provided historical information on the number of clients who interrupted taking loans during several periods.[16] The analysis of this information provided a better understanding of the magnitude of clients who rest in between loans. This analysis was also meant to facilitate the MFIs to take a well-informed decision about the definition of a dropout. Due to a combination of time constraints and limitations of its MIS, Tchuma did not provide gender disaggregated information, or information on number of exits and new clients.

The loan portfolio analysis facilitated the understanding of the following: the borrowing and repayment characteristics of the clients per category; the importance of each category for the loan portfolio volume and value; the dropout level per category; the level of representativity of the sample of 2- year-old clients.

2.2 Loan appraisal data

Instead of conducting a survey and collecting quantitative data on the businesses and households of the clients, the MFIs preferred the analysis of information collected routinely for loan appraisal by their own loan officers. Additionally, Tchuma and NovoBanco provided information on the deposit balances of the selected more than 2-year-old clients. All information concerned clients who were active as at June 30, 2004 of the 2 selected branches.

NovoBanco retrieved all the information directly from the MIS and provided the data electronically. This was an enormous advantage as copying of data was unnecessary and avoided transcription errors. In the case of the other MFIs, operators supervised by the consultancy company ICC entered information from credit files and from the MIS in a data entry programme.

Because NovoBanco retrieved all the information from its MIS, the loan appraisal information of all (807) more than 2-year-old active clients of 2 branches in Maputo is analysed. From Tchuma and SOCREMO, a sample is randomly selected consisting of respectively 291 and 189 active clients. Moreover, a sample of 78 dropouts who had been clients for more than 2 years was selected from SOCREMO. Tchuma and NovoBanco did not provide information on dropouts due to time constraints, combined with, in Tchuma´s case, limitations of its MIS. In total, the loan appraisal information of 1,287 clients and 78 ex-clients has been analysed. The information has been analysed per MFI (not aggregated)

The sample data of SOCREMO and Tchuma are weighted by the total number of clients broken down by branch, status (active or dropout), loan category and sex. The weighting of NovoBanco more-than-2-year-old clients was not necessary, as the data were derived from all the more-than-2-year-old clients of 2 branches.

To facilitate the analysis of the loan appraisal data, hypotheses were formulated and indicators selected in cooperation with the MFIs. The hypotheses related to expected changes over time on the level of clients´ business and households, in relation to client characteristics and loan category. For a list of these hypotheses and indicators, please refer to Annex 3.

The loan appraisal methodology did not differ much between the institutions, therefore facilitating comparability. NovoBanco and SOCREMO made only a few changes in the loan appraisal forms over the years, so the loan approval information was comparable over the

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[16] The periods were divided as follows: < 30 days, 30 - < 60 days, 60 - <180 days, 180 – 365 days.

years. This was less the case for Tchuma, whose loan appraisal forms at the time of the first loan of the selected clients contained fewer details.

The researchers found that the quality of data was generally good. Loan officers are extensively trained and have a stake in the reliability of the information. The information on the several aspects of the business collected by the loan officers should not be considered as exact but as good estimations, valuable for the identification of differences of businesses and clients over time.

2.3 Poverty assessment

For the assessment of Tchuma´s clients´ poverty level, a quantitative survey was conducted among 164 (ex) clients of Tchuma, who had been credit clients for more than 2 years. This sample was drawn from the sample used for the analysis of loan appraisal information. Results were weighted in order to be representative for all more than 2-year-old (ex) clients of Tchuma. The poverty assessment included both dropouts and active clients.

The assessment compares the poverty level of Tchuma´s clients in Maputo City with the poverty level of the overall population in Maputo City. On the basis of the findings of the household consumption survey of the Mozambican National Institute of Statistics (INE)[17], the most powerful indicators for poverty levels defined as household expenditure levels were identified. These indicators proved to be housing characteristics and availability of consumer durables.

2.4. In-depth interviews

In-depth interviews were conducted during the period June – September 2005 with a total of 140 clients, stratified as follows: 10 active clients per loan category per MFI; 10 dropouts per MFI; 10 clients[18] who had (exclusively) deposit accounts of NovoBanco as well as Tchuma. The credit (ex) clients were selected randomly from the sample for the loan information analyses. Dropouts were chosen from the sample of 2-year-old clients active as at June 2004 but who had voluntary dropped out afterwards and had not taken a loan 6 months prior to the time of the interview.

Because MFIs do not record contact details of deposit clients, the selection of these clients was random among clients whose whereabouts could be traced. It should be noted that Tchuma has a limited number of savings clients with exclusively savings accounts; the sample of 10 constituted more than one third of all these exclusively savings clients from the selected branches. Moreover, as the deposit product was introduced recently, the clients had the account only between 6 to 12 months. Despite this short period of time, these interviews provided interesting insights about the purpose and use of the accounts and client satisfaction with the product.

The questionnaires of the interviews were designed in close cooperation with the MFIs. The interviews examined demographic and socio-economic characteristics of the clients´ households, previous experience with formal and informal institutional arrangements, credit

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[17] Instituto Nacional de Estatística (INE) (2004) *Inquérito aos Agregados Familiares Sobre Orçamento Familiar. Relatório Final*. Maputo, Mozambique.The data of this household consumption survey are considered to be reliable by experts of the Purdue University and IFPRI, who were involved in the data analysis.
[18] In the case of NovoBanco, 1 of these 10 also received a business loan. An attempt to replace this client failed, as during the interview the replacement also appeared to have a loan with NovoBanco.

and/or savings use, business activities, household welfare, coping mechanisms in case of crises and life cycle events and their satisfaction with the products and services of the operators.

To ensure rigour of the data obtained from the interviews, the so-called 'Qualitative Impact Protocol', or *QUIP*, developed by *Imp-Act*[19] has been used. Statistical analysis requires a critical sample size, while this is not the case with qualitative research: the more interviews held, the more benefits in terms of useful data. However, to be able to understand the main problems of clients of a specific category, the minimum number of interviews held per category should be 10 (*Imp-Act* Practice Notes 2004).

Readers should be aware that analyses based on the qualitative interviews are based on the personal and therefore subjective opinions of respondents.

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[19] *Imp-Act* is an international action-research programme that aims to improve the quality of microfinance services and their impact on poverty, providing lessons for practice and for public policy.

3. Socio-economic context

Figure 1: Map of Mozambique

3.1 General

Mozambique, with a population of about 19 million, is considered a successful example of post-conflict reconstruction and development. After 16 years of civil war, a peace accord was signed in 1992, and the first democratic elections were held in 1994. The country has since experienced considerable economic growth but much of this growth has been accounted for by a few "mega-projects" such as the MOZAL aluminium refinery.[20] Mozambique has remained primarily agrarian with only a very small formal sector, showing that that Mozambican economic development is still fragile.

Economic growth differs strongly between regions. In 2000, the economic growth was substantial in only 4 of the 11 provinces of Mozambique. Maputo city (997,000 inhabitants) contributed most (almost 37%) to the gross domestic product (GDP). 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 average[21]. GDP per capita was estimated to be USD 250 in 2004.

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[20] In 2004 the gross domestic product grew by 5.8% (Source: http://www.mixmarket.org/)
[21] UNDP (2002) *Mozambique: Gender Women and Human Development – An Agenda for the Future* National Human Development Report 2001. Maputo, Mozambique

3.1.1 Poverty levels

According to the Household Consumption Survey conducted in 2002-2003, poverty levels have decreased significantly over the past years. However, the majority (54%) of the population was reported to live below the poverty line[22]. Income disparities are fairly high, as reflected in the Gini coefficient[23], which was 0.42 (using the household Consumption Survey data). 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 City[24].

3.1.2 HIV/AIDS

Although HIV/AIDS rates are still relatively low in comparison to neighbouring countries, these rates are increasing rapidly, affecting women in particular. Currently around 16.2 % of the adult population is estimated to be infected by HIV. AIDS has sharply reduced life expectancy in Mozambique; in 2004, life expectancy at birth was estimated at 38.1 years, compared with 46.4 if AIDS was absent.

3.1.3 Inflation

Average inflation in 2004 was 11%. The Mozambican currency, metical, fell in real terms, and in nominal terms against South African rand; the exchange rate of the metical against the US dollar was virtually unchanged from 2001 to mid 2004.

3.2. The informal economy in Maputo

As this study concentrates on Maputo, a brief overview is provided of the informal economy in Maputo. Our knowledge of the informal sector in Maputo has been largely based on a series of small sample studies starting from the late 1980s. However, in 2004/2005 the first systematic nation-wide survey of the informal sector was undertaken by the *Instituto Nacional de Estatística* (INE).[25]

The size of the informal sector has been subject to some debate but all estimates indicate a substantial contribution.[26] In Maputo it was found to be the largest source of employment (mainly self-employment) for women.[27] Preliminary data from the INE informal sector study found that the agricultural sector overwhelmingly dominates both the informal sector and the participation of a large majority of the population aged over 6 years. Disaggregating the data shows that non-agricultural informal sector activities absorb almost 600,000 individuals vs. just over 1 million individuals absorbed by the formal sector (including agriculture). Trading and services (excluding transport) account for just over three-quarters of the non-agricultural

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

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

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

[25] INE (2006) *Infor 2004 Inquérito ao Sector Informal* Preliminary Results, Maputo

[26] (Direcção Nacional de Estatística (DNE) (1993) *Relatorio sobre os resultados finais do inquerito às famílias na Cidade de Maputo (Vol 1)* National Planning Commission (Maputo), This survey of families in Maputo estimated that the urban informal sector provided about 43% of Maputo's income Pinto de Abreu, using a monetarist approach, estimated the informal sector contribution to be about 33% of GNP. (Pinto de Abreu, A (1996) *Sector Informal em Moçambique: uma abordagem monetarista*). Navia and Kaufmann estimated that the informal sector in Beira accounted for 60% of the city's income (Navia, E. and F. Kaufmann (1999) *Abordagem sobre Pequenas Empresas em Sofala* UCM-GEA Consult Paper 1, Beira).

[27] UNDP (2002) op.cit., The report cites that 77.9% of economically active urban women and 50.3% of men are engaged in the informal sector.

informal sector participants. Of particular significance to the microfinance operators is that 42% of all those involved in trading and 48% of those providing services are located either in Maputo Province or Maputo City.[28]

Often called the "sector of last resort", this may be true for many, but data collected in the mid-1990s found that a large proportion of informal sector operators were earning substantially more than lower-level wage earners.[29] Given the diversity of the sector and the economic backgrounds of those operating in it, studies, not surprisingly, demonstrated a very wide variation of earnings from the sector.[30]

The poorer elements of the informal sector were often found to work 7 days a week with only a short break to worship on Sundays. One survey of female traders found that they worked on average 10 hours per day and almost no one took leave; most did not stop their activities during national holidays and almost two-thirds claimed that they were not free over weekends.[31]

Most households involved in informal activities have at least 2 sources of income, usually pursued by different household members[32], though individual members with 2 or more income-earning activities are not uncommon. Many households will have at least one member earning wages but, despite minimum wage legislation, lower wage levels normally cannot support the basic needs of an average family.

In 1996, a study of informal and formal sector workers in Maputo and Beira found that those involved in informal activities tended to be young, with the vast majority being less than 35 years old. Most can be considered literate, with about 70% having achieved at least 4th *classe*. By comparison, unskilled factory workers tended to be older (the majority being over 35 years with lower levels of education.[33]

The same study found that start-up capital needs averaged around USD 40 and came mainly from personal savings. Few borrowed money and if they did, they did so through family or friends. Average net monthly income was very low (about USD 50) with less than 10% earning more than USD 100. Most activities were done on a self-employment basis, with less than 20% employing someone. Wage rates for informal sector employees were considerably below minimum wage levels which over the years have hovered between USD 40-50 per month.[34] They were also subject to exploitative conditions [35] that appear to continue.[36]

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[28] The degree of skewness is much less pronounced for formal sector participation with less than a third (31.5%) being located in Maputo Province or Maputo City.

[29] See F. de Vletter (1996) *Study of the Informal Sector in Mozambique (Maputo and Sofala),* Poverty Reduction Unit, Ministry of Planning and Finance. This study, in addition to informal sector operators, also interviewed unskilled factory workers. The study found that despite relatively long service records, wages of the factory workers were still shockingly low and many who claimed to have worked for about 20 years were *still* earning the minimum wage. About two-thirds depended on incomes earned by other family members (usually from the informal sector).

[30] See P.D. Little, P.D. and I.B.L. de Coloane, (1992), *Petty Trade and Household Survival Strategies: A case study of food and vegetable traders in the peri-urban area of Maputo, Mozambique* USAID, Maputo Although the traders' average earnings of about USD40 per month were about twice that of average formal sector wage earnings, 70% earned considerably less than this, with about half earning about the same as formal sector wage earners. De Vletter's 1996 study (op. cit.) found a modal monthly income o USD50-100 in Maputo vs USD20-50 in Beira.

[31] See S.R de Abreu, (1994), *A Mulher e o Sector Informal,* Paper presented at the seminar "Mulher e o Sector Informal" organized by the Frederich Ebert Stiftung and Muleide, Maputo.

[32] See D.E. Sahn, (1993). *Living Standards in Maputo: a descriptive report* Food and Nutrition Policy Program, Cornell University, Washington. The study found that in Maputo one-third of the households earned an income from only one activity, 40% had two sources and 27% had 3 or more.

[33] See de Vletter (1996) op. cit.

[34] Ibid.

[35] Abreu (1994) op. cit. found that 89% of the informal sector employers interviewed did not allow leave, 72% did not permit officially recognized holidays and 72% did not give off week-ends. The majority are paid in kind (principally food and lodging). Less than one-tenth claimed to pay wages (usually at very low levels – USD 5-10 per month).

A study commissioned by the Mozambique Microfinance Facility (MMF) in 2004 attempted to evaluate demand for credit of small market vendors in the markets of the City of Maputo[37]. The study found that the greater part of the vendors' businesses have been getting weaker. Only about a tenth of the vendors had a loan of which the large majority had borrowed from an MFI. Of those who did not borrow, a little more than a third said that they would be interested. [38] The study also found that many vendors use advances from their suppliers, and think that these advances involve fewer risks than loans.[39].

Most informal sector traders work within an economic environment prone to seasonal fluctuations (normally linked to *festas* such as at year-end, Easter, other holidays, especially long weekends) and more regularly at each month-end (pay days).

An important aspect of the informal sector is that the majority of vendors and service providers pursue what can be considered to be survival activities because of the lack of economic alternatives. Such activities require little more than the most fundamental basics of selling (including services which largely consisted of selling drinks and food) and, due to very limited entrepreneurial aspirations do not change or grow much. A relatively small percentage can be considered much more entrepreneurial with inherent skills that could (given appropriate stimulus such as credit) elevate them to more sophisticated levels of business, normally manifested through diversification, capital investment and rapid growth.

The high number of respondents claiming to have suffered from weakening businesses as found by the MMF study cited above may be at least partly explained by 4 important negative influences recently affecting Maputo's urban economy. The first is that, following the economic growth and employment creation associated with the "mega project" Mozal (aluminium refinery), the labour-absorbing capacity of the Maputo-Matola economy has slowed, resulting in more of the economically active population seeking survival in the informal sector. This has led to increasing competition especially among those activities requiring minimal start-up capital. The second problem has been the significant revaluation of the rand (associated with the devaluation of the dollar)[40] resulting in higher import prices (most goods sold in the market are imported from South Africa). The third problem has been the increased price of fuel (increasing by about 100% over 2005)[41] which has affected transport prices as well as general purchasing power. Finally, much stricter controls at the border resulted in reduced profit margins and the frequent confiscation of under-declared merchandise.[42]

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[36] In 2005, enquiries made during the in-depth interviews of the impact assessment revealed that the standard rate earned by informal sector assistants for shoe sellers was about USD 20 per month.

[37] See K.Murdoch, (2004) *Study of the Demand for Credit in Markets in Maputo, Mozambique*, Mozambique Microfinance Facility.
[38] Of the 62% stating they were not interested, 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 that they were unable to take on a loan (lack of guarantees or the business was very new) and11% stated they did not need a loan.
[39] The role of commercial credit in Mozambique has not been adequately researched but recent evidence from other countries (e.g. Nicaragua) suggest that commercial credit (e.g. wholesale advances) is increasingly important in relation to cash loans (see A. Legovini (2002), *The Distributional Impact of Loans in Nicaragua* , World Bank)
[40] Since the end of 2001 when the rand hit its lowest point of approximately 14 per US dollar, the rand has gradually strengthened , though erratically to stabilize at approximately 6 per dollar in early 2006.
[41] During the period February-November 2005 prices of petrol and diesel approximately doubled, having increased from 14,000 to 29,350 MT/lt for gasoline and from 13,900 to 26,050 MT/lt for diesel.
[42] In prior years informal sector traders could quite easily smuggle goods through the border. The government has since clamped down and traders now accept that they are playing a form of roulette with the customs officers. The general modus operandi appears to be to not declare 100% of the goods as traders say that would make it impossible to make any profits. It seems that most declare about 30% of their goods at the border. However, the minibus taxis in which they usually travel are randomly searched along the highway to Maputo, often resulting in the confiscation of all their merchandise due to inadequate disclosure.

4. Microfinance in Mozambique

This chapter provides a short overview of informal financial systems and the microfinance industry in Mozambique, with a focus on Maputo.

4.1. Informal financial systems

Although a comprehensive study on informal microfinance has never been conducted in Mozambique, it can be safely assumed that more people are served by informal microfinance systems than by MFIs. It is sometimes assumed that people transit from informal systems to formal banking services when they have the opportunity but evidence from this assessment suggests that this is not true. Many of the MFI clients use a variety of formal and informal services. In Maputo, 2 systems stand out: the rotating savings and credit association (ROSCA) popular in many parts in the world, in Mozambique called *xitique* and the system of daily savings deposited with collectors operating at the markets, called *xitique geral*. Informal funeral associations are popular among the slightly better off. Less prevalent, but still significant, are the commercial money lenders. In what follows, a brief description is made as to the operation of these schemes.

4.1.2 *Xitique* groups

Xitique is a form of forced savings in a group with peer pressure being important to increase self-control on spending. The system is especially popular among women but men also anticipate. Typically, the group consists of 4 to 10 people, friends or family members. On a periodic basis, (daily, weekly or monthly) a certain amount of money is saved. The money is paid out in rotation to each one of the members who are part of the group. There is a wide variation in *xitique* arrangements. For example, sometimes the kitty is in kind, e.g. in pots and pans, which prevents the participants from using money for other reasons than they planned for. The amounts deposited vary considerably, but can constitute a large portion of the income, often up to one third or more.

4.1.3 *Xitique geral*

Xitique geral is said to be introduced in Maputo in the nineties and continues to operate exclusively in Maputo and not in the rest of the country. This system of money collectors exists in West and Central Africa and in parts of India, but not in other parts of Southern Africa. It has probably been introduced in Maputo by immigrants. The system is mainly used by market vendors in Maputo and has as its objective to facilitate access to savings services. 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 a fee corresponding to one day's savings. The market vendors consider the monthly lump sum as their ´salary´, which they use for paying their monthly bills, including their loan instalments. Although many people use this system because of its convenience, its security is more questioned than the security of the *xitique* groups.

4.1.4 Funeral associations

This scheme operates generally in groups of 20 to 30 persons, often from the same family. Each one of the members pays a monthly amount. In the event of a death, the members of the fund and their direct relatives—spouse, parents and children—are entitled to a coffin. Sometimes, other expenses, such as hospital costs in the case of serious illness are also

covered by the fund. Also churches, such as the *Assembleia de Deus*, manage funeral funds for their members, with a much larger membership. Similar broader arrangements were encountered between related families (family funds), with each family required to contribute a monthly amount into a common account which could be accessed for a commonly agreed purpose, ranging from sickness to university fees.

4.1.5 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 rate is 20% per month or more and the payment deadlines may go up to 3 months. Mostly, interest is paid monthly and many moneylenders do not accept partial reimbursements. This can result in a longer term dependency of the moneylender, when the person is not able to join the entire lump sum at once. Mozambique has so far been spared the *micro-lender* (loan shark) industry which has rapidly spread throughout Southern Africa. In the recent past, Maputo in particular has witnessed the registration of several credit providers lending at about 10% per month (declining balance) mainly to salaried workers who guarantee their loans with post-dated cheques.

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 or to meet the expenses of unexpected crises.

4.2. The microfinance industry in Mozambique[43]

4.2.1 Evolution

In Mozambique the microfinance industry had its start in the mid-1990s. The greater part of the operators did not begin their activity with the purpose of creating viable microfinance institutions. Some arose as ad hoc responses to meet the income generation needs of their target populations, of whom many had benefited from post-war aid programs. Others focused on piloting different methodologies to serve the low-income population. The greater part of them did not possess management structures capable of supporting high levels of outreach or maintaining high repayment rates[44]. Until the beginning of this decade, international NGOs largely dominated the microfinance sector.[45]

In recent years the microfinance sector has grown rapidly and is increasingly becoming commercial. By 2005, only one quarter of the operators are international NGOs. However, outreach is still limited: MFIs operate mainly in urban areas, mainly concentrated in Maputo and there is a high concentration of entities in the industry (four MFIs hold more than 80% of the portfolio)[46].

Until recently, the microfinance services offered were limited to credit. The MFIs involved in the impact assessment, introduced deposit products during the last few years. Moreover,

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[43] For a more detailed overview, please refer to the phase A report of this assessment: G.Athmer and H. Hunguana (2004) *Characteristics of the Microfinance sector and of the three MFIs*, and to the MFI survey and sector review: F.de Vletter ,2006 *Microfinance in Mozambique: Achievements,Prospects and Challenges*, Mozambique Microfinance Facility/ UNDP Maputo.

[44] A. M Chidzero, C. Guevas, C. Froliech, H. Hunguana (1998) *Mozambique Microfinance Study* Government of Mozambique.

[45] F.de Vletter op.cit.

[46] Source: report of the Financial System Stability Assessment of the IMF . IMF, Monetary and Financial Systems and African Department, November 19, 2003 s

NovoBanco introduced foreign exchange facilities, money transfers, cheque accounts and accounts in foreign currencies. None of the MFIs offer insurance products.

Since the beginning of this decade, the promotion of self sustaining savings-led Accumulating Savings and Credit Associations (ASCAs) led to a dramatic increase in outreach of microfinance in rural areas. By June 2004, the groups constituted of a total of 12,000 members.[47]

4.2.2 Outreach

In June 2004, there were 52,019[48] microcredit clients in Mozambique, with a total portfolio outstanding of USD 11,200,000. The contribution to these levels of outreach by the three institutions under analysis — 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 Mozambique. In terms of portfolio, the contribution of the three institutions is even greater, which is to say, 79%.

According to the MicroBanking Bulletin's definition of depth[49] (which is a measure to determine the MFIs' target market), NovoBanco and SOCREMO serve the high end, while Tchuma serves the broad stratum of the market.

The CCCP *(Caixa Comunitária de Crédito e Poupança)*[50], the only other large institution operating also in Maputo, serves the low end of the market. The CCCP implements a village bank type of lending: credit is provided to solidarity groups organised within associations. In the chart below, the depth of outreach of the main MFIs is presented.

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[47]   The numbers are from promoting agencies CARE and Ophavela. By 2005, the total number of members was 25 000, from the promoting agencies Ophavela, Kukula, ADEM and AKSM. See also: F.de Vletter (2006) op. cit.

[48]   Mozambique Microfinance Facility Project, Portfolio Data for Microfinance Institutions in Mozambique as of 30 June 2004

[49]   http://www.mixmbb.org/en/company/our_methodology.html - low-end: average loan balance is less than 20% of the per capita GNP; broad: average loan balance between 20% and 149% ; high-end: average loan balance between 150% and 249%. GNP in Mozambique is around USD 250 in 2004: low end when average loan balance is less than USD 50 ; high end when its average loan balance is above USD 375 .

[50] The CCCP changed its name to CCOM (Caixas Communitárias de Operadores em Moçcambique) in 2006. Technical assistance of IRAM

Figure 2: Average Outstanding Loan Balances of the MFIs[51]
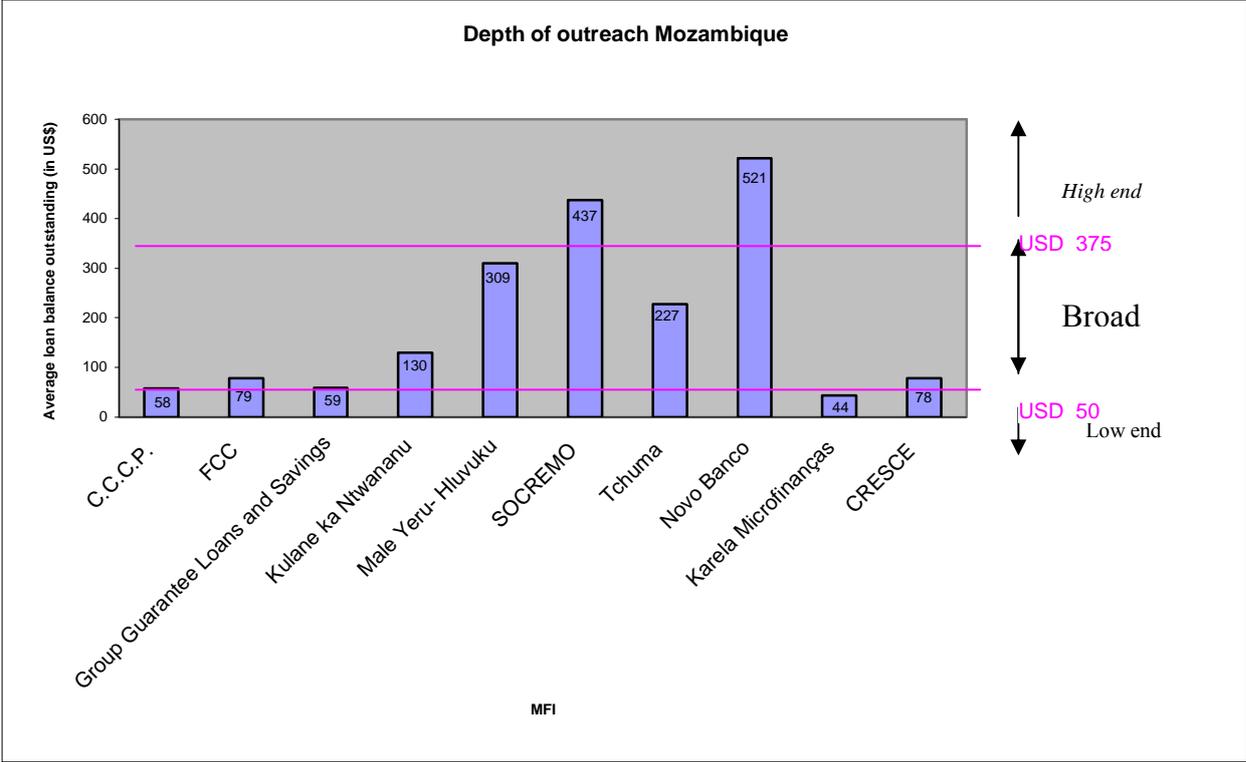
4.2.3 Market share of the three MFIs

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 2 MFIs in Maputo, the *Caixa Comunitária de Crédito e Poupança* (CCCP)[52] and the – much smaller - *Kulane Ka Ntwananu* (KkN) are grouped together[53]. The overview includes also Matola, a city near Maputo. Tchuma, SOCREMO and CCCP have branches in Matola, while NovoBanco and KkN serve clients in Matola from its branches in Maputo. Table 1 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.

Table 1: Market share of MFIs: number of loans (June 2004)

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

Table 2 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.

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[51]   Amounts calculated based on the data furnished by MMF
[52] Now called CCOM (*Caixas Comunitarias de Operadores das Microfinanças*)
[53] In 2005, the Banco Oportunidade de Moçambique (BOM) was established, incorporating the KkN clients

Table 2: Market share of MFIs: volume of loan portfolio

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

The three MFIs are each other's main competitors. At the low end of the market is CCCP/ CCOM a competitor of Tchuma, because of its successful solidarity product. Also the *Banco Oportunidade Moçambique* (BOM) - established in 2005 and incorporating KkN's clients - targets the lower segments of the market and is expected to become an important player in Maputo. At the high end of the market, the banks are competitors for the three MFIs: *Banco Internacional Moçambique* (BIM) and *Banco Austral* offer small salary based loans and housing loans at lower prices, but with more difficult entry requirements.

5. Characteristics of the three MFIs

This chapter presents a brief overview of the three MFIs, their histories, financial products, outreach, portfolio growth and profitability.

5.1 Key facts

To facilitate a quick overview, some key information on the MFIs (all branches) is presented in table 3.

Table 3: Key facts relating to MFIs, all branches[54]

Information as at June 2004	Tchuma	SOCREMO	NovoBanco
Year of starting operations (as financial institution[55])	1999	1999	2000
Total number of outstanding loans	5,964	5,421	9,921
Portfolio outstanding (in USD)	1,361,886	2,378,335	5,164,073
Growth gross loan portfolio June 2003 –June 2004	30%	35%	143%
Growth number of clients June 2003 – June 2004	14%	-7%	35%
Number of deposit accounts[56]	1,456	-	19,164
Portfolio at risk	3,96	0,86	1,96
Operational Self Sufficiency[57]	106.77%	111.07%	103.81%

The study concentrates on the operations of the MFIs in Maputo City: information on the MFIs in Maputo City is presented in table 4.

Table 4: Key facts relating to the MFIs' operations in Maputo City

Information as at June 2004	Tchuma	SOCREMO	NovoBanco
Percentage of MFIs' total clients in Maputo City	61	57	72
Number of branches in Maputo	2	3	4
Percentage of female clients in 2 selected branches (business loans[58])	64	61	60
Percentage of portfolio outstanding to female clients in 2 selected branches (only business loans)	64	56	55

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[54] Analyses of loan portfolio and loan appraisal information have been done on the basis of data from June 2004. To maintain internal consistency, loan portfolio information has not been updated.
[55] The project preceding SOCREMO started in 1992; the project Tchuma started in 1996
[56] Current accounts and term deposits in the case of NovoBanco, current accounts in the case of Tchuma. SOCREMO introduced deposit accounts in 2005.
[57] Source: Mix market 31/12/04 www.mixmarket.org
[58] Only business loans are included, to make the data comparable

5.2. Background

5.2.1 History and target market

The three MFIs have very different histories. Both SOCREMO and Tchuma were preceded by projects, while NovoBanco was launched as a microfinance bank. The project that preceded SOCREMO started in 1992; SOCREMO started lending operations as non-bank financial intermediary in 1999 and was given a licence to operate as a Microfinance Bank (MFB). At the time, SOCREMO targeted the market of low and middle income strata. In the process of becoming a commercial bank in 2005, SOCREMO shifted more up market. The reduction of SOCREMO´s client numbers is inter alia a result of focussing on improving portfolio and increase of minimum loan amount. For a list of shareholders and partners of SOCREMO and the other MFIs, please refer to annex 4.

Tchuma began in 1996 as a project and re-launched operations in March 1999 as a licensed credit cooperative. The structure of *cooperativas de crédito* is similar to corporate entities with private investors. However, cooperatives are subject to some restrictions in their operations, and therefore Tchuma is considering transforming into a bank which would also be more attractive for investors.

Tchuma is the only significant MFI that was not launched by an external agency. Tchuma aims for a deep outreach and, according to its mission statement, targets specifically women; its rationale being that women's increased earning power is most beneficial for the family – improved nutrition, and access to education and health services.

NovoBanco began operations in November 2000 as the first commercial MFI with a social objective in Mozambique. NovoBanco was established as a Microfinance bank and in 2004 registered as a regular commercial bank targeting micro and small entrepreneurs. The establishment of NovoBanco, made the micro-financial market more competitive, especially in Maputo, and formed an extra stimulus for the other MFIs to further develop and diversify their products.

5.2.2. Technical assistance

There is a lack of qualified human resources with microfinance expertise in Mozambique. The 3 MFIs use external expertise but in different ways and degrees. NovoBanco hires management capacity from IPC[59], which is the case with all institutions established by the investment company ProCredit Holding. IPC staff are responsible for the key aspects related to the operations of NovoBanco, while local staff is being trained. Through the investment by ProCredit Holding, NovoBanco is part of the worldwide ProCredit network.

LFS Financial Systems is a consultancy firm involved in SOCREMO since the beginning of its existence. LFS's services include all areas of SOCREMO's business. At the beginning of 2005 SOCREMO signed a management contract with LFS Financial Systems GmbH, paid by SOCREMO and some of its partners and shareholders.

Tchuma depends less on technical assistance and non-Mozambican expertise. Tchuma established a partnership with ACCION at the end of 2000, thereby becoming ACCION's first African partner. The Spanish Caixa Cataluña is also a partner. These partners provided

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[59] In the first years management costs were covered by donor contributions

technical assistance in several areas. The UNCDF's MicroStart program in Mozambique also provided some technical assistance.

5.3. Financial products

The assessment focuses on financial services for micro-entrepreneurs and therefore considers only business loans and deposit products for this group.

5.3.1. Micro-enterprise loans

All MFIs provide individual business loans for micro-entrepreneurs, while Tchuma also provides group loans, although by June 2004 only 1 % of the total number of loans outstanding was provided to groups. Recently, the group-lending product has been improved and re-launched in order to serve those micro-entrepreneurs who do not have sufficient assets to use as collateral, especially women.

Because of Tchuma´s poverty focus, Tchuma established loan ceilings to ensure that poorer clients get sufficient attention from the loan officers, who otherwise would tend to go for the less problematic clients with the larger businesses. SOCREMO´s minimum loan size is the highest of the three MFIs, after significantly increasing the minimum loan amount from USD 22 to USD 131 in 2004, as part of its restructuring process. Tchuma´s interest rate is the lowest, although the difference is small. Loans are considered micro-loans when not exceeding approximately USD 2,100 (SOCREMO) and USD 3,500 (NovoBanco) (June 2004).

The business loan products of the three MFIs are similar with regard to collateral requirements and reimbursement patterns.

Table 5: Main characteristics of micro-enterprise loans as at June 2004

Micro-enterprise loans	NovoBanco	SOCREMO	Tchuma
Loan amount[60]	Min: USD 110	Min USD 131	Min: USD 65 Max first individual loan: USD 218 Max amount loan in group: USD 218
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% - 4.8 % p.m, depending on amount (declining balance)	5.5% – 6.25 % p.m. (declining balance)	5% (declining balance) p.m.
Other fees	Commitment fee of 2% of the value of the loan	None	USD 4 to become member of the cooperative

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[60] exchange rate June 2004:23 002 MT = USD 1

Micro-enterprise loans	NovoBanco	SOCREMO	Tchuma
Securities	Coverage of 120% Domestic assets, stock, fixed business assets and/or personal guarantor[61]. Assets can be mixed. Salary only when employer signs for paying instalments in arrears.[62]	Coverage of 120%, can be reduced for good clients. Domestic assets, stock, fixed business assets and /or personal guarantor. Assets can be mixed. Fixed term deposit can be used as security.	Coverage of 125 %, can be reduced to 100% for good clients. Domestic assets and/or guarantor. Assets can be mixed. Alternatively monthly salaries that represent 300% of the monthly instalment. Fixed term deposit can be used as security

5.3.2. Other credit products

In addition to business microloans described in the previous paragraph, NovoBanco provides 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. In 2004, Tchuma started to provide consumer loans to employees, initially those in the education sector.

While NovoBanco is already lending to small and medium-sized entrepreneurs (SMEs), SOCREMO is currently enlarging its client focus to also include SMEs. Both SOCREMO and NovoBanco consider introducing agricultural loans. Moreover, SOCREMO intends to introduce housing and consumer loans.

5.3.3. Savings products

Tchuma started in 2000 with a pilot project for stamp-based savings which was discontinued in 2005. In 2003, Tchuma piloted a passbook savings product, which it introduced in all branches by the end of 2004. Additionally, it was the intention to introduce an interest bearing contractual savings product with 2 modalities: one for the accumulation of funds for the purchase of a certain product, and the other for unforeseen events[63]. So far, Tchuma could not introduce this product due to limitations of its MIS.

NovoBanco introduced current accounts and term deposit accounts in 2001, and introduced the accounts in all branches by 2002. In 2005, NovoBanco introduced cheque accounts and accounts in foreign currencies. Also, in 2005, NovoBanco required the opening of a current account free of charge (*Nova Conta*) as a condition for receiving credit.

SOCREMO piloted current accounts in 2004 and introduced them to all branches in 2005 at first exclusively targeting its credit clients. SOCREMO also introduced term deposits in dollars and meticais and intends to offer savings accounts.

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[61] NovoBanco changed its policy with regard to personal guarantors in 2005. Before, clients always needed a guarantor, even if the client had collateral.
[62] According to the Mozambican law, employers cannot deduct more than 1/3 of the monthly salary for paying employee debts.
[63] Clients define how much they want to save per day, week or month. In this way, the product integrates a forced component which is a fundamental feature of the popular Rotating Savings and Credit Associations (*xitique*). However, it is more flexible as the accounts can be accessed in case of emergencies.

The three MFIs require 100 000 MT (USD 4[64]) as opening balance of the current account. Regular commercial banks require an average opening balance of 5 million MT (USD 218)[65]. Additionally, Tchuma´s clients pay another 100 000 MT to become a member of the cooperative.

5.3.4. Other products

NovoBanco has the widest range of products and services. In 2003, NovoBanco introduced Western Union money transfers (national and international) and in 2004 salary accounts, payment of services (water bill) and foreign exchange facilities. SOCREMO also plans to introduce money transfer and foreign exchange facilities.

5.4. Average loan balances

The average loan balance of Tchuma (all branches) is the lowest, not surprisingly, as Tchuma applies loan ceilings. Because Tchuma and SOCREMO provide almost exclusively business loans, NovoBanco's average loan balance of all loans and business loans are presented separately. SOCREMO´s average loan balance increased most over the years (2002 – 2004) and Tchuma´s the least.

Table 6*: average loan balance as at June 2004, all branches*

	All clients	Female
NovoBanco; all loans	521[66]	425[67]
NovoBanco: business loans	448	377
SOCREMO	439	408
Tchuma[68]	234	227

The average balance of the Maputo branches involved in the assessment depends on the location of the branch. Branches near or in the city centre have a higher average loan balance than branches in the outskirts of the city. Both branches of SOCREMO, are located in or near city centre. Moreover, SOCREMO serves both micro- and small enterprise loans from these branches, while this is not the case for the selected NovoBanco branches.

Table 7: Average business loan balance of branches in Maputo as at June 2004

Business loans	Branch 1 USD	Women USD	Branch 2 USD	Women USD
NovoBanco	409	380	291	252
SOCREMO	475	421	473	461
Tchuma	249	n.a	205	n.a

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[64] For NovoBanco, additionally a personal cheque account is required, the minimum deposit is 750,000 MT (USD 33) and 20,000MT (USD 0.86) maintenance fee. Dollar at Purchasing Power Prices as calculated by the Worldbank:USD1 = USD 5 PPP (2004),
[65] ICC, Inventory Survey of Rural Finance and Microfinance in Rural Areas of Mozambique
[66] Calculated from: IMI-AG loan statistics June 2004
[67] 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: 23 002,MT = USD1.
[68] Calculated from: Tchuma relatório da carteira Junho 2004.

5.5. Number of deposit accounts

The number of deposit accounts, particularly of NovoBanco, increased rapidly. By June 2005, the number of NovoBanco´s deposit clients increased to almost 30,000, of whom 17,600 were in Maputo and Matola. This rapid growth is also partly due to NovoBanco's 2005 requirement for borrowers to hold current accounts for credit transactions. During the interviews it became clear that the low average value of deposits does not reflect the savings capacity of the clients, because most clients use also other bank accounts and/or informal savings systems.

Table 8: Deposit accounts with NovoBanco as at June 2004

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

Tchuma piloted the passbook savings in only one Branch in 2003. The number of passbook accounts increased to 4,803 by June 2005. The product was intended to cater also for poorer clients with only a demand for savings services. However, the vast majority of the deposit clients also have credit. It was not possible within the scope of this assessment to examine why NovoBanco succeeded in attracting such large numbers of deposit clients without loans. In table 9, the figures for Tchuma by June 2004 are presented.

Table 9: Deposit accounts Tchuma as at June 2004

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

6. Characteristics of the assessed clients

In this chapter, the characteristics of the more-than-2-year-old clients are presented such as age, gender, years of business experience, education level and business sector. SOCREMO's clients who dropped out after a period of three years are presented separately in order to see to what extent their characteristics differ from those clients who continue to take loans. [69] The characteristics are derived from the information collected for loan appraisal[70] and from the in-depth interviews.

6.1 Economic activities

6.1.1 Sources of household income

Reflecting worldwide experience in urban microfinance, the vast majority of the interviewed clients, were involved in trading or services, mostly operating from markets or from their houses (table 10). The loan appraisal data showed that, for Novobanco clients, 80 % of the more than 2-year-old clients were classified as traders, 10% were active in production and 10% in services. All SOCREMO's 2-year-old clients were classified as traders but, in reality, the division in sectors is probably similar to NovoBanco's clients. [71]

Table 10: Principal activities and location by loan category (%)

Sector:	MFIs*	Low**	Middle**	High**
1. Trading	S	60	80	50
	NB	70	60	60
	T	60	50	80
2. Services	S	30	20	40
	NB	10	10	10
	T	30	30	-
3. Both Trading & Services	S	10	-	-
	NB	-	30	30
	T	-	10	20
4. Industry	S	-	-	10
	NB	10	-	-
	T	10	-	-
5. Agriculture/ Livestock	S	-	-	-
	NB	10	10	-
	T	-	10	-
Location:				
1. Market	S	50	60	20
	NB	40	10	30
	T	30	30	0
2. House	S	30	20	30
	NB	50	50	20
	T	30	50	20

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[69] Tchuma and NovoBanco did not provide loan appraisal information of clients who dropped out before 2 years

[70] From NovoBanco, the loan appraisal information of all (807) more-than-2-year-old active clients of 2 branches in Maputo is analysed; from Tchuma and SOCREMO the information is analysed of a randomly selected sample of respectively 291 and 189 active clients. Moreover, a sample of 78 dropouts who had been clients for more than 2 years was selected from SOCREMO. The other MFIs did not provide information on dropouts due to a combination of MIS limitations and time constraints. NovoBanco provided all information electronically from the MIS. In the case of the other MFIs, operators entered information from credit files and from the MIS in a data entry programme.
The data of SOCREMO and Tchuma are weighted by the total number of clients broken down by branch, status (active or dropout), loan category and gender.

[71] From Tchuma, there was no information available

Sector:	MFIs*	Low**	Middle**	High**
3. Street (fixed)	S	20	-	40
	NB	-	10	30
	T	10	10	20
4. Itinerant Trader	S	-	20	10
	NB	30	30	20
	T	30	10	60
Average age of activity (years):	S	12.8	14.3	12.
	NB	10.0	11.7	10.9
	T	11.1	10.1	9.2

* MFIs: S=SOCREMO; NB= NovoBanco; T= Tchuma

** Loan categories as defined in chapter 1 sub-section 1.2

With a few notable exceptions, most clients were engaged in activities that would generally fall into one of the following typologies:

- Vending from fixed spaces in markets, streets and home, usually from a table or box, requiring minimum capital investment apart from, in some instances, scales and/or a calculator (depending on the product)
- Vending from a closed stall in a market, a shop on the street or a shop located on the plot of the owner's residence. These activities require substantially more capital investment and are usually undertaken by clients with high level loans.
- Itinerant cross-border traders who regularly travel to Swaziland or South Africa to buy goods for wholesaling to traders, typically those mentioned above. Costs are largely restricted to merchandise, transport, lodging, customs and storage of merchandise not sold on return. The biggest risk faced by these traders is full discovery of merchandise by customs officials. Usually only about a third of the merchandise is declared, otherwise such trade is said not be lucrative. Discovery through random checks (usually on the main road to Maputo) will result in severe financial penalties.
- The most common form of services found were bars and/or restaurants usually referred to as *barracas* and *quiosques.* Other common services include beauty salons and public cell phones. The capital investment costs of these activities are similar to those of setting up small shops if not higher and usually require 1-2 employees.

A prevailing feature of the client households is the polyvalent nature of their income sources. Table 11, drawn from the qualitative interviews, clearly demonstrates that many of the borrowing clients pursue activities other than the one supported by the loan and that a significant percentage of clients are engaged in either formal or informal wage employment. Moreover, client households, especially male-headed ones tend to have at least 2 sources of income. Table 11 also demonstrates a high degree of income contribution from other household members, either in the form of wage or non-wage (largely informal sector) activities. Loan appraisal data showed that a large majority of clients had at least 2 sources of income: Tchuma (87%), SOCREMO (80%) and NovoBanco (63%).

Table 11: Client household sources of income (other than that supported by loan) (%)

	MFIs	Low	Middle	High
Clients with other activities (non-salaried)	S	0	10	40
	NB	40	30	50
	T	60	40	40
Clients earning wages	S	20	10	20
	NB	10	30	10
	T	30	30	20
Other household members with other activities (non-salaried)	S	40	40	40
	NB	30	60	60
	T	30	30	50
Other household members earning salary	S	40	30	10
	NB	30	80	30
	T	50	60	60

6.1.3 "Entrepreneurship" and "enterprise"

Most vendors and service providers cannot really be considered "entrepreneurs"[72]. The activities pursued are often referred to as "enterprises" but this is a euphemistic term for what are essentially survival activities. Lowest loan category clients were typically involved in activities that required little else than the most fundamental basics of selling (including services which largely consisted of selling drinks and food). Although many clients are enjoying standards of living considerably higher than the urban poor (see chapters 7 and 10), these clients generally run businesses on the same principles as the poorest vendors selling a few tomatoes a day.

The loan appraisal data showed that many of the high loan clients had graduated quickly from low loans within a space of 2 years. These clients can considered to be entrepreneurial and generally successful, being the ideal clients for the MFIs (long-term with constantly growing loans). However, the reality is that these form a minority of the clients. Interviews demonstrated that clients commonly pursue activities for many years without much change in the nature of the activity and without the capacity to pursue activities that would generate substantially increased profits.

Microfinance offers the borrowers the opportunity to expand their activities. As our findings will demonstrate, most clients simply increased their stock. Many argue that by offering displays of more stock, clients are attracted to buy from them. This may be the case up to a point but this is not an indefinite linear relationship, especially in the informal economy.

6.1.4 Business experience

Most of the MFIs' more-than-2-year-old clients have more than 4 years experience in the business for which they applied for credit. Only SOCREMO has a considerable portion of active clients with 1 -3 years of experience in the business for which they applied credit. There is no significant difference between men and women.

Table 12:: Average number of years of experience (loan appraisal data)

	NovoBanco	SOCREMO	Tchuma	Dropouts SOCREMO
Average years experience	9	7	6	7

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[72] Defined in the Collins Paperback English Dictionary as: "the owner of a business who, by risk and initiative attempts to make profits".

6.1.5 Fixed business assets

Table 13 shows that the majority of SOCREMO´s and NovoBanco clients have fixed business assets while a minority of Tchuma´s has. Fewer women own business assets than men, the difference is rather large in the case of Tchuma´s clients. Clients with no business assets are likely to be ambulant traders or operating from their houses.

Table 13: Percentage of clients who own fixed business assets (loan appraisal data)

	Women %	Men %	All %
SOCREMO (including dropouts)	52	62	56
NovoBanco	60	85	72
Tchuma	29	45	35

6.1.6 Employees

Between a third to a half of the clients had employees with men having a slightly higher propensity to employ workers than women. The large majority (75%) of NovoBanco's clients with employees, employ 1 or 2 workers. The maximum number of employees is 15.[73]

Table 14: percentage of clients with employees (loan appraisal data)

	Women %	Men %	All %
SOCREMO (including dropouts)	46	41	44
NovoBanco	41	48	43
Tchuma	41	54	46

6.2 Client demographics

6.2.1 Age of the more than 2-year-old clients and dropouts

The clients of the MFIs are relatively old, despite the youthfulness of the informal sector. The similarity of age composition of especially NovoBanco and SOCREMO clients is striking. Most of the retained clients fall within the age group from 40 –49 year old. There is little difference between the age of female and male clients.

NovoBanco and SOCREMO do not provide loans to clients of 60 years and older. During the interviews, it appeared that older clients of SOCREMO and NovoBanco continue to receive credit through a younger family member, so that in reality the percentage of older clients is probably higher.

One of the reasons of the low number of young clients could be the lack of asset guarantees, exacerbated by the fact that many young people continue living with their parents due to a lack of affordable housing, causing residential instability. Another possible reason is the perceived higher risk of young, especially male clients, because of perceived behavioural traits. The younger clients who remained with the institution for more than 2 years did not show worse repayment behaviour. However, the young clients with repayment problems could have dropped out earlier; we do not know the age distribution of new clients.

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[73] Information on number of employees was only available from NovoBanco. Employees recorded by NovoBanco's loan officers can be part- or full time and have or have not a regular salary. Tchuma and SOCREMO collect information on cost of labour

Table 15: Age of more-than-2-year-old clients (loan appraisal data)

Age	NovoBanco %	SOCREMO %	SOCREMO dropouts %	Tchuma %
20-29	8	7	8	9
30-39	32	31	22	29
40-49	44	43	33	35
50 and older	15	19	37	26
Unknown	1	0	0	1
Average age	40.9	42.5	44,2	43.1

6.2.2 Education level

NovoBanco is the only MFI collecting information on client education during loan appraisal. Education levels of Tchuma clients are known through the poverty assessment (see section 7). In the case of Tchuma, the highest education level *completed* is known[74] ; NovoBanco collects information on the highest level of education *followed.* The difference between the two approaches would tend to upwardly distort the education level of NovoBanco's clients' education and partly account for the fact that NovoBanco´s clients tend to be better educated than Tchuma clients as shown in table 16.

A relation was found between loan size and education level, both in the case of NovoBanco and Tchuma. Clients with primary education have, on average, lower loans than clients with secondary education. The INE National Household Consumption Survey and the poverty profile assessment identified a strong relationship between poverty level and education level.

Table 16: Education level of the 2 year old clients

	NovoBanco %	Tchuma %	Maputo City 25-65 years %
No formal education[75]	2	7	26
Primary education completed	n.a.	60	50
At least some primary education attended	38	n.a.	n.a.
Secondary education completed	n.a.	27	20
At least some secondary school attended	n.a.	n.a	58%
University	2	3	0,2
Other	0	3	3,8

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[74] This was done in order to allow for comparisons with the Mozambican Institute of Statistics (INE) household survey (2004)
[75] Include also those who can read and write but did not have primary education.

6.3. Institutional experience

6.3.1 Experience prior to borrowing from associated MFI

Surveys of informal market vendors found that a large majority [76] did not have bank accounts. The results of the client interviews found that most clients with middle and high level of loans held accounts with commercial banks *prior* to obtaining their first loan with their associated MFI. However, the majority of the interviewed low loan clients appear to not have had any previous exposure to formal financial institutions. A similar pattern is noted in terms of previous experience with credits: most experience, not surprisingly, having been gained by the higher loan level clients. Previous loans were mainly obtained from MFIs but some had also borrowed from commercial banks. One of the main reasons for holding accounts with commercial banks was linked to the compulsory requirement for many state and private sector employees to hold accounts for wage transfers.

Table 17: Loan history of clients by loan category (qualitative interviews) (%)

	MFIs	Low	Middle	High
Clients with previous credit experience with other MFI/commercial bank (CB)	S	10 (MFI)	0	20(MFI) 10 (CB)
	NB	10 (MFI)	20 (MFI) 10 (CB)	10 (MFI) (20CB)
	T	30 (MFI)	20 (MFI)	40 (MFI)
Clients with accounts prior to starting with current MFI	S	50	40	70
	NB	30	80	60
	T	30	70	90

6.3.2 Initial contacts with associated MFI

Table 18 demonstrates that the most important influence responsible for the interviewed clients joining their associated MFIs was information passed on by friends and family, followed by the promotional efforts of MFI ground staff (mainly loan officers). Advertising seems to have negligible impact and very few clients appear to enter agencies out of curiosity. Somewhat surprisingly, relatively few clients heard about their MFIs from other clients in their working environments. Some respondents made it clear that to talk about their credits in their work environment (i.e. among competitors) is generally taboo. One client observed that the only way that one got to know about who have loans is to see them at the MFI branches.

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[76] See for example Katie Murdoch, Study of the Demand for Credit in Markets in Maputo, Mozambique, February, 2004. This study found that 85% did not have any banking services and that 27% belong to xitique groups (ROSCAs) A MEDA study of Xikelene market in 1997 (unpublished) found that 78% of the 200 respondents deposited daily with a mobile banker *(xitique geral* and 15% of the respondents were members of group *xitiques*. It is quite likely that in some markets the prevalence of *xitique geral* is much higher than in others. Xikelene market in particular had a pervasive presence of mobile bankers.

Table 18: How client heard of their associated MFI (%)

	MFIs	Low	Middle	High
Credit officers	S	60	40	30
	NB	30	10	30
	T	10	10	50
Friends & family	S	30	30	70
	NB	60	70	50
	T	60	70	30
Business colleagues	S	10	30	-
	NB	-	-	-
	T	20	20	20
Saw agency and walked in	S	-	-	-
	NB	-	20	-
	T	-	-	-
Advertisement	S	-	10	-
	NB	10	-	20
	T	10	-	-

6.3.4 Current institutional experience (credit and savings)

Table 19 summarizes the involvement of the interviewed clients and their household members with their associated MFIs (by way of current and term deposit accounts), other MFIs in relation to loans, and commercial banks by way of loans and accounts. The findings show that few clients have parallel loans with other MFIs except high loan category clients for SOCREMO and Tchuma. They also show that almost all the middle and high loan category clients have opened up accounts with the MFIs offering account facilities. SOCREMO introduced current accounts a few months prior to the interviews but were only informing existing clients when they paid their instalments. Only one interviewed client had opened an account with SOCREMO. The evidence from SOCREMO suggested that, before the introduction of the associated MFI accounts, there was a much higher propensity for high loan households to have bank accounts than low loan category households. Even with the introduction of MFI accounts, the table shows that a high percentage of low loan households have not yet opened up accounts either with their MFI or commercial banks (40% for each MFI).

Loan appraisal data showed that only a small minority of the 2 year old clients had a current account with their MFI: 13% of NovoBanco´s clients[77] and 28% of Tchuma´s clients. NovoBanco´s term deposit product was only attractive to some of the clients: only 1 % had a term deposit. The percentage of clients with a savings account is the highest in the third loan category. Relatively more male than female clients had an account at Tchuma, while there was no gender difference in the case of NovoBanco

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[77] From the beginning of 2005, all clients of NovoBanco have deposit accounts, as opening of the account is one of the requirements to qualify for a loan.

Table 19: Current institutional arrangements (%)

		Low	Middle	High
Clients with credit experience with other MFI or commercial bank (CB)	**S**	10 (MFI)	-	30 (MFI)
	NB	-	10 (MFI)	-
	T	-	20 (MFI)	40 (MFI), (10 CB)
Client with only one account in associated MFI	**S**	-	-	10
	NB	40	50	50
	T	30	40	10
Client with account in associated MFI *plus* a commercial bank	**S**	-	-	-
	NB	20	50	30
	T	-	50	30
Clients/household members with other account(s) only	**S**	60	50	80
	NB	-	-	20
	T	30	10	40
Client households with no account	**S**	40	50	20
	NB	40	-	-
	T	40	-	20

6.3.5 Continued linkages with informal financial systems

As mentioned in section 6.1, households are usually dependent on a variety of income sources, combining informal activities with wages. Despite outward appearances of relative well-being, households are usually under constant pressure to balance income flows (often sporadic or seasonal, given the nature of the informal sector businesses) with expenditures. Because of the difficulties associated with matching irregular inflows with regular or predictable outflows (wages, utility bills, food, school fees, transport, merchandise purchases), households are generally keen to engage in financial arrangements which entail some element of forced savings, hence the popularity of the daily payments required by *xitique geral* resulting in a wage type of end-of-month inflow or *xitique* groups which ensure large periodic income injections that can be used for comparatively large consumption or investment expenditures (see table 20). It is for this reason that microfinance is so popular (at least initially) with clients because it works like a *xitique* in reverse (without risk), with regular payments *following* the cash injection (otherwise known as "savings down" in the microfinance literature).

Table 20: Use of "*xitique*" (%)

	MFIs	Low	Middle	High
Xitique in groups	**S**	30	30	30
	NB	30	80	30
	T	40	50	60
Xitique geral (daily collection)	**S**	50	60	20
	NB	20	10	20
	T	10	10	20
Both	**S**	10	10	20
	NB	10	10	10
	T	10	10	20
No xitique	**S**	20	20	70
	NB	50	10	60
	T	50	50	40

6.4 Levels of welfare

Given the nature of the microfinance product (guarantee-based) being offered by the 3 MFIs under review, very few clients could be considered to belong to the poorest echelons of Maputo-Matola society. An attempt was made to assess a client's level of household welfare by attributing a level between 1-3. Level 1 signified a considerably lower standard in relation to what was considered the "norm" (see below) and 3 being considerably higher than the norm (e.g. those with cars or any other indicator that would set them clearly above the norm). This, of course, was a very subjective exercise based on impressions gained during the interview. These indicators are *relative* indicators that were only meant to give us an idea of a household's welfare position in relation to what we felt represented the norm among the households interviewed and were applied to each client only *after* all the interviews were completed. The considered "norm" of the clients interviewed consisted of the following: a house made of cement blocks with electricity, a dining table with 6-8 chairs, a fridge, stove, television, sofa and lounge chairs and beds. Of the 90 active clients interviewed, only 10 (11%) were classified at the lowest level 1; as would be expected, the majority (58%) were attributed with a 2 and about a third (31%) were at the highest level 3. The distribution is therefore skewed more towards the better off than towards the poorer.

Clients often referred to the term *futuro* (future) which is used generically to describe the investments necessary to attain urban lifestyle objectives which, for the clients interviewed appears to be dominated by housing improvement or expansion and the acquisition of household appliances.

Table 21 shows that the distributions for both NovoBanco and SOCREMO clients are almost identical while, as could be expected, given the nature of Tchuma's mission to target comparatively poorer households, proportionately more of the poorer households were found to be Tchuma clients.

Table 21*: **Household welfare levels by loan category (%)**

Welfare Levels		Low	Middle	High
1 (poorest)	S	20	-	-
	NB	10	-	-
	T	30	30	10
2 ("average")	S	60	60	50
	NB	50	50	50
	T	70	60	70
3 (well above "average")	S	20	40	50
	NB	40	50	50
	T	-	10	20

7. Poverty profile of Tchuma's more than 2-year-old clients

Since Tchuma is the only MFI of the three involved in the impact assessment with a poverty focus and aiming to deepen its outreach, the poverty level of clients of Tchuma has been assessed[78]. The poverty assessment included dropouts and active clients who had taken loans during a period of more than 2 years.

The poverty assessment showed that these (ex) clients are, on average, less poor than the Maputo urban population in total. The average daily expense per person is 49,708 MT against 44,637 MT for Maputo City. The average expense of clients from the branch *Xiquelene* in one of the neighbourhoods is significantly lower: 37,121 MT per day against 59,614 MT for the *24 de Julho* branch.

The average expenditure per person, calculated on the basis of the information collected in 2004 by Tchuma for loan appraisal of the clients that were subsequently chosen for the sample (48,408 MT per person) was very close to the adjusted figure found through our poverty assessment of 2005, though there were quite large variations between the two at the individual client level.[79]

When using the dollar exchange rate at Purchasing Power Prices (PPP), the average daily expenses of the households of Tchuma's clients are USD 9.94 per person per day against USD 8.93 per person per day spent by the households of the Maputo population. Location of agencies was an important factor in reaching poorer households. Households of the clients of the Xiquelene branch located near a large market in one of the poorer suburbs were found to spend USD 7.42 per person per day, against USD 11.92 spent by households of clients of the 24 de Julho branch in the city centre[80]. The poverty line[81] determined for Maputo City is 19,515 MT per person per day (USD 3.90 PPP).

A small but still significant minority of the households of Tchuma's more-than 2-year-old clients -13.6% - live under the poverty line, while this is the case for 53.6% of the Maputo population in general. Although it is often assumed that female clients of MFIs are poorer than male clients, the households of Tchuma's female clients´ households are slightly richer. A higher percentage of households of male clients (18.5%) than those of female clients (12.0%) fall below the poverty line. Households of dropouts are, on average, poorer than households of the active clients. This result is influenced by the fact that there were no dropouts from the highest category in the sample.

According to the Dollar PPP, we find only 1 household under the 2 dollar line and none under the 1 dollar line. Comparing with Maputo, 17% of the population lives under the 2 dollar line

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[78] For the assessment of Tchuma´s clients´ poverty level, a quantitative survey has been conducted among 164 (ex) clients of Tchuma, who had been credit clients for more than 2 years. This sample was based on the sample used for the analysis of loan appraisal information. Results were weighted in order to be representative for all more than 2-year-old (ex) clients of Tchuma.

[79] Components of data on household expenses as collected by Tchuma for loan appraisal were the following: food; rent; education; water; electricity; charcoal/paraffin /firewood/gas; telephone; transport; construction; debt payment; other. These expenses were recalculated as expenses per day per person and corrected for deflation to make the 2004 appraisal information comparable with the 2002/2003 prices.

[80] USD 1 PPP equals USD 0. 22 or 5 thousand MT in 2004. Since the MT/USDexchange rate did not change much and inflation was limited, the values in 2002/03 will not be very much different. It is important to note that PPP rates were designed for comparing aggregates from national accounts and not for making international poverty comparisons. As a result there is no certainty that an international poverty line measures the same degree of need or deprivation across countries. See http://www.worldbank.org/data/notes/tb2-7.htm and http://www.worldbank.org/data/databytopic/GNIPC.pdf

[81] The poverty line is based on the findings of the second National Household Consumption Survey (2002-2003). Region specific poverty lines were constructed on the basis of the Cost of Basic Needs Methodology

and 1.5% under the 1 dollar line[82]. In Mozambique, 59.2% of the households spend less than 2 dollars per person per day and 20.3% less than 1 dollar.[83]

Classified by loan category we see most poor clients in the lowest loan category and least in the highest category. It can be concluded that loan size of 2-year-old clients is a good proxy for their wealth level. This is much less the case for the size of the first loan of these clients, which is logical, given the fact that Tchuma applies a loan ceiling for the first loans.

Table 22: Percentage of retained clients below the Maputo poverty line

Expenditure per capita per day	Loan category (%)			
	Lowest	**Middle**	**Highest**	**All**
Below poverty line (> 19,515 MT = USD 3, 90 at PPP)	21.1	11.9	0.0	13.6

Dividing Tchuma clients in the 5 expenditure quintiles determined by the National Household Consumption Survey (2002-2003), we observe that 43.5% of the households of the 2 year old (ex) clients fall in the group of the top 20% expenditure level of Maputo City. However, this is not to say that they are rich: the households in this quintile are best characterised as 'better-off'. The segment of the wealthier upper class is very small, while the majority of the Maputo population is very poor[84]. The in-depth interviews revealed that, with the exception of a notable few, the majority of the more-than-2-year-old clients could be considered to be at the low end of an emerging middle class.

Table 23: Per capita expenditures per day of households of retained clients

Quintiles (expenditure)	Quintiles (expenditure)	Tchuma´s more than 2 year old (ex) clients			All Maputo City
In meticais	In USD (PPP)	**Female clients**	**Male clients**	**All**	
1 (<10,862)	(< 2.17)	0.9%	5.7%	2.5%	20%
2 (10,562-<16,875)	(2.17-<3.38)	8.3%	7.5%	8.1%	20%
3 (16,875-<25,349)	(3.38-5.07)	14.8%	9.4%	13.0%	20%
4 (25,349-<48,228)	(5.07 – 9.68)	33.3%	32.1%	32.9%	20%
5 (48,228 +)[85]	(9.68 +)	42.6%	45.3%	43.5%	20%
Total		100% (108)	100% (54)	100% (162)	100% (923)

In table 24 below, some examples are given of the differences in housing characteristics and ownership of durables between Tchuma's clients and the Maputo population. This list is not complete; the purpose of this table is to provide a more concrete idea of the level of poverty of the Tchuma clients' households and of the Maputo City population in general.

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[82] Calculated from the database from Maputo City that INE provided to the consultants
[83] Instituto Nacional de Estatística (INE) (2004) *Inquérito aos Agregados Familiares Sobre Orçamento Familiar. Relatório Final*. Maputo, Mozambique, pg 29.
[84] The top 25% of the Maputo population account for over 64% of the total consumption in the city
[85] Households of 11 (7%) of the interviewed clients have expenditures above 100,000 MT (USD 20 PPP) per person per day.

Table 24: Housing characteristics and ownership of durables

	Sample Tchuma (%)	Maputo City sample (%)
Electricity for illumination	91.4	45.6
Piped water for drinking	72.5	37.8
Gas as main source of energy for cooking	51.0	14.8
Charcoal as main source for cooking	39.7	63.4
Television[86]	92.3	56.0
Freezer	72.5	32.6
Car for private use	23.8	12.8

The largest difference between the Maputo population and Tchuma´s clients is the percentage of households using electricity for illumination[87]. Normally fridges and freezers, music players and televisions constitute a large part of the collateral of clients; the value of furniture being often too limited. The table above illustrates that a large proportion of Maputo´s population do not own assets that are commonly used as collateral by Tchuma and the other MFIs thus limiting the depth of outreach of individual loans.

It is worth noting that almost a quarter of Tchuma´s clients´ households own a car for private use. As in the case of the INE survey, the poverty assessment did not count cars purchased for business purposes, such as trucks and vans for (public) transport nor company cars of employees. Including business cars, the percentage of car owners would be certainly higher.

As Tchuma, with a clear poverty focus, has 43% of its more-than-2-year-old clients in the top 20% highest expenditure level, it can be assumed that SOCREMO and NovoBanco would have more of its retained clients in this group. This is backed by the fact that the average value of monthly sales and the average loan size of Tchuma's retained clients is lower than those of SOCREMO's and NovoBanco's retained clients, as is showed in the table below. Moreover, the majority of SOCREMO's and NovoBanco's retained clients own fixed business assets, while this is the case for a minority of Tchuma's retained clients (see 6.1.5.)

Table 25: Average value of monthly sales and average loan size of more-than-2-year-old clients

At the time of the last loan in USD[88]	Tchuma	NovoBanco	SOCREMO
Average value of monthly sales	1,774	2,559	2,145
Average loan size	499	69	554

It should be kept in mind that the poverty profile of new clients is probably different, given the fact that the poorer clients tend to drop out more frequently before they are 2 years with the institution (see chapter 8 about borrowing patterns). Moreover, the wealth level of successful clients improved probably over the course of the years, as is confirmed through the in-depth interviews.

As part of the poverty assessment, a short list of durables and household characteristics has been developed. The list could be integrated in Tchuma's information collection routine for loan appraisal of both new and repeated loans. In this way, both poverty profile of new clients and changes in the poverty level of retained clients could be assessed.

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[86] Only functioning apparatus are taken into account
[87] A higher percentage of both clients and Maputo population has television than electric illumination. During the interviews it appeared that households tap electricity illegally for household devices but not for lighting, which would make the illegal tap too visible from the outside.
[88] Nominal values. Exchange rate June 2004:23 002 MT = USD 1

The INE household survey found that 24% of Maputo's economically active population is self-employed[89] of which the majority could be considered to be potential beneficiaries of microfinance. The self employed are almost equally distributed among the quintiles, with the exception of the lowest quintile where the self-employed represent only a small percentage of the population. The fact that Tchuma's clients are predominantly concentrated in the 2 highest quintiles, suggests considerable potential to reach the self-employed further down market through Tchuma's solidarity group loans and savings products.

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[89] A person is considered as self-employed when working on her own without employing labour. The percentage of self-employed in Mozambique is 51%; the main reason for this difference with Maputo is the high percentage of self employed peasants in Mozambique .The data on employers were not taken into account, as the data were not reliable, because INE´s (National Institute of Statistics) data collectors erred in the classification of the status of employment. Data on poverty level of self employed were calculated on the basis of the database of INE,s consumption household survey (Maputo 2004).

8. Client Borrowing patterns

In this chapter, borrowing patterns are analysed on the basis of the MFIs (historical) loan portfolio information, loan appraisal information of the more-than-2-year-old clients, and in-depth interviews. Differences between loan categories and between female and male clients are taken into account.

8.1 Application of loans

Because of the constant monthly household struggle of balancing incomes and expenditures, it would be naïve to assume that all microfinance loans are applied in the manner for which they are contractually obliged (i.e. for business purposes). Loans are extra funds to be mixed with other household liquidity. How they are applied will depend very much on circumstances prevailing at the time the loan is requested. Under normal conditions, it will be fair to assume that the loan will be used for generating more income from the activity to which it is supposed to be contractually allocated. However, should there be other financial pressures such as school fees, an unexpected crisis (see chapter 11), a monthly *xitique* payment, etc., loans will be used according to immediate need. Similarly, due to the seasonality of many of the supported activities, many clients will apply their loans for business related expenditures when demand conditions require, otherwise loans are also commonly used for non-business expenditures such as housing construction and the purchase of consumer durables.

The loan appraisal analysis found that loan sizes increased proportionately more rapidly than the client businesses, if sales are taken as a proxy of business performance. This suggests that previously retained income from the business might be applied to other non-business expenditures as relative loan size increases or larger loans are being at least partly applied to non-business related expenditures. Many clients admitted that loans were used for a variety of purposes and it is likely that in reality many more actually did. As discussed later, the issue of *futuro* is an overriding one in urban Maputo/Matola. Interview results from NovoBanco and Tchuma indicate that 20-30% of the clients applied their credits at least partly for housing construction and/or the purchase of durable goods. The SOCREMO analysis showed that among the 2 lower categories *a minority* of clients applied their loans *exclusively* for business purposes.

8.2 Rest periods of all NovoBanco's recurrent clients

Resting clients were defined as clients who did not sign a new contract immediately after the repayment of the previous loan. In order to understand better the magnitude of clients who interrupt taking loans, 'resting' periods of NovoBanco clients were analysed[90]. This analysis was also meant to facilitate a well-informed decision about the definition of a dropout. For the purpose of the impact assessment, a dropout was defined as a client who did not take a loan within 6 months after the last repayment of the previous loan. However, the MFIs did not have an insight in relation to the length of resting periods of recurrent clients. This analysis of the resting phenomenon is meant to facilitate a well-informed decision about the definition of a dropout, of a dropout monitoring mechanism (including the calculation of dropout rate) and client retention strategies (including a client retention measure in the incentive system).

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[90] The other MFIs did not provide the information

Table 26: Percentage of NovoBanco clients renewing within interruption period

Interruption period	2002	2003	2004
< 30 days	48	49	69
30-60 days	2	3	5
60-179 days	17	13	11
180-365 days	33	34	16

In 2004, the majority of clients took a follow-up loan within 30 days of repaying the previous one. Of those NovoBanco clients responding to in-depth interviews who claimed to take sequential loans, the average number of days between the repayment of the loan and the disbursement was 12 days, partly affected by loan processing time (2 -3 days).

A considerable 16% of these clients took a loan after an interruption period of longer than 6 months, meaning that they would be incorrectly considered as dropouts according to the above-mentioned definition. This percentage was much higher in 2002 and 2003, possibly because of NovoBanco´s policy at that time which obliged clients, as a sanction for delays in repayment, to interrupt borrowing for a period of up to 6 months. Moreover, it could be a result of the up-market trend realised from 2003, as clients with larger loan sizes rest relatively less.

The analysis of NovoBanco´s resting clients showed that a disproportional part of the resting clients are from the lowest loan category. More female than male clients appeared to rest in between loans.

8.3 Rest periods of more-than-2-year-old clients

The more-than-2-year-old clients of NovoBanco and SOCREMO rest on average a similar number of days between loan cycles: 47 and 57 days. Some (2-3) of these days are due to loan processing time. The majority of the 2 year old clients rest less than 30 days, and only a few longer than 180 days, meaning that the chosen definition of dropout (a client who did not take a loan within 6 months after the last repayment of the previous loan) is adequate in the case of the more-than-2-year-old clients, and less adequate for all clients. Average resting periods of Tchuma´s clients are much shorter (15.5 days); these do not include loan processing time.

The clients who dropped out after 2 years had a higher average of resting days than active clients. In the case of the more-than-2-year-old clients, there is no clear difference between the numbers of resting days of clients per category, nor per sex.

The in-depth interviews showed that clients rested for several reasons of which three main categories emerged: the need to take a break from borrowing which was often related to credit stress or a wish to see how ceasing to borrow would affect their business; stopping in between periods when loans are deemed necessary (these clients did not mention seasonality but indicated specific unpredictable circumstances that would warrant a loan); and because a crisis made it difficult for the client to borrow. MFIs indicate that there are clear seasonal patterns showing significant variation in loan volumes around the festive seasons of Christmas-New Year, Easter and national holidays.

8.4 Dropout rates

The annual dropout rates[91] remained similar in the period 2002 - 2004. It is interesting to note that the MFI with the highest dropout rate has the lowest percentage portfolio at risk, while the MFI with the lowest dropout rate the highest percentage portfolio at risk

Table 27: Dropout rates (%)

	July 2002 – July 2003	July 2003-July 2004
NovoBanco	43	40
SOCREMO	45	46
Tchuma[92]	29	29

In the case of NovoBanco, only a small percentage (10%) of the dropouts are registered as expelled. Clients who had applied for a subsequent loan but were not accepted were counted as expelled. The percentage of clients who dropped out involuntarily is probably higher. During the in-depth interviews with dropouts, it appeared that clients registered as voluntary dropouts, were in fact involuntary dropouts, having never applied for another loan because they thought, or loan officers told them, they would not qualify. Data provided by SOCREMO indicate that 43% of the dropouts had no repayment problems, most probably meaning that they chose themselves to stop borrowing from the institution.

Concerned with the high dropout rates, Tchuma commissioned a study to examine the extent and causes of client dropout. Client retention is important because longer term clients increase average loan balance and reduce loan delivery costs. NovoBanco estimated that clients only start becoming profitable to them after about 3 loans (close to 2 years). Moreover, higher client retention rates become critical in the increasingly competitive and saturating microfinance market of Maputo City.

Consistently over the 3 years, a disproportional part of the dropouts (voluntary and expelled, with or without repayment problems) belonged to the low loan category. In the case of SOCREMO, on average 75% of all dropouts were from the low loan category; in the case of NovoBanco, this percentage is 64%. The percentage of active clients in the first category decreased over the course of three years from over 60% to below 40% in both institutions.

Unfortunately, Tchuma could not provide sufficient information to calculate the number of dropouts per category. As Tchuma has the largest number of clients in the low loan category, you would expect that Tchuma would have had a higher overall dropout rate. As observed in table 27, Tchuma has the lowest dropout rate. It also has the highest portfolio at risk. It would be worthwhile to conduct further research into the relationship between a more tolerant attitude towards late repayments and retention.

8.5 Percentage clients taking credit during a period of more than 2 years.

Only a very small portion of the clients continues to take loans for 2 years. The data provided by SOCREMO and NovoBanco led to the conclusion that the more-than-2-year-old clients of the 2 selected branches represented a small percentage of the total number of new clients who started taking loans in the same period.

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[91] Calculated according to the formula calculated by Mark Schreiner as mentioned in *MicroBanking Bulletin* April 2001: retention rate= active clients at the end of the period/(active clients at the beginning of the period+ new clients).
[92] Data derived from dropout report prepared by ECI Africa December 2004.

Table 28 shows that 23% and 15% of those clients starting loans at the same time with NovoBanco and SOCREMO respectively remained after 2 years. However, this percentage has to be adjusted for the number of more than 2-year-old clients who were resting at the end of June 2004 and for the fact that SOCREMO was, during this period, actively reducing its lower loan clients. Moreover, in the case of SOCREMO, the information on the 2 year old clients and the flux of new clients contained some inconsistencies due to the transfer of clients to newly opened branches. Nevertheless, the data strongly suggest that only a small minority of those clients entering 2 years previously would still continue as active clients. Tchuma did not provide a list of all more than 2 years active clients, but undertook its own analysis which found that in March 2006 about 25% of its clients were registered in or before June 2002

Table 28: More-than-2-year-old clients against all new clients with first loan in period July 2001 – June 2002

	1. # of new clients registering during the period 01-02	2. # of clients with first loan in period 01-02 and still active per June 2004	Percentage of clients in col. 2 over clients in col. 1.
2 branches of NovoBanco	4,127	960	23
2 branches of SOCREMO	2,558	374	15

The fact that this group of more than 2-year-old clients is relatively small is very important for the interpretation of the findings on impact as these findings cannot be extrapolated to the clients who took credit for a shorter period of time i.e. a very large majority of total clients. It is possible that those clients who felt that they continued to benefit from the loans remained and therefore are likely to represent the most successful entrepreneurs.

8.6 Distribution of client loan categories

The largest portion of all micro-loans clients of Tchuma and SOCREMO is in the low loan category and in the middle category in the case of NovoBanco. Although both NovoBanco and Tchuma reach approximately the same number of low loan category clients, Tchuma, due to its smaller size and its stronger poverty focus, has a considerably higher proportion of these clients. The relatively slow growth of higher category loans in Tchuma is largely attributable to its regulation that all clients must start with a minimum loan size and increase them by fixed increments. The sharp decrease of SOCREMO's low loan category clients is due to its policy of portfolio consolidation as part of its restructuring, which included an increase in the minimum loan amount and resulted in a reduction of the number of low category clients.

In order to increase the comparability between the MFIs, we only considered NovoBanco's business loans.

Figure 3: Changes over time in number of clients per loan category (all branches)
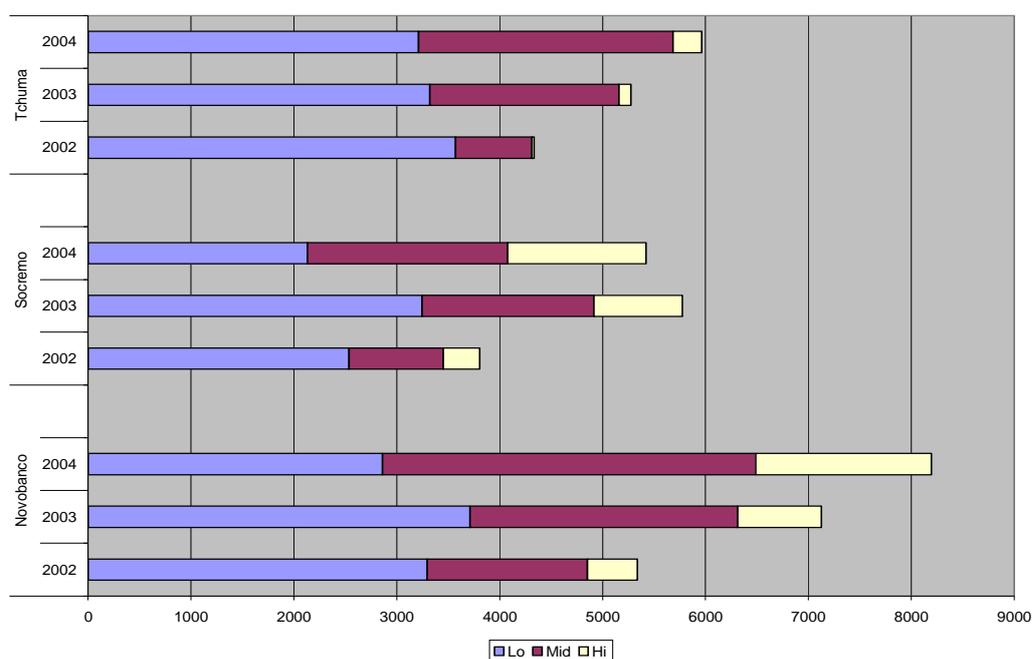
8.7 Loan balance and volume of portfolio per category (all clients)

The average loan balance per category is around the same for the three MFIs, with the exception of the high loan category[93]. Tchuma´s loan ceiling policy resulted in a larger number of low category clients than other MFIs but not in a lower average loan size of the low category clients. This is probably due to the similar collateral requirements of the individual loans of the MFIs. The solidarity group product, potentially interesting for clients who do not have sufficient collateral, attracts only a very limited number of clients. Reasons for this could not be studied within the scope of this assessment.[94]

In terms of volume of outstanding portfolio, the middle loan category is the largest for Tchuma, while the high loan category is largest for both NovoBanco and SOCREMO.

Table 29: Percentage of volume of loans outstanding per category as at June 2004

	Low	Middle	High
NovoBanco all loans	8	29	61
NovoBanco business loans	11	32	57
SOCREMO	12	27	61
Tchuma	30	53	17

8.8 Female clients per category

Female clients outnumber men in the low and middle loan categories of SOCREMO and the low loan category of NovoBanco. More women than men are involved in business in the southern part of Mozambique[95], which is confirmed by the percentage of women in the

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[93] The average loan balance of Tchuma high loan category is much lower than that of NovoBanco and SOCREMO: Tchuma USD 822 , SOCREMO USD 1,083 NovoBanco USD1,227 .
[94] The CCCP community banks are popular among the poorer population, also in Maputo City. The CCCP does not require an identity document, while Tchuma is by law forced to do so. This could be an obstacle for poorer people to access Tchuma solidarity loans.
[95] According the data of INE´s Household Survey on Family consumption (2004) 68% of the self-employed in Maputo City are women.

branches of the MFIs in Maputo. Women outnumber men in all loan categories of SOCREMO's Maputo branches; this is also the case for NovoBanco´s female clients of the low and middle category, while the sexes are equally represented in the high loan category. The overall trend is that the lower the loans, the higher the percentage of women[96].

Table 30: Percentage of women per category, as at June 2004

	Low	Middle	High
NovoBanco: all loans	53	43	37
NovoBanco: all business loans	55	48	42
SOCREMO	55	54	49
NovoBanco: 2 branches in Maputo (business loans)	65	64	50
SOCREMO: 2 branches in Maputo	66	61	58

Average loan balances of men and women are around the same in the lowest category, while the average loan balance of men is higher in the middle and especially in the high category.

8.9 Portfolio at risk (all clients)

Clients from the lowest loan category appear to have the most repayment problems, as can be seen in table 31. Women repay better in all categories, with the exception of the female clients of the third category of SOCREMO.

Table 31: Percentage portfolio at risk per category as at June 2004

	Low	Middle	High
Tchuma	6.8	2.9	2.3
SOCREMO[97]	2 %	0.4%	0.25
NovoBanco	2.19	1.48	0.63

8.10 Days in arrears of the more than 2-year-old clients

The more than 2-year-old clients generally did not have major problems in repaying the loans. Those who dropped out after 2 years, have clearly more days in arrears per loan cycle than the retained clients. In table 32, the average number of days in arrears per loan cycle is presented.

Table 32: Average number of days in arrears per loan cycle of 2 year old clients

	Women	Men
SOCREMO	5.8	4.0
SOCREMO dropouts	12.9	10.9
NovoBanco	3.02	1.45
Tchuma	8.0	8.4

Tchuma has the highest average number of days in arrears per loan cycle, which confirms Tchuma´s reputation to be more tolerant with clients in arrears. The higher average is also due to the fact that Tchuma has relatively more low category clients, who have a larger number of days in arrears per loan cycle. According to Tchuma, its tolerance is a consequence of its poverty focus; poorer clients are likely to be more vulnerable to shocks. Repeated

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[96] The actual participation of women is probably somewhat higher, because during the (test) in-depth interviews with the three MFIs, it appeared that in some cases the contract was in the name of the men, while the business was run by the couple or by the wife while the man had a job.
[97] Calculated on the basis of the portfolio statistics of SOCREMO: '*Informe Geral Carteira Vigente 30 de Junho 2004 .*

accumulated arrears over 30 days per loan cycle are not common[98], suggesting that the more-than-2-year-old clients suffered from short term crises that they succeeded in overcoming.

It is interesting that NovoBanco´s and SOCREMO´s female clients have more short term repayment problems than men. Given the fact that the portfolio at risk (> 30 days) is lower with regard to female clients, most women resolve their repayment problems within 30 days.

The higher average of arrears for women are most pronounced for younger women: Tchuma´s female clients in the age group of 20 – 29 and NovoBanco´s and SOCREMO´s female clients in the age group of 30 -39.

There were no other relations identified between repayment and client characteristics, such as number of dependents in the household or existence of other sources of income.

Contrary to expectations, clients with deposit accounts did not show a significantly better repayment record. During the interviews, it appeared that *xitique* or *xitique geral* was in many cases an important tool to save for the reimbursement of the loans. Moreover, many clients appeared to have accounts in other banks.

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[98] In the case of both SOCREMO and Tchuma; NovoBanco provided information of the total number of days in arrears of all loan cycles.

9. Impact of credit on economic activities

In this chapter, (signs of) impact of credit on the economic activities of the more-than-2- year-old clients is analysed, on the basis of loan appraisal information and findings of the in-depth interviews. The loan appraisal data of the first and the most recent loan show the changes over time in loan size, business size, and repayment capacity. As a proxy for business size, the value of monthly sales was chosen. Changes in the value of stock, ownership of fixed business assets and number of employees are also measured which gives an indication of the use of the loan. Differences between loan categories and between female and male clients are taken into account. We should keep in mind that these changes could be due to several factors, of which one is credit. The in-depth interviews explored the causes of the changes; the extent to which the changes were due to the financial services.

Clients moved from one category to another over time: for the selection of the sample of SOCREMO and Tchuma, clients were categorised on the basis of their last loan as at end-June 2004. In the case of NovoBanco, the sample size is large enough[99] to allow for analysis on the basis of loan categories at the time of the first and the last loan. For the sake of comparability, all category analyses are done on the basis of the size of the last loan if not mentioned otherwise[100].

9.1 Business size per category

Clients per category are well comparable between MFIs; average business sizes per loan category are very close, except for Tchuma´s low loan category where average business size is lower, probably because of the lower minimum entry requirements.[101]

At the time of the first loan, the volume of sales is around 7 times higher than the loan in the case of NovoBanco and SOCREMO and 5 times in the case of Tchuma[102]. The similarity between the MFIs is striking at the time of the last loan when the average value of monthly sales of all clients is around 3.7 times the size of the loans. Loans of SOCREMO´s dropouts are slightly lower in relation to the value of monthly sales.

In all the MFIs, the average loan size increased faster and for more clients than the average value of sales.

9.2 Transition between loan categories

The majority of the clients started in the lowest category: virtually all clients of Tchuma and 80% of the clients of SOCREMO and NovoBanco. Most of these clients moved to another loan category.

Few of Tchuma´s clients moved to the third category, which is partly due to Tchuma´s loan policy that limits the level of increase between loans. Moreover Tchuma attracts smaller microentrepeneurs due to its loan ceiling of the first loan. The percentage of NovoBanco and

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[99] Consist of all 2 year old clients of 2 branches in Maputo

[100] The amount of the information derived from the most recent loan appraisals is corrected on the basis of monthly inflation rates from Maputo City, to make them comparable with the information at the time of the first loan.

[101] The monthly value of sales is estimated by the loan officers on the basis of the information the clients provide for loan appraisal. The three MFIs use similar methodologies to estimate the value of monthly sales of their clients. An exception is Tchuma´s loan appraisal form used in 2002 and before; in 2002 the estimates of monthly sales of the clients are based on less detailed questions in the loan appraisal form. Estimates based on the form used in 2004 are probably more accurate.

[102] This difference could be due to the fact that Tchuma collected less details in relation to the value of sales at the time of the first loan.

SOCREMO´s clients in the high loan category at the time of the last loan was almost identical. It is interesting that, although a similar percentage of the dropouts and active clients started in the first category, more than half of the dropouts remained in this category during a time period of more than 2 years.

In the figure below the transition of clients between categories from the time of the first and the last loan presented.

Figure 4: **More-than-2-year old clients by MFI, loan category and time of appraisal**
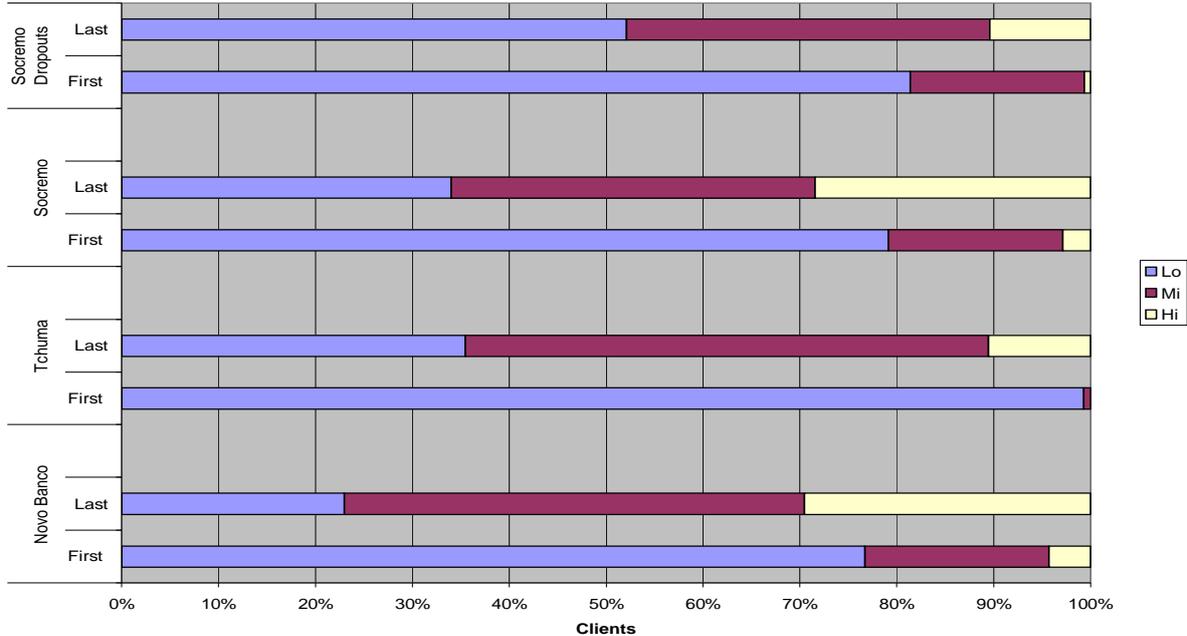
9.3 Loan size, value of monthly sales and repayment capacity.

The loan size of the large majority of the more-than-2-year-old clients increased. The loans of more female than male clients of NovoBanco and SOCREMO increased, while the opposite is true for Tchuma clients. The smallest percentage of loan size increase is experienced by the female dropouts from SOCREMO.

Considerably fewer clients, but still the majority of the active clients, experienced growth of the value of monthly sales. Tchuma´s male clients seem to do best, while in the case of NovoBanco and SOCREMO, there is little difference between the number of men and women whose business increased. From SOCREMO´s dropouts, only a minority experienced growth of value of sales (36% of the male dropouts and only 19% of the female).

In the chart below, the percentage of clients whose loan size, value of monthly sales and repayment capacity is shown. Also the majority of clients who remained in the low loan category over 2 years succeeded in increasing the value of their monthly sales.

Figure 5: Percentage of clients with increased loans, sales and repayment capacity.
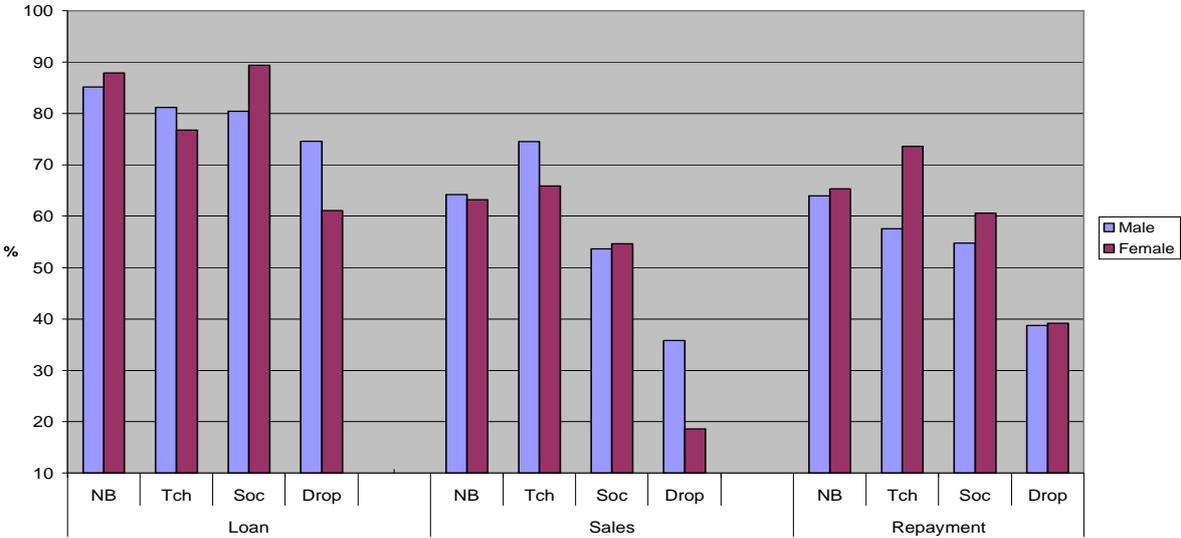
In the case of NovoBanco, the sample was large enough to analyse the differences between the categories when clients are divided on the basis of their first loan[103]. A very clear picture arose: the lower the loan category in which the clients received their first loan, the higher the percentage of clients who succeeded in increasing the value of their monthly sales: 66% of clients who started in the lowest loan category, 60% of those who started in the middle and 44% of those who started in the highest loan category increased the value of sales. This was also confirmed for SOCREMO´s high category clients at the time of the last loan; only those who had started in the lower loan category experienced an increase of value of sales.

For most of the clients whose business increased, the repayment capacity also increased; the relation between increase of repayment capacity and increase of sales is statistically significant for all three the MFIs. This having been said, there were also a number of clients whose repayment capacity increased while this was not the case for the value of monthly sales. In the case of Tchuma's female clients, the data show that this is caused by an increase in other income in the household. In other cases, it could be due to a change in business strategy causing more efficiency (increased margins per unit sold).

Loan sizes of NovoBanco´s and SOCREMO´s female clients increased by exactly the same percentage. Female clients of NovoBanco started with lower loans, but this difference had increased at the time of the last loan. In the case of SOCREMO, we see an opposite trend: female clients of SOCREMO took lower first loans but this difference had become insignificant with the last loan.

The growth of Tchuma´s loans is more gradual: loans of Tchuma´s clients increased more or less at the same rate as the sales, which was not the case with NovoBanco and SOCREMO´s clients. Moreover, the value of monthly sales and repayment capacity of Tchuma´s clients increased at a higher rate than of the other MFIs´ clients. This is due to the fact that all

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[103] The sample of SOCREMO and Tchuma clients was selected on the basis of the category of the last loan, while the sample of NovoBanco included all clients of 2 branches who had received loans during a period of more than 2 years.

Tchuma´s clients started in the lowest loan category. The trend is the higher the loan category of the first loan, the less the increase in sales.[104]

It is often assumed that women's businesses grow less fast than businesses of men because of the following reasons: women tend to invest relatively more of their money in their families at the expense of their businesses; women tend to be trapped in low productivity sectors; household tasks prevent women to work full time in their business. Contrary to what had been expected[105], the value of monthly sales of female clients of the three MFIs increased more than that of male clients, although the differences are very small.

The dropouts show the worst performance: loan sizes increased the least, the value of sales of dropouts decreased but their repayment capacity increased slightly.

Clients who started in the lower loan category experienced more growth of the value of monthly sales than clients who started with larger loans. The higher the loan clients started with, the less increase in value of sale they realised. For example, in the case of NovoBanco´s clients, the largest businesses with a monthly volume of sales of more than USD 2,130 at the time of the first loan, experienced on average negative growth (-11%). Around 20% of the more-than-2-year-old clients have businesses of this size. The smallest businesses with a volume of sales of less than USD 539 grew on average 185%. Around 10% belong to this group.

The findings contradict the expectation[106] that the larger micro-enterprises would experience most growth. A possible explanation is that the larger micro enterprises, starting with high category loans, are unlikely to grow further without undergoing substantial structural changes. We should keep in mind that these are working capital loans with conditions not usually favourable for longer term investments.

Figure 6: Growth of 2 year old clients by MFI and sex

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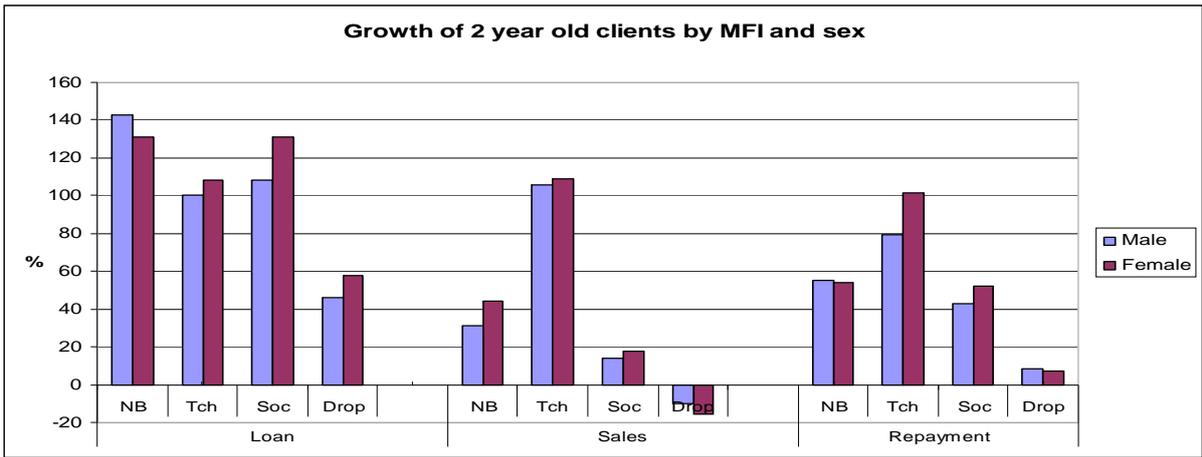
[104] Confirmed by regression analysis of SOCREMO and NovoBanco. Because almost all Tchuma´s clients started in the first category, this trend can not be analysed with regard to Tchuma´s clients.
[105] The hypothesis was formulated by consultants in close cooperation with the MFIs that women's business would experience less growth.
[106] To facilitate the analysis of the loan appraisal data, hypotheses were formulated and indicators selected in cooperation with the MFIs. One of these hypotheses was that the larger business would experience more growth

9.4 Loan use: stock, fixed business assets and employees.

The loan appraisal information suggests that generally the clients used the loans for increasing stock. Furthermore, the value of the stock increased on average much more than the level of sales, suggesting reduced efficiency and higher inventory costs as increased stock from the loans carry the additional cost of interest. Much less frequently, loans are used for investment in business assets.

The percentages of clients with fixed business assets decreased slightly over time in the case of SOCREMO and increased slightly in the case of NovoBanco.

It is generally assumed that microfinance enables clients to increase their asset base. This partly confirmed by the loan appraisal data, for a minority of the clients who already have business assets. For example, in the case of SOCREMO and NovoBanco, from respectively 48% and 36% of the clients who own fixed business assets, the value increased[107]. MFIs do not collect information on household assets. From the in-depth interviews, it appeared that the increase of household assets was often mentioned as a positive result of the credit.

The number of NovoBanco´s clients with employees[108] decreased over time by 3%[109]. This means that, on the basis of these data, it cannot be concluded that microfinance contributes to job creation.

Given that the vast majority of clients invest their loans in buying more stock, the subsequent spillover effects of business expansion during a 2-3 year period may not have been significant enough to manifest themselves in terms of increased fixed investments or employment creation.

9.5 Impact on business

9.5.1 Client perceptions of overall business performance and performance indicators

Measuring the impact of credit on the businesses of the interviewed clients was not a straightforward exercise. Clients were asked about the performance of their businesses since starting their credits. As demonstrated in table 33, responses showed stark contrasts between the clients of the 3 MFIs. As there is no reason to believe that business performance is in any way related to the institution providing the credit, especially as the products are so similar, the differences can be attributed to either aberrations due to the smallness of the interview samples or differences in the way the question was posed, understood or interpreted by the three interviewers. By looking at the growth of loans between the three categories of each MFI from 2004 – 2005 (see sub-section 9.4.2), a much more consistent outcome is reached, from which a more objective interpretation of impact is derived.

Table 33 shows that the majority of SOCREMO clients in all loan categories felt that their businesses had improved, especially in the middle and high loan categories. Only 20% in the middle and high categories felt that their businesses had worsened. A similar pattern was

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[107] There was no information available from Tchuma on fixed assets at the time of the first loan appraisal.
[108] Employees recorded by the loan officers can be part or full time and have or have not a regular salary
[109] In the case of NovoBanco, information on the number of employees is collected, while in the case of SOCREMO and Tchuma, the information on costs of employees.

indicated by Tchuma clients. By contrast, the clients of NovoBanco reacted conversely: those with the lowest category loans appeared to perform the best and those of the highest the worst. The loan appraisal analysis showed that the majority of all categories (except in the case of the highest for SOCREMO) had increased their average monthly sales over the previous 2 years, ending June 2004 and that there was a tendency for better performances the higher the loan category (with the exception of those who *started* borrowing in the high loan category).

Table 33: Client perceived changes in business performance since acquiring loans (%)

Variable	MFIs	Low	Middle	High
Business has grown	S	60	80	60
	NB	50	40	20
	T	30	50	50
Business worse	S	40	20	20
	NB	40	40	50
	T	40	50	30
Oscillating	S	-	-	-
	NB	-	-	-
	T	20	-	20
Not sure	S	-	-	20
	NB	-	-	-
	T	-	-	-
About the same	S	-	-	-
	NB	10	20	30
	T	10	-	-

Table 34 presents the movements of certain business indicators as perceived by the clients. The trends for sales and profits showed similar directional tendencies between loan categories for SOCREMO and Tchuma clients, generally showing that performance improved with higher loan categories. The results for NovoBanco, probably for the same reasons cited above, showed somewhat contrary tendencies. Information relating to stock was only obtained from SOCREMO clients and showed that, despite borrowing, half the lowest category clients either decreased (40%) or did not change their stock levels (10%) vs. 30% for the middle category and 20% for the highest category clients.

Despite the large numbers of clients who claimed that their businesses had worsened since first obtaining their loans, there was almost universal recognition that the loans had an important beneficial effect on their businesses. In general, clients were also positive about the contributions of bank accounts and *xitique* to the performance of their businesses but the relationship of these financial products is not as straightforward as for loans. Current/term deposit accounts for many played an important role because they facilitated loan repayments through automatic debit facilities. For others, bank accounts facilitated business by allowing transfers and cheque payments, while for a few, accounts in different currencies, facilitated their importing activities. *Xitique* arrangements were seen to help in a variety of ways. Daily deposit contracts allowed monthly funds to pay the loan instalments. Revolving groups allowed for the purchases of certain assets for some businesses and sometimes helped with loan instalments. Income derived from other household activities was generally seen by most clients as not having much, if any, importance on the functioning of their businesses.

Table 34: Movement of certain business indicators since acquiring loans (%)

	MFIs	Low			Middle			High		
		(+)	(-)	No change	(+)	(-)	No change	(+)	(-)	No change
Sales	S	60	30	10	80	10	10	80	10	10
	NB	33	56	11	56	44	-	10	70	20
	T	20	70	10	50	50	-	60	40	-
Profits	S	60;	30	10	80	10	10	80	10	10
	NB	33	50	17	17	66	17	11	89	-
	T	30	50	20	50	50	-	60	40	-
Stock	S	50	40	10	70	-	30	80	10	10

9.5.2 Loan size growth

Loan data of the interviewed clients showed that all the highest category loan clients for Tchuma started in the lowest category (as per regulation) as did the majority (60%) of the SOCREMO clients and 70% of NovoBanco. Table 35 demonstrates that loan growth patterns for the highest category clients leave no doubt that these were the most dynamic clients, registering (on average) the highest growth in loan values between the period July 1 2001 - June 30th 2004. Tchuma clients registered the highest growth (478%) while SOCREMO and NovoBanco clients registered very similar growth rates, in excess of 200%. Lower, but nevertheless high growth rates were registered among the middle level loan clients (*all* of whom started with lowest category loans). The lowest rates of growth were found among the lowest category clients. Although Tchuma clients registered the highest rates in the high and middle categories, their low category clients grew the slowest in comparison to the other MFIs.

Table 35: Loan growth of clients

	MFIs	Low	Middle	High
Average size of first loan (MT)	S	2.0m	3.0m	6.55m
	NB	2.95m	3.2m	7.75m
	T	3.28m	4.28m	4.45m
Average size of loan as at June 2004 (MT)	S	4.85m	8.2m	21.9m
	NB	5.45m	8.2m	25.7m
	T	4.45m	13.5m	25.75m
Average size of last loan (MT) (as at time of interview – June/August 2005)	S	4.75m	9.5m	23.7m
	NB	5.6m	9.9m	32.4m
	T	3.48m	10.13m	28.25m
Increase between 1st loan and loan as at June 30th 2004	S	142%	173%	234%
	NB	85%	156%	232%
	T	36%	203%	478%
Increase between June 30th 2004 and interview –June/August 2005	S	-2%	16%	8%
	NB	3%	21%	26%
	T	-22%	-25%	10%

9.6 Recent economic changes and borrowing response

The loan portfolio data was used to analyse business growth trends over a period during which there was strong growth in loan size (June2002-June 2004). The qualitative interviews indicated that, during the following year, many clients were facing hard times economically

and this seems to be reflected in the considerable slowing of loan size growth for all loan categories but especially for the lowest loan categories (loan size values taken from MFI records). The results suggest that the highest category loans, and to some extent the middle category loan clients, are much more resistant to (or even unaffected by) macro economic difficulties as their average loan sizes tended to increase in comparison to the low loan category clients who either stabilised or reduced their loans. Low category Tchuma clients reduced their loans by 22% and those in the middle category by 25%. Low loan category clients of SOCREMO and NovoBanco showed almost no change in their loan size. Clients of NovoBanco from the middle and high categories showed the largest increases during the period (exceeding 20%).

The figures presented in table 35 refer to *average* values for all the clients in each category by MFI. Table 36 shows the direction of the loan size between the period June 30th 2004 and the time of the interview. Reinforcing the findings of table 34, it shows that loan increases were registered mostly among high loan category clients and that the fewest clients increasing their loans were among the low loan category.

Table 36: Change in loan size since June 2004 (%)

Variable	MFIs	Low	Middle	High
Increased ↑	S	60	60	50
	NB	40	60	60
	T	0	30	50
Decreased ↓	S	20	10	20
	NB	30	20	10
	T	40	60	0
No change →	S	20	30	30
	NB	30	20	30
	T	60	10	50

Apart from the perennial problem of competition as the most significant obstacle to business growth, clients mentioned reduced demand (partly resulting from the slowing down of the economy after the Mozal refinery was constructed and reduced purchasing power through inflation), higher transport costs, increased costs of imports from South Africa and increased vigilance by customs officials (see section 3.2 for more details on the economic environment).

9.7 Which clients performed badly and why?

An analysis was made of 11 SOCREMO clients whose activities had worsened during the past 3 years as well as the 2 clients who were not sure about their business performance in order to determine some common characteristics[110]. The reasons for the downturns in their business performance were split into three broad categories: i) those affected mainly by economic influences (46.1%), ii) those affected temporarily by a crisis or unexpected event (30.7%) and iii) those who could be considered to have brought about the problems themselves - basically due to poor management (23.1%).

Problems due to a crisis or unexpected event should theoretically not be of concern as theoretically an MFI should be sufficiently flexible to allow a normally good client to overcome such temporary set-backs. This is an issue that will be discussed later in chapter 11. Of greater concern are clients who suffer due to self-created problems or from economic influences as these could be chronic problems.

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[110] An analysis of SOCREMO clients was done on the basis of questions asked by the interviewer which were not in the interview guideline.

The main economic problems facing the clients were increasing prices, increased competition and decreasing demand (decreased clients/lower purchasing power). The types of activities most vulnerable to changes in prices were those involved in trade. By consolidating all trade activities with those services mainly involved in the selling of a product (i.e. bars selling drinks), we find that 83.3% of the clients affected by economic influences are essentially trading (in one or a number of a diverse range of products) or selling drinks. Many clients operating from market *bancas* complained that they faced increasing competition from street vendors. Two-thirds of those clients affected by economic influences were operating from within markets.

The findings also suggest that a significant proportion of the clients with business downturns did not have easy access to alternative forms of funds (although almost all had alternative household income-generating activities). Linked to these issues is the fact that a comparatively high proportion of these clients (relative to the other clients) had problems in repaying their loans, although such problems were usually of a very short-term nature.

9.8 Loans and business strategy

The vast majority of microcredit clients start with low category loans and have low entrepreneurial skills with which to apply their loan funds. The loan appraisal data demonstrated that generally the clients used the loans for increasing stock. Furthermore, the value of the stock increased on average much more than the level of sales. Buying more merchandise is done mainly for 2 reasons, getting cheaper prices with larger purchases and to attract more customers with well-stocked stalls/bars/salons. Relatively few clients in the lower loan categories were found to diversify their stocks or activities and few physically expanded their operating premises with their loans. The net effect is to increase the supply of merchandise in the market: in order to sell the increased merchandise, many clients had to reduce their margins with price cuts. Some clients of NovoBanco said that, in order to increase sales, they were willing to cut their margins by not increasing their retail prices in response to increased wholesale prices. About one-quarter of the Tchuma clients said that they reduced their prices on the basis of reduced wholesale prices obtained through larger bulk purchases. The impact may be positive in the short run, but in the longer run, purchasing more stock might result in little business impact and increasing debts.

Clients in the high loan categories of the 3 MFIs were, on the other hand, found to diversify, expand their premises, employ more workers and buy assets. Interestingly, even though 90% of the higher category loan clients of NovoBanco claimed to suffer from reduced profits, almost two-thirds had expanded their business premises, half had acquired more business assets and 40% had diversified their products. This strongly suggests that the higher level loan clients remained positive about their future business prospects. The NovoBanco results further showed that, of all the clients who claim to have registered improvements in their businesses, about half had diversified their products, while other strategies included home deliveries, selling more on credit, changing suppliers and changing activity. Among high loan category SOCREMO clients, 50% had diversified, 40% expanded, 40% had increased employment and 30% had purchased more fixed assets.

10. Impact of credit on the level of household welfare.

10.1 Measurement variables, fungibility and attribution

Measuring changes in business performance is relatively easy if restricted to proxy quantifiable variables such as sales or stock. Assessing change in household welfare is much more complex because of the difficulties in quantifying changes which might occur among welfare indicators such as nutrition, education, safety, environment, capacity to help others, etc. In the analysis below, indicators of household welfare are restricted to residential living conditions (effectively expansion or improvements) and the acquisition of durable household items. In both cases, the degree of change would depend on client responses as there was no way to confirm the assertions (at least not within the scope of the study). The second problem, as mentioned at the outset of this report, is the issue of attribution due to the fungibility of funds. As discussed earlier, many clients have directly invested at least part of their loans into residential construction or rehabilitation or purchased durable goods. Others claim that they applied all their loan proceeds to their business activities but that "profits" were used for construction and consumption. It would be reasonable to assume that normally, without the presence of credit, such profits would be at least partly used for buying new merchandise.

Although the loans under review have been almost exclusively business loans, it is clear from the interviews that many clients applied a significant, and, in many cases, the main part of their loan towards *futuro* i.e. the construction of a house and/or the purchase of furniture and household appliances (see section 8.1). In many cases, credit was used for household expenses such as education and common monthly payments (wages, utilities, etc). Most clients did not have fears about talking about such applications, though clearly some did, and because of this the actual amount of credit devoted to non-business ends is likely to be greater than suggested here.

10.2 Client perceptions of selected factors affecting household welfare

Table 37 demonstrates how the client perceived the changes in selected indicators of household welfare over the past 3 years. The results are much more consistent than was the case for business performance. Despite the strong evidence presented in the previous chapter that recent economic developments were having negative effects on business performance, the majority of clients from all MFIs and within all the loan categories feel that net household monthly income had either increased or remained stable. This strongly suggests that the majority of client households feel that they are better off since receiving their loans.

In terms of household assets, there is even a more positive response than for monthly income. In respect to housing, there is also a generally strongly positive response showing that most client households benefited from expansion, rehabilitation, etc.

Table 37: Changes in the level of household welfare in terms of selected variables (%)

		Low			Middle			High		
		(+)	(-)	Same	(+)	(-)	Same	(+)	(-)	Same
Net monthly household income	S	70	20	10	60	20	20	90	-	10
	NB	20	20	60	80	20	0	50	-	50
	T	50	10	30	40	30	30	0	10	90
Household assets (e.g. furniture, kitchen appliances, etc)	S	70	10	20	80		20	50		50
	NB*	70			90			70		
	T*	50			60			70		
Changes to living quarters (expansion, rehabilitation)	S	60		40	60		40	30		70
	NB*	90			50			80		
	T*	50			30			60		

* Information was only obtained in terms of positive movements

10.3 Overall changes in the levels of household welfare as perceived by the clients

Table 38 shows the perceptions of clients on changes of overall household welfare. The table shows that, on the whole, the majority of all client categories felt that the overall level of household welfare improved, with the significant exception of middle loan category clients of Tchuma (only 30%). The lowest loan categories of SOCREMO and NovoBanco had comparatively high percentages whose household welfare levels were felt to have worsened.

Table 38: Changes in overall household welfare (%)

Changes		Low	Middle	High
Better	S	60	90	80
	NB	70	60	70
	T	60	30	70
Worse	S	40	10	10
	NB	30	20	-
	T	-	10	-
Up & down	S	-	-	10
	NB	-	-	-
	T	10	30	10
Same	S	-	-	-
	NB	-	20	30
	T	30	30	20

10.4 The role of financial products and other household income

Table 39 shows that credit was overwhelmingly seen as having contributed positively to household welfare in the case of all clients with middle and high level loans. Somewhat lower enthusiasm was demonstrated by low loan category clients. Significant majorities of those with current/term deposit accounts felt that savings made an important contribution to the welfare of the household, with the same applying to those involved in *xitique* arrangements. Informal financial arrangements were important for paying monthly household expenses (*xitique geral*) and for the acquisition of comparatively more expensive household appliances (e.g. fridges) (*xitiques*).

Table 39: The role of financial products on the level of welfare of the household (%)

		Low			Middle			High		
		Better	Worse	Same	Better	Worse	Same	Better	Worse	Same
Credit	S	60		40	100			90	10	
	NB	90		30	100			90		10
	T	70			100			90		10
Savings (% of those having account)	S	67		33	80		20	75		25
	NB	80		20	50		50	67		33
	T	75		25	80		20	75		25
Informal (% of those belonging to a xitique)	S	63	13	25	87		13	67		33
	NB	60			75			100		

Table 40: The influence of other household income sources on household welfare (% of those households with other income sources)

		Low				Middle				High			
		A lot	Some	Little/None	Without other sources	A lot	Some	Little	Without other sources	A lot	Some	Little	Without other sources
Other household sources	S	100	-	-	20	50	25	25	20	50	10	10	30
	NB	57	-	43	30	67	11	22	10	30	-	40	30
	T	25	50	25	20	10	50	-	40	50	10	30	10

Table 40 shows, not surprisingly, that other sources of household income are most important in terms of household welfare for the lowest loan category clients who are assumed to be relatively the poorest of the client categories and least important for the high loan category households (presumed the wealthiest).

11. Influence of crises

All households at one stage or other are confronted with crises or special events. Both are usually financially costly. Events are normally planned for and are not conducted unless adequate finances are mobilized. Crises, on the other hand, are usually unexpected and will often require funds that are not immediately available within the household, leading the afflicted households to borrow money from friends or relatives. Some households set aside contingency funds to help cushion the effect of possible crises. A few interviewed clients spoke of "family funds" which operate as a type of group *xitique* (not to be confused with a "family *xitique*" a group consisting solely of close relatives), requiring monthly deposits of member households into a bank account whose funds are earmarked solely for assisting contributing households in times of stress or, as observed in one case, for expenditures such as university fees. Others resorted to a special turn with their *xitique* group or to withdrawals from savings accounts.

Crises most commonly encountered at the household level included: prolonged illness or injury, death, accident, fire, flood damage, divorce, assault and theft of household goods. At the economic level, typical crises included: confiscation of merchandise, robbery, creditor default, periodic epidemics of cholera and other diseases leading to cooking bans, etc. Among special events, weddings, engagements, graduations, births are the most common.

The qualitative interviews showed that 55% of the 120 clients interviewed faced one or more crises in the past year. This percentage was considerably higher for clients who had dropped out (70%) than for clients who were still active (52%). 30% of the dropouts, indicated that they stopped borrowing as a result of crises they faced. The real percentage of clients an MFI loses due to crises is likely to be higher as clients who drop out before being 2 years with the MFI and clients who were expelled after 2 years due to late repayments and defaults were not included.

Most of the crises (50%) clients faced, were related to health problems (either of client or within family) and deaths in the family. Though questions were not HIV & AIDS specific, some clients indicated that illnesses (of family members) were AIDS related.

It is commonly argued that microcredit helps alleviate the effect of a crisis because it injects extra funds into the household. However, unless credit is specifically conceded to deal with a crisis, a loan could in fact exacerbate the effect of a crisis. A loan is usually used soon after being received and therefore does not, except by way of increased profits, increase liquidity. Only if a crisis were to happen around the time of receiving a loan, could the loan be expected to contribute directly to alleviating the crisis. What normally happens is that strict arrears policy by the MFIs will require that at least some of the household liquidity be used for repaying the loan instead of being applied to the crisis. There were a few cases encountered where the client's associated MFI made adjustments to the client's repayment schedule to accommodate the impact of the crisis.

Interviews showed that most of the more-than-2-year-old clients do not face difficulties in repaying their loans *under normal conditions*. Difficulties almost invariably occurred due to a crisis or other exogenous influence. It is understandable that the MFIs apply strict procedures the moment a client is late on an installment. Many clients, however, claimed that no (or at least very little) allowance is made on the part of the MFI to take into consideration reasons accounting for the late payments and, in particular, that the MFIs do not appear to take into

account the length of time a client has been with the MFI, their repayment history, business performance, etc. Few of Tchuma's clients who had suffered from a crisis felt that credit had worsened the situation possibly reflecting Tchuma's more tolerant policy towards late payments.

Several clients and dropouts interviewed showed signs of suffering or having suffered from credit stress which comes in various guises. Some dropouts who claimed to have stopped borrowing in order to "rest" found that they had been suffering from stress while borrowing but that they were not aware of it until they stopped borrowing and realized that their lives had improved significantly without the pressures of repayment. A more serious form of credit stress often accompanies a crisis because of the very real threat of losing asset guarantees if repayments are not paid on time. At the extreme end are cases where clients suffered from a crisis provoking a subsequent credit-related crisis. [111]

Special events appear to be much less problematic and a few clients indicated that they had even negotiated special loans to pay for these events.

The 2 most common ways in which clients coped with a crisis or a special event were to either reduce subsequent loans so that repayments are lower or to stop borrowing for a while. The latter option was fairly common among "dropouts" who were found to have stopped borrowing for protracted periods but who, nevertheless, intended to borrow again once their financial situation allowed it. A few cases were also encountered whereby a spouse or other close relative of a client encountering a crisis would be supported by loans (sometimes successively).

Some clients were found to have averted credit-related crises by borrowing from one institution to pay another. In one instance a client succeeded in obtaining a one-month "emergency" loan from SOCREMO in order to deal with financial obligations relating to a NovoBanco loan. One extreme case involved a woman who borrowed from 2 other MFIs to face a series of deaths in her family. She asked Tchuma for a loan and used it to pay SOCREMO and NovoBanco, and then another one from NovoBanco, which she used to pay off Tchuma and SOCREMO. After 2 years of skilful juggling with debts, she succeeded in closing her accounts at SOCREMO.

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[111] One ex-client was encountered during our fieldwork (not part of the interview sample) with an experience that demonstrates the very negative side of credit and heavy-handed MFI policy. The ex-client operated as an itinerant trader, importing goods from South Africa. On one return trip her partly-undeclared merchandise was discovered by customs officials during a random check, subjecting her to a fine which she was unable to pay (and in any case would not have been in her economic interests to do so). As a result, she was unable to repay her loan instalments (as there was no business income). In order to survive, she sold frozen juices made in her freezer. Unfortunately, the freezer was part of her asset guarantees and confiscated. When asked if she would ever consider borrowing again, she replied: *I would rather eat kakana* (a bitter tasting vegetable) *for the rest of my life than take another loan!*

12. Reasons for more-than-2-year-old clients to drop out

The dropouts interviewed for this study (only "voluntary" dropouts were selected, meaning those without major repayment problems) should not be confused with the large majority of clients who drop out before 2 years. As could be expected, the characteristics of these dropouts were similar to the active more than 2-year-old clients in terms of age, gender, household size, activity, age of activity, number of years with their associated MFI, etc. This group of dropouts is especially relevant for the MFIs´ strategic information base as they represent a significant portion of the small client base that continued to borrow for more than 2 years. Interviews with small samples of dropouts (10 per institution), and therefore subject to caution, suggest that many clients who voluntarily leave the institution operate (according to the information provided during the interviews) successful businesses and, according to repayment histories, have normally been good credit risks.

Surprisingly, there was a tendency of the interviewed dropouts to generally have better average performance indicators than those of the active clients interviewed, although the loan appraisal data of 78 SOCREMO dropouts shows a distinctly poorer level of overall performance (lower increases in loan size and fewer who increased their monthly sales values and repayment capacity).

Given the apparent high quality of clients found among many of these dropouts, the key issue for consideration was: *to what extent could these client exits have been avoided without prejudice to the MFI?* An analysis of table 41 shows that, of the 30 dropouts interviewed, only 5 clients could be considered to have left for reasons that would normally be associated to independent client choice e.g. economic downturn, stress, wanting to rest, etc. More than half (16) of the clients dropped out for reasons that were considered to be potentially subject to proactive intervention by the MFIs with the likely result of continued client retention.

As chapter 11 demonstrates, crises are the bane of microfinance borrowers. The experience of the dropouts shows that by far the major reason for ceasing loans is related to the consequences of a crisis and that the effect of the crises was manifested in 4 principal ways. Clients were found to: i) have repayment problems and left permanently; ii) have repayment problems and dropped out temporarily with the intention to eventually return; iii) have repayment problems and be expelled by the institution; or iv) face what he/she felt to be unreasonable treatment by their MFI in relation to their problems and therefore leaving on his/her own accord.

Although the interview sample was supposed to only include voluntary dropouts, 4 clients were found to have been expelled from their MFIs. Three of these claimed that they were expelled from Tchuma after having experienced a crisis. It was found that 30% and 20% of the dropouts from SOCREMO and NovoBanco respectively had dropped out because of either a crisis or a particular situation/event but planned to return to their MFIs once their situations had been resolved. In a similar vein, 30% of the Tchuma dropouts decided to leave because of crises but it was not clear if they expected to return in the future. These findings show that good long-term clients were either forced to drop out or left of their own accord due to crises that often appeared to be short term.

Although interest rate is not usually an issue for clients with lower loans, as loans increase interest becomes more burdensome. Active higher loan clients often complained about the

increasing difficulties of having to cope with larger absolute interest payments. For 3 NovoBanco dropouts, high interest burdens were the main reason for them to stop borrowing. Insufficient loan values were the main reasons for some dropouts leaving SOCREMO and Tchuma.

Of the 30 dropouts, only 4 sought alternative microfinance sources after leaving their associated MFI. Many, although requiring financial assistance to deal with their (apparently) temporary plights, preferred to find other solutions rather than take up another loan.

Table 41: Main reasons for dropouts deciding to stop borrowing with associated MFI

Reason for Leaving	MFI	% (for each MFI 10 dropouts were interviewed)
Client never dropped out, borrows intermittently	S	10
	NB	-
	T	-
Client dropped out temporarily due to particular circumstances but plans to return	S	30
	NB	20 (both clients dropped out temporarily due to crises and expected to return)
	T	10
Expelled*	S	10
	NB	-
	T	30 (all clients claimed that they suffered repayment problems due to crises)
Crisis related reasons (client left on own accord)	S	-
	NB	-
	T	30
Unhappy with treatment	S	10 (crisis related)
	NB	30 (1 crisis related)
	T	0
Interest rate considered too high	S	-
	NB	30
	T	-
Could not get value wished for	S	10
	NB	-
	T	20
Wanted to rest because of credit stress	S	10
	NB	-
	T	
Stopped borrowing for economic reasons	S	10
	NB	10
	T	10
Required by regulation/administrative misunderstanding	S	10 (loan officer mistaken)
	NB	10 (too old)**
	T	-

*all selected dropouts were intended to have been voluntary

** client continued to borrow but through a contract in her daughter's name

13. Use and impact of deposit accounts

In-depth interviews were conducted with NovoBanco´s and Tchuma´s clients with exclusively deposit accounts. NovoBanco´s clients had an account during a period of 2 to 3 years, while Tchuma´s clients only for 6 – 12 months. The interviews focussed on the motivation to open the account, the choice of the MFI, institutional experience, use of account and client satisfaction. Impact has been measured by considering what would have happened differently in the clients´ socio-economic lives if NovoBanco or Tchuma had not offered savings accounts.

In total, 22 clients[112] have been interviewed of whom 12 were women. From Tchuma´s clients, 10 had a passbook account and 1 a stamp based savings account. From NovoBanco´s clients, all clients had a current account and 2 clients a term deposit account.

13.1 Profile of the clients

NovoBanco´s clients were on average of a similar age as the credit clients, while Tchuma´s clients were younger (average age 35). The majority of NovoBanco´s clients had completed secondary education, while the majority of Tchuma´s clients had only primary education. Most of the clients run businesses in the trading sector, some had a job, one was a student, and 2 had no income generating activity at the time of the interview. One of those was a business woman whose business collapsed because of illness as a result of AIDS.

Wealth levels of clients were estimated on the basis of the house or businesses of the clients. Overall, Tchuma´s clients were less wealthy than the NovoBanco clients. Applying the same wealth division as for the credit clients, it was estimated that the living standards of 4 of NovoBanco´s clients were above the norm (level 3, the well off) and 7 lived at a level considered the norm (level 2), while none of the clients were considered to be poor. In the case of Tchuma´s clients, it was estimated that 8 were at the norm (level 2), and 3 were poor. Of these poor, 2 were business people who were clearly too poor to qualify for an individual loan, which illustrates the potential of savings products to attract poor people.

13.2 Institutional experience

Almost half of Tchuma´s clients never had prior experiences with banks before, while this was the case for a small minority of NovoBanco´s clients. A minority of Tchuma´s clients and the majority of NovoBanco clients had simultaneously a bank account in one or more other banks. None of the clients closed an account at another bank after opening the account at the MFI.

The majority of both Tchuma and NovoBanco´s clients were involved in one or more informal financial system; the most popular being the *xitique* group, followed by the funeral associations, while the least used was *xitique geral.* Informal services were used by all the wealth levels; *xitique geral* exclusively by market vendors and funeral associations by the low income and better off clients. *Xitique* groups were most popular among women of all wealth

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[112] 11 from Tchuma and 11 from NovoBanco. It was planned to interview 20 clients with exclusively savings accounts,but during the interviews, it appeared that of each institution, there was 1 client who had credit from the same MFI. Additional interviews were conducted to replace the clients, in vain in the case of NovoBanco, as the replacement also appeared to have credit. The information about savings behaviour provided by these is included in this summary.

levels. The better off are possibly more attracted by the social aspect of the *xitique* groups, and the poor people by the forced aspect of savings. According to both female and male clients, *xitique* groups were used mostly by women because men would not trust each other sufficiently or they would not have the patience to attend group meetings.

The trend was the wealthier the client, the more diversified the package of formal and informal services used. For example, the client with the highest balance on the Tchuma account used 2 bank accounts and was a member of a *xitique geral* and a funeral association. Two wealthier clients of NovoBanco used even a wider range: they were members of *xitique* groups, had 2 bank accounts and also a term deposit account. As is described in the microfinance literature[113], poor people use an often startling diversity of savings tools, including illiquid services to build up lump sums and liquid savings services for emergencies. Each savings tool has its own specific purpose. The interviews show that this strategy of ´targeted savings´ was used by all wealth levels. Only a few clients used the current account at the MFIs as the only savings tool.

None of the clients had closed another bank account after opening the account with Tchuma or NovoBanco. The main reason to maintain the other account was the availability of the automatic teller machine (ATM) service or the requirement of the employer to use a specific bank to receive their salary. Only one client stopped with *xitique geral* after opening an account, because of its insecurity. The client found that the proximity of the branch compensated for the ease of the money collector.

The lack of security of *xitique geral* was raised by several clients. Particularly interesting was the client who had been a *xitique geral* money collector himself during several years and did not want to be a participant because of the lack of security. Although some clients also reported to have lost money in *xitique* groups, these groups were generally considered as less risky than *xitique geral*. Even after bad experiences, clients continued with the groups and were said to have reduced the risk by decreasing the value of contributions and by more frequent meetings.

Another informal way of saving is leaving money with a trusted person for safeguarding. One of the interviewed clients provided this service for free to several women. Another client had given her money to her uncle, who unfortunately had spent it all. For this client, the experience was the reason to open an account at Tchuma.

13.3 Reason for opening a savings account and savings purposes.

Security against theft and fire and to prevent unnecessary spending were the most mentioned motivations to open an account. The favourable conditions of the accounts and the proximity of the branches were important incentives to open an account at Tchuma and NovoBanco. The motivations of the credit clients[114] who have a savings account at the MFI are mostly related to credit: to save for reimbursement, facilitation of credit transactions, but also security, emergencies, and safeguarding money saved in *xitique* were mentioned. From NovoBanco, half of the clients of the second and third category clients opened the account because of the banks´ requirement.

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[113] Graham Wright (1999) *A Critical Review of Savings Services in Africa and Elsewhere* MicroSave. Kenya.
[114] Findings from the interviews with the 120 credit clients

The majority of the clients use the current account for longer term savings. They choose a current account because they intended to accumulate money gradually and to be able to access money in case of emergencies. Only some clients mentioned the management of the business or household as the main purpose of the account. Many clients also mentioned emergencies as a reason to save, but almost always as a secondary objective. The woman, who saved only for emergencies, was one of the poorest clients. NovoBanco´s clients with business credit used the account exclusively for credit transactions.

To categorise the motivation of the clients to open the account at the MFI, Rutherford´s[115] three categories for savings needs are used:

- *Life Cycle Needs*: marriage and birth, education and home-making, old age and death.

- *Emergencies*: impersonal emergencies such as theft and fires and personal emergencies such as illness, accidents, divorce.

- *Opportunities:* starting or running a business, acquiring business assets or household assets.

Some of the clients did not use the account for saving a lump sum, but to facilitate the daily management of the household. Two clients with business credit used the account exclusively for loan transactions.

Most clients save for ´opportunities´, but less than half of these clients succeeded in using the savings for this purpose. The saving of lump sums for the opportunities and life cycle needs is slowed down by the emergencies faced. Besides using the MFI account, clients used also other (or additional) ways to face the emergency: some used a funeral fund, borrowed money from employer or family members, went back to live in their parents´ house or used deposits from other bank accounts. The vast majority of the clients had faced an emergency that had negatively influenced their financial situation during the past three years.

The comparative advantage of the current accounts in relation to the informal products is its easy access, apart from the security. Term deposits are attractive for the more wealthy clients who can reserve enough liquid money to face emergencies.

Some of the business people were considering applying for credit because *saving up[116]* took a long time, given the many unforeseen events. Other business people were definite about not taking credit: reasons included the high interest rates and unfavourable repayment schedules. Some clients compared credit with *xitique*; they found the frequent forced reimbursements comparable with the frequent forced contributions to the pot. Forced payments have the result that the money remains more beyond control of family members and friends. This is particularly interesting for women and could be one of the explanations for the popularity of *xitique* groups (and credit) among specifically women.

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[115] Rutherford, Stuart (1999) `*ThePoor and their Money – An essay about financial services for poor people*´ Institute for Development Policy and Management.
[116] "Saving up": savings are accumulated in some safe place until they have grown into a usefully large sum

13.4 Use of the accounts

The majority of the clients were frequent users, using the account more than once a month. A minority of the clients used the account on almost a daily basis. Men used the accounts generally more frequently than women. This can be explained by women´s priority for contributions to *xitique* groups. Most of the clients involved in *xitique* saved more frequently and higher amounts in the groups than they had as balance in their bank accounts. Some women were found to save up to a third of their income with the *xitique* groups. According to clients, *xitique* groups cater mainly for women because men do not trust each other sufficiently or would not have the patience to attend group meetings. The fact that forced savings remain beyond the control of family members and friends is likely to be one of the underlying reasons for the popularity of *xitique* among women.

Most clients who had accounts in other banks said that they use those accounts more frequently than the MFI account, mainly because of the ease of the ATM services for daily expenses.

13.5 Impact

It can be assumed that the majority of clients who had exclusively a deposit account would be worse off if the MFIs had not existed. All these clients had a low income or were classified as poor. In their opinion, they would have had greater difficulties in coping with crises; they would have been exposed to considerably more risk of theft and would have spent more time and money on transport to deposit money in another bank (in the case of those who had another account). For the minority of clients, it would not have made a lot of difference if the MFI had not existed as they had easy access to other banks. One client of NovoBanco experienced negative impact: her savings were depleted by the maintenance fees and though she had tried to close her account, she did not understand how to and, according to her, she felt too insecure to ask more questions.

Many interviewed clients reported that they had lost their money in regular banks because they had not been aware of maintenance fees and fines for not using their account. According to clients, regular banks in general do not provide clear information to their customers which is probably one of the reasons for the bad reputation of regular banks.

14. Client satisfaction with associated MFIs

Most opinions were restricted to the clients' associated MFIs as relatively few had experience with other credit providers. The large majority of interviewed clients and dropouts had heard of other MFIs - almost exclusively the three MFIs under study. Noteworthy about the clients interviewed is that, although most were aware of competing MFIs, very few had bothered to make comparisons during the relatively long time they had been clients. Once a loan contract was signed, clients pervasively feel a type of conjugal tie to their MFI, commonly using familial metaphors such as "our mother" or "divorce" in the event of dropping out. Enquiring about alternative conditions from another MFI was seen as an act of infidelity.

In general, a large majority of both active clients as well as dropouts were positive about most aspects of their MFIs. In terms of treatment by their loan officers, administrative staff, office conditions, interest rates, terms, loan values, approval time, renewal time, documentation and arrears policy, most clients were positive. In terms of guarantee policy and having a compulsory guarantor, the overall response was also positive but significantly less so.

As could be expected in any situation involving considerable human interaction, significant minorities of clients had opinions about what they felt were negative aspects of the loan products and service. Negative issues most commonly raised included: high interest rates, appearing to be an increasingly important issue for the higher loan categories as the absolute interest burden gets larger; unreasonable exigency on the part of the credit officers with slightly overdue instalments, often seen by the clients as threatening behaviour; the perceived unfairness of having guarantees confiscated with values well exceeding the remaining balance on overdue loans (an important source of credit stress); low values attributed to asset guarantees and high depreciation rates as well as encouragement by loan officers to buy new assets in order to increase their loan sizes; the lack of a grace period of say one month which would make chicken breeding (45 day cycle) more viable with microfinance; the requirement by NovoBanco and SOCREMO (at the time of the interviews) to have guarantors who would normally expect to have some sort of recompense and sometimes ended up interfering with the client's business.

Reflecting a psychology similar to team loyalty, the overall assessment of the 3 MFIs was very similar (generally very positive) with only some subtle differences attributable to each MFI. The differences were sometimes made a little sharper by clients who had experience with other MFIs. In the case of Tchuma, the positive differences focused mainly on its more tolerant position on arrears, lower rates of interest and a policy of not requiring guarantors. On the negative side, clients felt that approval and renewal of loans took longer; successive loan sizes increased too slowly; repayment procedures were too complicated and too strict; guarantee policy was not satisfactory in terms valuations; depreciation rates were considered too high; and no distinction was made between old good clients and new ones. NovoBanco was felt to treat loan applications in a rapid and simple fashion; clients were generally positive about treatment from all levels of staff they encounter (office and field); and many clients felt that NovoBanco was quite tolerant on arrears if good reasons accounted for late payments (some clients, however, felt that treatment was harsh and unreasonable, suggesting that these differences may be attributable to individual loan officers rather than policy). On the negative side, there was considerable irritation at having their loan amounts discounted by 2 percent, especially by high loan clients; credit officers were felt to be inflexible and threatening on slightly late payments; the guarantor requirements were felt to be problematic;

and one client complained that there was not enough respect from younger staff towards older clients. SOCREMO clients acknowledged significant improvements in loan processing and loan renewal times; treatment by staff was felt to be very good; and the new offices, especially in the *Baixa* were highly appreciated. On the negative side, quite a few clients complained about the high turnover of credit officers; that loan values were not high enough in relation to their business needs; interest rates were too high; that terms were often chosen by SOCREMO and were considered too short especially by higher loan clients who claimed that high installment payments left them with little liquidity; and overly harsh treatment of clients with slightly overdue instalments.

A product feature valued by Tchuma clients was the minimum amount accepted for deposit after opening the account (10,000 meticais which is USD 0.40) as it made them feel that even very little money was welcome, even though bank statements proved that none of the interviewed clients ever had deposited such a small amount. The other MFIs accept any amount for deposit.

Another positive feature was the fact that Tchuma asks the client to nominate the person who is entitled to the money in the event of death. This was valued by women who reported that it can take months to get access to their husband's money in the regular banks, especially when the couple is not officially married, as is the case for most low income and poor people.

The maintenance fee was most frequently mentioned as negative by NovoBanco´s clients, while most of Tchuma´s clients did not have a problem with it. One of NovoBanco´s clients complained about the lack of information on the introduction of the new account for which no maintenance fees are charged[117]. She was the only interviewed client who had discovered this by accident. She also complained about the bureaucracy involved to switch to the new account; she had to return to the branch with a formally written request. Many clients would appreciate the introduction of ATMs and payment of interest on accessible savings. Most of Tchuma´s clients complained about the inadequate office space. Clients of both institutions complained about queues at certain times and/or days. Another complaint of some of Tchuma´s clients was the need to forewarn the branch for withdrawal of higher values. The authenticated copy of the ID required by Tchuma to open an account was also mentioned as a burden.

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[117] NovoBanco was offering in 2005 two types of current accounts in parallel. For the current accounts opened before 2005, clients were paying a maintenance fee of 10,000 meticais monthly (0,43USD). Clients who opened a *Nova Conta* (New Account) introduced in 2005, were exempt of maintenance fees. In practice, this meant that the older clients paid for the same service offered for free to new clients

15. Summary of findings

The main findings of this impact assessment are the following:

- In-depth interviews with clients of different loan categories as well as dropouts showed an overall positive impact on both the supported economic activities as well as household welfare. Clients whose business deteriorated, felt that their situation would have been worse without having received credit.

- Microcredit, though contractually stipulated for business purposes in the case of these three MFIs, also plays an important role in improving living standards through direct application into housing construction or renovation and household durables. Households prefer small, sporadic injections into housing, reflecting their often volatile financial situation.

- The profile of the more-than-2-year-old clients surveyed under this assessment shows that they are better educated than the average Maputo citizen, middle-aged, economically active people with considerable business experience.

- A small part of the more-than-2-year-old clients of the poverty focused Tchuma could be considered to be poor as defined by living under the poverty line, while this is the case for more than half of the Maputo population. This probably follows from the fact that individual guarantee-based loans require the ownership of assets, most of which operate with electricity, putting them into a relatively higher income level.

- Almost half of the more-than-2-year-old clients of the poverty focused Tchuma (43%) and, assuming a larger portion of the clients of the other MFIs, belong to the top 20% income group of Maputo City. The clients' households are not wealthy, but clearly better off in relation to the majority of Maputo's households. Most of these clients can be considered to belong to the lower end of an emerging middle class.

- A large majority of clients did not continue to take loans after 2 years. The majority of dropouts leaving within the first 2 years of borrowing were from the lowest loan category and probably poorer than the retained clients.

- Higher numbers of the low loan category clients cause a higher portfolio at risk. Clients of this category also drop out more often and are less inclined to take sequential loans. The middle and high loan categories are more important in terms of portfolio volumes, have shorter resting periods and show better repayment records i.e. they are better clients in terms of institutional sustainability.

- Although NovoBanco reaches approximately the same number of low category clients as the poverty oriented Tchuma does (taking into account all clients in Mozambique), Tchuma has a much higher proportion of low loan category clients (54% of all clients by June 2004) than NovoBanco (35% of clients with business loans).

- Credit provided by the MFIs proved to have most impact on those borrowers who tend to have basic entrepreneurial skills and who started with small loans. Even during times of economic difficulties, clients who had climbed to higher loan categories continued to increase their loans, suggesting loans were also important to confront such difficulties.

Borrowers of lesser entrepreneurial capacity or those encountering multiple crises in household or business were unable to use their loans as effectively.

- Our evidence also showed that even the majority of clients remaining with low loans (accounting for between a quarter to a third of the more-than-2-year old clients) succeeded in increasing their level of sales.

- Although instrumental in promoting the growth of smaller micro-enterprises into larger ones, loans have not been very successful in promoting the growth of the existing relatively larger micro-entrepreneurs. This suggests that the available loan products are good at stimulating growth from small to larger micro-enterprises but are limited beyond that.

- On average, the value of stock of the clients increased suggesting increased inefficiency due to higher costs of merchandise (now including interest rate charges). Only a minority of clients succeed in increasing the fixed asset base while the overall effect on employment numbers was negligible. Fewer women owned business assets or employed labour.

- Around the same percentage of active male and female clients succeeded in increasing the value of monthly sales. The level of increase was slightly higher in the case of women than of men.

- Clients who drop out after a period of 2 years, performed – on average - worse during these 2 years than the clients who continue with an MFI. However, many dropouts claim they had well-performing businesses and were good loan clients but decided to leave for reasons often associated with crises. For the MFIs this could mean that they lose long-term good clients due to short-term financial problems. Some dropouts claim that the treatment by loan officers, as a result of minor repayment problems resulting from crisis, stopped them from further borrowing.

- Client growth rates of the three MFIs have so far been maintained because new clients exceed dropouts. The microfinance market of individual loans in Maputo is very competitive and it is questionable if growth can be sustained.

- SOCREMO and NovoBanco compete with each other for a specific segment of the loan market, limited at the lower end by the need for collateral or individual guarantees and at the upper end by what are essentially working capital loans with interest rates considerably higher than those of the commercial banks. Tchuma has recognised the limitations of up-market growth and decided to improve its solidarity group lending in a bid to service the lower end of the market.

- Current accounts reduced the vulnerability of clients towards emergencies and helped to manage their businesses. The experience of the rapid growth of the number of current accounts with NovoBanco, exceeding the number of borrowers by more than twice[118], demonstrates the enormous demand for this product.

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[118] As at June 2004

- Informal financial systems still play a very prominent role in helping urban households cope with their erratic fund flows. *Xitique* and *xitique geral* are often used for saving for monthly reimbursements. The findings of the interviews of clients exclusively holding accounts suggest that informal arrangements rather than substituting microfinance products, complement the latter. However, the findings of the credit clients show that the higher loan categories were less involved in informal arrangements, suggesting that the importance and usage patterns of informal financial systems requires further study.

16. Conclusions and recommendations

Looking at the 2 major goals of the impact assessment i.e. to justify the use of public funds and to inform strategic planning of the MFIs., the following conclusions can be drawn and recommendations given:

Goal 1: Justification of the use of (public) funds of the members of the Netherlands Platform for Microfinance.

On the basis of the overall positive impact on both economic activities as well as household welfare of more than two-year-old MFI clients, one can conclude that the use of (public) funds is justified for these microfinance institutions.

However, there are some important concerns:

- The overall impact of the MFIs' services could be highly over-estimated as the assessment was limited to only the more than two-year-old clients and to a specific group of dropouts i.e. those who had been with the institution for a period of more than two years[119]. The assessed microcredit clients represent a minority of all clients as about three quarters of the clients drop out before a period of two years.
- Other impact assessments found that "benefits on households and businesses of clients were generally associated with continuing access to micro-credit, not just one or two loans"[120]. It is possible that many early dropouts ´voted with their feet´ and stopped taking loans because their needs were not met or because difficulties were encountered during repayment. This hypothesis is supported by the finding that businesses of clients who dropped out after a period of two years performed worse than those clients who continued.
- From the institutional point of view, recurrent clients are important because longer-term clients increase average loan balance and reduce loan delivery costs. Moreover, higher retention rates are critical in the increasingly competitive and saturating microfinance market of Maputo City.
- The findings of the assessment contribute to a nascent but growing debate about the distributional impact of microcredit[121]. Most of the clients who drop out before two years are from the low loan category and probably poorer than the clients of the higher loan category. This suggests that fewer poorer clients benefit from the loans. However, it is also important to note that most of the low loan category clients who continue to take a loan for two years, realized more business growth than those clients starting with higher loans. Donors should channel more research into the distributional effect of microfinance, so that interventions can be more focused on microcredit delivered to those clients with the most potential to benefit from these services.
- In Mozambique, the MFIs supported by members of the Netherlands Platform for Microfinance mainly retain relatively old and experienced micro-entrepreneurs from the lower end of an emerging middle class. These tendencies are attributed largely to their

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[119] Alexander and Karlan (2006) demonstrated that failing to include dropouts can bias estimates of impact. They found that after including dropouts some of the measures of impact changed dramatically. Where the AIMS cross-sectional methodology showed an increase of US$1,200 in annual microenterprise profit, including dropouts caused the estimate to fall to a *decrease* of about $170. Source: Karlan and Goldberg (2006) *The impact of Microfinance, a review of methodological issues.*(pg 20) Yale University, New Haven, USA
[120] See CGAP Focus Note 36, May 2006, pg. 2
[121] See for example: Thomas Dichter (2006) *Hype and Hope: The Worrisome State of the Microcredit Movement* South African Institute of International Affairs, and A. Legovini (2002) *The Distributional Impact of Loans in Nicaragua* The World Bank. Findings of the latter study suggest that it is only the richer households that have clearly benefited from business loans while poorer households are more likely to have become poorer as a result of borrowing.

focus on individual guarantee based loans. To increase the outreach and retention of lower income groups, NPM members should also consider to support other MFIs and/or to encourage the current MFIs to conduct market research and to pilot test other, possibly more appropriate, products e.g. more diversified savings products tailored to the needs of microfinance clients for both easily accessible and less easily accessible savings (liquid and illiquid savings).

- Tchuma, the locally rooted MFI with a specific poverty focus, has the weakest support and ownership structure (investors, funding agencies and TA) and has the most difficulties to attract funding. Therefore it is limited in its possibilities to launch new products and to cope with the increased competition after the establishment of NovoBanco. The members of the Netherlands Platform for Microfinance should better coordinate and balance their support to international and local MFIs: greater technical and financial support should be provided to locally rooted and well-performing, (potentially) sustainable poverty focused MFIs.

- The low loan category clients are more costly per unit of currency loaned. Donors and investors should realize that the route to sustainability of exclusively poverty focused MFIs is generally longer.

Donors and investors can play an important role in ensuring that the social mission of MFIs remains of central concern, despite the increased focus on commercialization and scale of microfinance. Microfinance stakeholders have a growing interest in developing systems to manage, monitor and report on social performance[122]. The following recommendations should be understood in this context:

- Support MFIs to track changes over time and to monitor changes (with regard to different client categories) as part of a social performance management and reporting system.
- Support MFIs to set up a system to monitor the poverty level of new clients and to assess the changes over time of the poverty level of retained clients.
- Support MFIs in researching reasons causing clients to drop out within a period of two years.
- Promote the development of a standardized formula to calculate dropout rates while taking into account resting days. The development of such a formula should contribute to comparability of dropout rates between MFIs.
- Promote the calculation of the retention rate of longer-term recurrent clients (e.g. clients who continue to take loans for two years.

Goal 2: Inform strategic planning of the MFIs

The research provided insights in several areas important for strategic planning of the MFIs. Overall, it is recommended that the MFIs become more driven by client needs, especially with regard to product development and product delivery as well as improving their awareness of what type of clients are being served and how through better internal tracking and monitoring systems. Below, specific recommendations are provided for these and other issues.

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[122] Social performance is defined as the 'effective translation of an institution's social mission into practice'Bart de Bruyne & Johan Bastiaensen (2006) *How to put social performance management into practice?* Trias, Brussels

Market research and product development

Looking at the client characteristics, there seems to be potentially unexplored market segments such as the age group below 35 years, less educated people, and poorer clients. There are signs that the market for collateralised microcredit is saturated. Savings products are in high demand and have the potential to reach deeper into the market. Market research and possible introduction of new products might open other interesting income segments in the competitive market currently served by the MFIs.

The following is recommended:
- Undertake a market study of potential young clients (younger than 35).
- Introduce a flexible interest bearing savings product whereby savings can be more easily accessed than term deposits
- Review collateral requirements for retained clients with a good credit record.
- Factor in the reality (and probability) of crises and introduce products (besides the existing micro-deposit products) that are specially designed to cushion the impact of a crisis e.g. insurance products and short-term emergency loans.
- Assess the profiles of higher loan category clients with the objective of introducing appropriate longer-term loans that could stimulate growth.
- Given the fact that business loans are used for business and consumption purposes, consider the provision of multi purpose loans for micro entrepreneurs based on cash flow analysis and analysis of guarantees.
- In the case of Tchuma, if outreach to poorer clients is to be achieved, methodologies that do not require the types of guarantees currently required need to be pursued e.g. by reviving the solidarity groups
- Tchuma is, furthermore, recommended to undertake market research to develop risk-management financial services for vulnerable populations.

Product delivery and customer service

Good product delivery and customer service strategies are important for improving client retention and attaining more effective impact. Most clients had faced some form of crises in the last years which were found to be important factors in causing client dropout. Tchuma has the lowest dropout rate of the three MFIs, possibly explained by its more tolerant policy towards late payments.

The following is recommended:
- Consider training of loan officers to better respond to clients with common repayment problems caused by crises.
- Introduce incentives for loan officers to improve retention rates.
- Revise arrears policy to allow greater tolerance for clients with a clean track record.
- Conduct research into the effect of being more tolerant for clients in arrears on client dropout.

Internal tracking, monitoring systems and research

Information on clients is crucial to be able to assess the market and to ensure clients' needs are met.

The following is recommended:
- Monitor more effectively the retention rate of clients, by keeping track of the length of borrowing periods of (different types of) clients
- Make an informed decision on when (how many months after having paid the last loan) a client is considered to be a dropout, taking into account average resting periods
- Conduct research on reasons for clients dropping out within a period of two years
- Monitor more effectively dropout rate and the reasons for dropping out.

To ensure that the social mission of the MFIs is put into practice, MFIs should consider setting up a social performance management and reporting system. To facilitate this, the following actions are recommended:

- Make use of data collected for loan appraisal in order to assess changes over time, e.g. in business size, repayment capacity or other indicators that are important given the mission of the MFI. Additionally, consideration should be made to periodically conduct a limited number of in-depth interviews to better understand the observed trends.

- In the case of Tchuma, it is suggested to assess the poverty level of new and repeated clients in relation to the poverty levels of Maputo households, by using the short list of durables and characteristics that has been developed for this purpose by this study. In this way, both the poverty profile of new clients and changes in the poverty level of retained clients can be assessed.

Annex 1: Terms of Reference

Terms of Reference of Poverty Outreach and Impact Assessment in Mozambique   (Final version 09-06-2004)

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1. Introduction

Dutch funding agencies organised in the 'Netherlands Platform for Microfinance' planned to conduct an impact assessment with three MFIs in Mozambique: NovoBanco, SOCREMO and Tchuma. Some Dutch funding agencies are supporting these MFIs with different financial instruments. Stichting Doen and FMO are shareholders of NovoBanco (together 30% of the shares); Triodos (on behalf of Hivos and Novib) has a loan agreement with SOCREMO and Hivos is supporting Tchuma with seed capital (subsidy with conditional tranches).

NovoBanco has the legal status of a bank, SOCREMO is in the very last phase of a transformation process into a bank and Tchuma is a cooperative. SOCREMO's and NovoBanco's objectives are similar: to offer financial services to the middle- and low-income strata as an important instrument in the promotion of employment and to contribute to economic development. Whilst NovoBanco is already focussing on lending to micro, small and medium-sized entrepreneurs, SOCREMO is only currently enlarging its client focus to also include SMEs. Tchuma (ACCION affiliate) is clearly poverty focussed and defines it target market as the emerging entrepreneurs, particularly women. All MFIs provide individual loan products; Tchuma provides also a group-lending product, which involves less than 5% of their clients. NovoBanco offers fixed term deposit accounts and current accounts, and handles Western Union money transfers. Tchuma introduced current accounts in March 2003. SOCREMO will start to offer savings products as soon as it will be a bank (ACCION n.a.; SOCREMO 2002; NovoBanco 2004).

Some basic information of the MFIs, as of December 2003:

	NovoBanco (IPC)	**SOCREMO (LFS)**	**Tchuma**
Start of operations	2001	1999	1999
Total portfolio size	USD 2,837,670	USD 1,963,688	USD 1,338,195
Growth portfolio size since Dec. 2002	39 %	33%	47%
# of outstanding loans	8,178	5,931	6,154
Growth # outstanding loans since Dec.2002	12%	8%	20%
Average loan size	USD 347	USD 331	USD 217
Portfolio at risk (>30 days)	2,2 %	0,3 %	2,9 %
Number of loans per loan officer	124	119	176
Number of deposit accounts	16,125	-	1,117
Average balance current accounts	USD 45	-	16
Number of branches	6	5	3

Source:SOCREMO (2004); NovoBanco (2004); Tchuma (2004)

Microfinance Platform members are primarily interested in obtaining reliable evidence of the impact of microfinance on poverty reduction, in order to justify the use of public funds and for policy making. In October 2003, draft terms of reference were presented to the individual MFIs, and their interest and expectations of an Impact Assessment were discussed. The Terms of Reference were revised thereafter (in December 2003 and in March 2004), taking into account the comments of the different parties involved. However, the MFIs were critical about the approach of the Impact Assessment; all MFIs found that the work involved for them plus the potential negative effects for the client – bank/MFI relationship outweighs the potential benefits of the study as formulated in the ToRs. (Please refer to the statement of the MFIs of the end of March and the minutes of the meeting between the consultants and the MFIs on April 5, 2004). Also Syed Hashemi of CGAP and Dr. James Copestake from *Imp-Act/* University of Bath (UK) gave their comments, on request of the Microfinance Platform.

The MFIs' interests and priorities related to the impact assessment differ, according to their objectives. Tchuma is the only MFI interested in poverty outreach assessment, as Tchuma expected that results of such an assessment could support in strategising how to obtain a deeper outreach. All MFIs were interested in the assessment of client satisfaction and the reasons for dropping out (dropout rates are not calculated by all MFIs but are assumed to be high). They were also interested in obtaining market information of clients and non-clients that could support them with product design and with improvement of marketing strategies; such as information about potential demand for additional products and about the size of the potential market.[123]

An outline of an impact assessment was prepared, aiming to accommodate as much as possible the different priorities, interests and concerns of all parties involved (09-05-04). These terms of reference elaborate more in detail the methodology set out in the outline, whereby comments on the outline are taken into account.

2. Overall General Goals of the Impact Assessment

The overall general goals of the impact assessment are divided in an external and internal goal:

External goal: to provide reliable evidence of diverse impacts of micro-financial services on different categories of clients, in order to be able to justify the use of public funds.

Internal goal: to provide reliable evidence of diverse impacts of micro-financial services on different categories of clients, to inform strategic planning of the MFIs.

A poverty outreach assessment will be conducted with Tchuma, the MFI with a poverty focus.

The goal of the poverty outreach assessment can also be divided in an external and internal goal:

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[123] The Mozambique Microfinance Facility conducted a study on the potential market involving clients and non-clients. The study has been presented on a conference in Maputo, May 19 – 21, 2004.

External goal: to provide reliable evidence of the poverty profile of the MFIs' clients divided by different categories, in order to justify the use of public funds.

Internal goal: to provide reliable evidence of the poverty profile of the MFIs' clients divided by different client categories, to obtain a better understanding of the market and to enable the MFI to develop or amend products and strategies in order to reach farther downmarket.

Re: reliable evidence: this means the use of a rigorous methodology, however, the <u>impact assessment</u> will not employ positivist methods making use of a control group (with/without, before/after). Positivist methods make the survey inflexible and risk to be of limited strategic benefit to the financial institutions themselves. In this assessment, rigorous means that conclusions are logically derived from documented empirical data and stated assumptions in a way that is open to peer review (Copestake 2004; Copestake et al. 2002). For the <u>poverty outreach assessment</u>, a quantitative survey will be conducted and findings will be compared against the National Household Survey.

Re: strategic planning: results of impact assessment will provide a better understanding of their clients and the market, which is important input for the MFIs to define its strategies. Results should enable MFIs to strengthen their systems for monitoring their client profile, to test the satisfaction of different categories of clients, to get insights in potential demand in additional products and to learn more about reasons for dropping out.

Re: diverse impacts: the kind of impact and the quality of outreach to be assessed will be related to the objectives and mission of MFIs. This means that parts of the assessment will be adapted to each of the three MFIs.

Re: Different categories of clients: impact is different per client category, e.g. is different for the poorer or better off, clients with more or less business experience, urban and rural clients and for female and male clients within the categories. Therefore, it is needed to first make an overall client profile of the institutions, to get a better understanding of the quality of outreach. The categories will be made according to the MFIs interest and priorities.

3. Approach

Practitioner focussed process
The approach will be as much as possible practitioner focussed and a listening and learning approach. This means that MFIs will have considerable input in what kind of impact will be measured and how. Several decision moments will be defined. Examples: definition of categories of clients, indicators (what is the impact we want to know), questionnaires, content of training of interviewers.

Poverty outreach and impact assessment adapted to each MFI
Although the same methodology will be applied in the assessment with all MFIs, some parts of the assessment will be different. The poverty outreach assessment will be conducted with Tchuma, the MFI with a poverty focus. The most obvious part of the impact assessment that will be different is client satisfaction measurement; which will focus on the services of each MFI. There might also be a difference in the type of clients to be interviewed. For example, the MFI with a poverty focus might be interested in interviewing a good number of the poorest clients, while the other MFIs might have other priorities. A balance has to be found between the level of work (costs) involved to adapt the assessment to each MFI and the

usefulness of the adaptation for the MFI. Moreover, similarity of the assessments allows for more comparison of the findings, therefore it is preferable to choose similar client categories. Furthermore, the interests of funding agencies should also be taken into account. Several decision moments are defined, where negotiation between the different stakeholders will take place, e.g. for the definition of the different categories of clients, choice of indicators, content of questionnaires etc.

Opportunity costs MFIs
To keep the opportunity costs for MFIs on acceptable levels, the number of interviews will be kept as low as possible, but should be sufficient to allow for understanding of poverty levels of clients and impact in the different client categories. Creative solutions have to be found for the fact that clients are difficult to find. Productivity of loan officers will be reduced when they have to accompany interviewers to the clients, what will be reflected in their salary level. On the other hand, as the assessment has a learning approach, loan officers are likely to benefit from the assessments' process and findings.

To guarantee that the IA will be useful for the MFI, input in the assessment is required of senior staff members, meaning a higher task load for already very occupied managers. The MFIs appointed a staff member to be part of the impact team.

Opportunity costs of clients
No client will be obliged to be interviewed or to participate in focus group discussions. To reduce the opportunity costs of the clients, the length of interviews with clients will be as short as possible. Together with the MFIs will be decided if interviews (or focus group discussions) will take place at home, at the business or on a neutral location (or a combination of these) and will be hold during business hours or not. A balance should be found between opportunity costs of clients, MFIs and period of time available for the interviews. It should be considered to give the clients an incentive for his/her participation.

Relationship client - MFI
MFIs establish a business relation with clients, and are concerned that the type of questions could influence negatively the business image of the MFI, leading to negative changes in repayment behaviour. The researchers will take this point into account in the design of the questionnaires and the training of the interviewers. MFIs will have input in the content of the training of interviewers and will contribute to and approve questionnaires. Furthermore, the MFIs will be invited to provide specific recommendations to the interviewers before they go to the field.

Confidentiality of information of MFIs
The researchers will have access to confidential information of each MFI. Information will not be circulated among the MFIs without explicit approval of the MFI concerned. Findings of the research will be presented to the MFI concerned and not circulated to the other MFIs or published to a wider audience before authorization of the MFIs. The MFIs will decide which information can be published only in an aggregated and anonymous way.

4. Methodology

4.1 Introduction

As indicated under the heading 'general objectives', the aim of the impact assessment is not to estimate average statistics for all clients, but to ensure that management and other stakeholders improve their understanding of the diversity of impact across the client portfolio (*Imp-Act* Working Paper 7). The impact assessment will first analyse existing information of the MFIs (portfolio information and data collected for loan decisions) to identify possible impact of financial services on different categories of clients. Through in-depth interviews with clients of the different categories, the causes of (lack of) possible impact will be explored. The findings of the analysis of the data collected by the MFIs and the qualitative research findings will be linked to borrowing and repayment patterns.

For the poverty outreach assessment with Tchuma a quantitative method will be employed and its findings will be compared to the data of the National Household Consumption Survey[124]. In the last phase of the assessment will be explored if there is scope among the MFIs for continuing to monitor their client profile, in order to provide a basis for strategic planning and marketing purposes (Copestake 2004).

To facilitate comparison of the findings of the MFI and to limit costs, the assessment will be conducted with the MFIs branches in and around Maputo. The three MFIs operate in Maputo, and NovoBanco and SOCREMO have branches in Beira; however NovoBanco's branch in Beira opened only in 2002, which means that there will be a relatively small number of clients with a credit history of more than 2 years.

4.2. Impact Assessment

4.2.1. Level of impact assessed.

Impact will be measured on the client level. Within this level, the following units of assessment will be taken into account: the individual, family/household, enterprise and to certain extent the community (e.g. employment opportunities) and market level (impact – perceived by clients – on increase of level of competition in the activities financed, increase of business network/linkages).

Wider impacts, e.g. impact of the MFIs on the level of the financial sector or regional / national economy will not be part of this study. Impact on these levels will likely materialise in a later stage than on the client level. Additionally, the measurement of impact on these levels will require the use of totally different methodologies. Moreover, it will be very difficult to attribute changes on these levels to the MFIs; e.g. the attribution of changes in prices or in supply of products (diversity) in the traditional banking sector to the impact of the MFIs. However, some aspects of the impact of the MFIs on the financial sector could be found out on the client level: clients could indicate e.g. whether this is the first time they have opened savings accounts, taken loans etc, if not who else and why they switched or joined up with another MFI (Copestake 2004; McGregor 2000).

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[124] Conducted in 2002 /2003. Report published in March 2004.

4.2.2 Analysis of existing data (no interviews)

a. Stratification of the MFIs portfolio
To agree on ways of segmenting the client portfolio discussions will be held with senior staff and loan officers. Clients will be divided in categories that are found useful by the MFIs. Categories mentioned so far by the MFIs were: entrepreneurs with growing and not growing businesses; itinerant, market and shop traders; micro, small and medium entrepreneurs, or clients divided by product or loan level. An informed estimation will be made of the proportion of female and male clients that fall in these different categories. As far as possible, it will be estimated how the client profile relates to the wider population (e.g. what is the ratio of actual / potential female and male clients within the different categories[125]) (Copestake 2004).

b. Possible impact
A sample of clients will in principle be randomly chosen within the different client categories, for the analysis of data collected for loan appraisal (not for interviewing). The sample size should be related to the size of each client category but at least 30 for each category and 150 as a maximum for the total sample per MFI[126]. Selecting five categories would result in having five categories of 30, which would probably not be proportional. Or selecting three categories might result in one category of maximum 90 that might also not be proportional. During the analysis of the results, re-weighting of the sample will then be necessary. If deemed necessary, it could be considered to select according a second or third criteria instead of randomly. For example, the main criteria for the division of client categories might be the size of the business, the second gender and the third the sector. The criteria of 30 as a minimum should hold for each category but not for the sub-groups within each category.

By comparing the business size of the clients at 2 stages (e.g. at the time of the first and fifth loan appraisal), possible (lack of) impact of the loan on business growth – divided by different client categories - can be assessed. As far as information is available on the number of clients' employees, increase/decrease of the number of employees will be taken into account. Also changes in the level of household expenses will be looked at. It will be analysed into what extent changes in business size and level of household expenses are different with regard to female and male clients. Findings on possible impact will be linked to borrowing and repayment patterns. It is important to note that the (lack of) changes in business size, number of employees and level of household expenses cannot be simply attributed to the financial services. The causes of the (lack of changes) will be explored through the in-depth interviews, as explained further in the section on the qualitative research (4.2.3.)

NovoBanco as well as SOCREMO stored loan appraisal information in their MIS (in aggregated form, e.g. information on household expenses does not include the different components of household expenses, which information is on the forms.)

c. Dropouts
Dropouts are defined as ex-clients who voluntary stopped taking loans from the MFI for their own reasons and clients who were expelled because of the MFIs policies. In the same way as described above, the (lack of) business growth, number of employees and household expenses

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[125] The National Institute of Statistics made recently an inventory of private and public enterprises that could be useful for this purpose. Also the MMF study mentioned before on the potential microfinancial market could be a relevant input.
[126] For the poverty outreach assessment with Tchuma, interviews will be conducted with the clients whose forms were analysed. Counting with clients who will not be able or are willing to be interviewed, about 15% more forms will be analysed.

of dropouts will be assessed on the basis of the analysis of the loan assessment forms, for a selection of dropouts who received several loans. The dropouts could be considered as a separate category, or could be divided in the same categories as the current clients. The minimum number of dropouts whose forms will be analysed is 30 (one category), the maximum is 90 (maximum of 3 categories) per MFI.

d. Data quality of data collected for loan appraisal
It is assumed that loan appraisal data are comparable over time, enabling a better understanding of changes in the clients' and household expenses over time.[127] The difficulties of comparing these loan appraisal data with National Household Consumption Survey data, will be discussed in the section on poverty assessment. Possible causes of information flaws will be identified, by gaining a thorough understanding of the method of data collection of the different MFIs. It should be kept in mind that no type of research is bias free. The most important thing is to be aware of the potential biases (Welch 2002). The fact that the information is given for loan appraisal may be an incentive for the client to underreport household expenses and exaggerate income. On the other hand, the loan officers are extensively trained to obtain complete information and have a stake in the reliability of the information provided (see also Welch 2002).

4.2.3. Qualitative research
To validate the results of the analysis of the data of the MFIs, and to obtain a better understanding of the causes of (lack of) possible impact on business growth and household expenses, semi-structured in-depth interviews will be carried out among clients of the different categories and among dropouts. The qualitative survey will include a closed questionnaire, to check the most relevant information of the loan assessment form. Moreover, the in-depth interviews will cover client satisfaction, demand for additional products, reasons for dropping out and clients' experiences with the market. The differences in opinions and experiences between women and men will be taken into account.

In-depth interviews will also be conducted with a sample of Tchuma and NovoBanco's depositors, by which their deposit and withdrawal patterns will be analysed and the impact of the deposit facilities as perceived by the clients will be assessed.

With regard to Tchuma's clients, the impact on women's empowerment of the savings and loan products will be assessed. Empowerment in this context is defined as an increase of control on financial resources and assets of the household, and an increase in self-confidence related to business and household management.

To ensure rigour of the data obtained from the interviews, the so-called 'Qualitative Impact Protocol', or *QUIP*, developed by *Imp-Act* will be used (Copestake et al. 2002). The aim of the *QUIP* is to allow the use of qualitative methods in a cost-effective, timely, and reliable way (Wright 2004). Statistical analysis requires a critical sample size, while this is not the case with qualitative research: the more interviews held, the more benefits in terms of useful data. However, to be able to understand the main problems of clients of a specific category, the minimum number of interviews held per category should be 10 (Impact Practice Notes 2004).

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[127] According to the experiences of ACCION's researchers with ACCION affiliates in Peru, Bolivia and Haiti, loan assessment data are valuable for obtaining an understanding how clients become more or less poor over time (email communication P. Devaney May 12, 2004)

If needed, focus group discussions will be organised for a better understanding of some of the results of the in-depth studies. This possibility will be discussed with the different stakeholders after the presentation of the results of the in depth interviews.

In the table below, the minimum number of in-depth interviews is estimated, assuming that the MFIs chose 3 different client categories, in addition to depositors and dropouts. Because SOCREMO and NovoBanco do not participate in the poverty outreach assessment, these are the only interviews to be conducted with their clients.

	Category 1	Category 2	Category 3	Depositors	Dropouts	Total
SOCREMO	10	10	10		10	40
NovoBanco	10	10	10	10	10	50
Tchuma	10	10	10	10	10	50
Total	30	30	30	20	30	140

If the MFIs are interested in conclusions related to dropouts per category of borrowers, 10 in-depth interviews with dropouts per borrower category should be conducted, meaning a total of 60 in depth interviews with SOCREMO's (ex) clients, and a total of 70 in-depth interviews with NovoBanco's (ex) clients.

4.3. Poverty outreach

Poverty outreach assessment with Tchuma

A poverty outreach assessment will be conducted with the MFI (Tchuma) interested in deepening its outreach. An indicator-based method will be used, wherefore indicators will be chosen that reflect powerfully on poverty levels and for which credible information can be obtained quickly and inexpensively (Henry et al 2000). Not surprisingly, the National Household Survey identified a strong relationship between ownership of household assets and the level of household expenses (INE 2004, pg. 43). Also education level and demographic data appeared to be important determinants of levels of household expenses. A poverty index will be developed on the basis of the data on asset ownership obtained through the National Household Survey in Maputo City; the index will determine which combinations of assets are to be most powerful in estimating household expenses. If it proved to be necessary, also education and demographic indicators will be included in the index.

On the basis of the assets owned by an household, the household expenses will be estimated and compared against national and provincial levels of expenses as found by the National Household Survey (Maputo City is a province) and against the national poverty line and international poverty lines of $1 and $ 2 dollar purchase power a day. The assessment will employ the same methodology as employed in the National Household Survey to convert the household data to data on individual basis.

As living conditions improve over time, households tend to accumulate assets; in times of crisis, assets can be sold. It should be considered to include questions on recently purchasing or selling of assets, to capture possible trends in poverty levels of the clients. To capture partly intra-household and gender relationships, it should be considered to include

hypothetical questions on who in the household would have the decision authority to sell particular assets.

On the basis of the results of the poverty outreach assessment, the relation between poverty levels and borrowing and repayment patterns will be analysed. Possible relations between poverty level and loan size and/or payment size will also be examined. A limiting factor for this analysis is the loan ceiling of 6 million of meticais (around 200 Euro) in the first loan cycle[128]. Subsequent loan cycles have also ceilings, linked to the size of the previous loan. Because of these loan ceilings, it will be impossible to extrapolate conclusions on poverty level and loan size to other MFIs. Additionally, it should be noted that the relation between poverty level and loan size will likely be stronger for poorer clients; they might receive the maximum loan size they can afford given their repayment capacities, while this might not be the case for the clients who are better-off. Also the sex of the client is important; married female clients might miss the authority to use valuable assets in the household for collateral, which makes it more difficult for them to access higher loans.

The poverty outreach survey will use the same sample that was used for the analysis of the data collected by the MFIs (at least 30 interviews for each category). The sample size should allow for conclusions on the poverty level of Tchuma's clients in general, as for the poverty level of the clients for each category. Moreover, clients with a savings account will be included. As mentioned before, in depth interviews to assess impact will be conducted with a selection of the clients of each category. As the questionnaire for the poverty assessment will be very short, the poverty outreach assessment and the in depth-interview can be conducted during the same visit. Assuming again that Tchuma will choose three client categories, a total of 150 clients will be interviewed, as shown in the table below.

	Category 1	Category 2	Category 3	Depositors	Dropouts	Total
Tchuma	30	30	30	30	30	150

The table hereunder shows the total minimum number of interviews with clients of the MFIs:

	Category 1	Category 2	Category 3	Depositors	Dropouts	Total
SOCREMO	10	10	10		10	40
NovoBanco	10	10	10	10	10	50
Tchuma[129]	30	30	30	30	30	150
Total	50	50	50	40	50	240

Justification of the proposal of this indicator based method for poverty outreach assessment

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[128] The loan size of around 50% of the clients who receive a second loan is still below the 6 million. Oral communication K. Larcombe May 21.

[129] Assuming that the in-depth interview and the poverty outreach interview can be conducted during the same visit.

The advantage of the Mozambican situation is the existence of the recently conducted and published National Household Survey. Comparison with data of this survey makes the use of a control group unnecessary. Information on assets are easily and quickly obtainable and much more straightforward than measuring household expenditure or income. Moreover, ownership of assets is not as sensitive for seasonal fluctuations as expenses and income.

In Asia, a housing index is frequently used by MFIs (Henry at all 2000), but such an index seems less relevant for the situation in Mozambique. The national household survey focuses on material used for housing construction, and in Maputo City more than 80% of the houses are made out of cement (INE 2004 pg 57).

The disadvantage of the proposed method is that the multidimensionality of poverty is not captured. Also gender and intra-household distribution issues can only be captured to some extent. According to Zeller, the amount of income with decision authority would probably be the best index of individual poverty status (Zeller 2004 pg 4). However, there are still no accepted methods to measure individual disposable income of household members or to disentangle individual from household income. This means that even if this assessment would succeed in assessing individual living standards, it would not be possible to compare the findings with the National Household Survey (Zeller 2004).

Different methodologies have been taken into account before proposing this indicator-based method, namely the ACCION method that was described in the outline of the impact assessment (09-05-04), the Living Standard Measurement Survey (LSMS) surveys, the Poverty Assessment Tool (PAT) of CGAP that assesses the relative poverty of microfinance clients and qualitative poverty research methods.

As mentioned in the outline, ACCION analysed the existing data of affiliated MFIs in Peru, Haiti and Bolivia, and compared them against national household survey data. Currently, ACCION is analysing the results of validation studies that assess the comparability of household survey data with the data of the MFIs. Although it is still too early to draw definitive conclusions, preliminary analyses indicate that there are no straightforward linkages between expenditure data of the National Household Survey and the expenditure data of the MFIs. When the ACCION poverty outreach research methodology would be used for this assessment, ACCION researchers proposed a validation survey[130].

ACCION used for its validation study an adapted module of the LSMS (Living Standard Measurement Survey) and collected data on the household roster, income and expenditure during one interview per household. For this interview, the presence of most of the household members was requested. LSMS surveys are developed by the World Bank and are designed to collect data on multiple aspects of household welfare. The LSMS is used for many national household surveys and the most common application of the results of these surveys is the calculation of the incidence of poverty below the national and international poverty lines (Zeller 2004).

The data requirements of a LSMS type of survey are very steep and comprehensive questionnaires are needed. The long recall periods, varying from 1 week to 1 year, make errors in the answers of respondents a concern (Henry et all. 2000). Therefore, the application of the LSMS questionnaires is usually divided over 2 visits, 2 weeks apart. For questions on

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[130] Oral communication during telephone conference with P. Devaney and K. Welch on May 17, 2004

household expenditure, the interviewer refers to the first visit as the start of the recall period (Zeller 2004). The National Household Survey in Mozambique required from the interviewees to maintain written diaries of daily expenses during the period of one week. Three interviews with each household were programmed to control the diaries and to collect additional information. However, in many cases enumerators visited their assigned households every day in order to fill out their diary (National Directorate of Planning and Budget 2004).

The analysis of the Tchuma's data collected for loan appraisal according to the ACCION poverty assessment research methodology plus an additional LSMS type of validation study would lead to a huge time investment of the researchers and to high opportunity costs for Tchuma as well as for the clients. Moreover, it would be impossible to carry out these 2 studies within more or less the same timeframe as the impact survey with the 2 other MFIs. Therefore the consultant did not include the ACCION research methodology in the ToRs of this assessment.

The Poverty Assessment Tool (PAT) of CGAP is an indicator-based tool that measures different dimensions of poverty, thus enabling a more complete description of poverty. However, it measures the relative poverty level of clients in relation to non-clients, requiring interviewing a control group. Moreover, it is difficult to relate the findings of the PAT to the national household survey. Therefore, this method was found also less appropriate for this assessment.

Qualitative methods include rapid appraisals and participatory appraisals, seeking input by the community, using e.g. wealth ranking as technique (Henry 2000). These methods are not appropriate for the type of clients involved, nor for the type of relationship of the MFIs with their clients.

4.4. Institutionalisation

The scope will be explored for continuing with client monitoring and assessment as a routine activity within each institution, in order to provide the basis for strategic planning and management of its "double bottom line" (social as well as financial performance) (Copestake 2004). In this way, the MFIs could leverage the information stored in their MIS.

5. Process, output and timeframe

The assessment consists of the following phases:

Phase A: Initial consultations and preparations
Phase B: The analysis of data collected by the MFIs through loan assessment
Phase C: Quantitative client survey to assess poverty outreach
Phase D: Qualitative impact research
Phase E: Institutionnalisation

Per phase, the following will be defined:

1. Objectives
2. Assumptions
3. Activities

4. Expected outputs
5. Discussion and decision-making with the Steering Committee
6. Timeframe

5.1. Phase A: Initial consultations and preparations

5.1.1. Objectives of this phase:
a) To agree with the three MFIs on <u>ways of segmenting</u> the client portfolio and on which <u>indicators</u>- to be derived from the data routinely collected by the MFIs - will be used to monitor the profile of clients. These should be relevant both to institutions (for market research purposes) and for donors (for monitoring purposes). Moreover, the categories chosen by the three MFIs should preferably be comparable, in order to obtain an overview of the overall market.
b) To agree with the three MFIs on <u>hypotheses</u> to be tested by analysing loan assessment information of a sample of the different client categories.
c) To make an informed estimation of the <u>number of clients per category</u> and of how the client profile relates to the wider population
d) To obtain an insight into the <u>context</u> in which the MFIs operate.

5.1.2. Assumptions
a) The three MFIs will agree on (partly) the same client categories.
b) A more sophisticated understanding of clients in these categories and differences between these categories leads to better services
c) A more sophisticated understanding of characteristics of client categories of the three MFIs will be useful for the MFIs for marketing purposes.

5.1.3. Activities
a) Meeting with MFIs to discuss ToR and activity plan
b) Study the characteristics of the MFIs: objectives, products, growth, dropout rate, profitability, level of sustainability and institutional challenges (almost finalised during mission in April).
c) Study information that possibly can be generated by the MFIs' MIS to obtain a more detailed insight in the diversity of clients. Examples: percentage of clients (f/m) per sector and per product, percentage of clients (f/m) per loan size level, portfolio reports per branch; percentage female clients per branch; portfolio of outstanding loans by sex, portfolio in arrears by sex, percentage of dropouts by sex, percentage of clients (f/m) expelled and rejected by the MFI, reasons for expulsion and rejecting.
d) Discuss with senior loan officers and senior staff about ways of segmenting the portfolio and possible hypotheses per category.
e) Have a joint meeting of MFIs' managers to decide upon the categories of clients, indicators and hypotheses to be tested by analysing the loan assessment data.
f) Identify the number of clients per category per MFI
g) Consult secondary sources and resource persons to obtain a sense of the ratio of actual/potential clients within different categories.
h) Study relevant secondary resources on e.g. the financial sector, poverty outreach and impact studies conducted in Mozambique, studies on the micro-financial market and on characteristics of Mozambican micro-small and medium entrepreneurs, relevant studies from the National Institute of Statistics and the Economic Research Bureau of Planning and Finance.

5.1.4. Expected output
   a) 3 separate reports on each MFI: performance, products and client profile.
   b) Report on the main characteristics of the micro-financial sector and its clients in Mozambique, including comparison of key features of the three MFIs
   c) Definition of client categories, indicators and hypotheses
   d) An overview of the number of clients per category and an estimation of the actual / potential client ratio per client category

5.1.5. Discussion and decision-making with Steering Committee
Members of the steering committee will give comments and suggestions on the definition of client categories, indicators and hypotheses by the MFIs.

5.1.6. Timeframe
June / July /August

5.2. PHASE B: The analysis of data collected by the MFIs through loan assessment

5.2.1. Objectives of this phase:
   a) To identify possible impact of the financial services on business growth and level of household expenses of clients and ex-clients divided by different categories, while taking into account differences of possible impact between male and female clients and ex-clients.

5.2.2. Assumptions
   a) The analysis of data routinely collected by the MFIs is preferable to the conduction of a quantitative client survey
   b) The data of the MFIs are comparable over time.

5.2.3. Activities:
   a) The MFIs make a client list of clients and ex clients of each category who received 5 loans or more, in their branches in Maputo.
   b) The researchers select ad random samples of those clients, distributing the samples proportionally to the size of each client category (for sample designs, see Henry 2000).
   c) Discuss with senior loan officers the lending methodology in detail and the way information is collected. Accompany loan officers when they assess a loan application, at least with 1 client of each client category of each MFI.
   d) Prepare a 'questionnaire' of the data to be derived of the loan appraisal data
   e) Discuss this 'questionnaire' with the managers of the MFIs
   f) Design a data entry programme.
   g) Discuss with the IT person of NovoBanco and SOCREMO which information can be derived from the MIS and agree about a way to do this.
   h) Agree with Tchuma, NovoBanco and SOCREMO about the most practical way to make the forms available to the researchers to derive information from the loan appraisal forms.
   i) Analyse the information by testing hypotheses formulated during Phase A. Take differences between men and women into account. Conduct statistical calculations.
   j) Write a report of result of each MFI and propose issues to be covered in the in-depth interviews

k) Present results to each MFI, discuss which information can be shared with the other MFIs. Decide about which issues will be covered in the in-depth interviews.
l) Write an aggregate report of the findings of the three MFIs.

5.2.4. Expected output:
a) Per MFI, a report on possible impact of credit for clients, divided by categories, based on the results of the analysis of loan appraisal data of the MFIs
b) An aggregated report of the three reports of the MFIs, on the same subject.
c) Agreement on issues to be covered in the in-depth interviews.

5.2.5. Discussion and decision making with the Steering Committee:
Members of the Steering Committee will provide comments and suggestions with regard to:
a) Issues to be covered in the in-depth interviews
b) Reports

5.2.6. Timeframe:
August, September

5.3. PHASE C: Quantitative client survey to assess poverty outreach

5.3.1. Objectives:
a) To measure poverty levels of clients and ex-clients of Tchuma, divided by different client categories, taking into account -as far as possible- the intra-household and gender relations and poverty trends.
b) To test possible correlation between poverty levels of clients and the size of the loan or repayment size.
c) To link poverty clients' poverty levels to borrowing, repayment and saving behaviour.

5.3.2. Assumption
a) A more sophisticated understanding of poverty levels of female and male clients will enable Tchuma to develop or amend products and strategies in order to reach farther downmarket.

5.3.3. Activities:
a) Contact the Mozambican Institute of Statistics (INE) and agree on the most practical and cost effective way to calculate the Index on the basis of the data of the National Household Survey of Maputo City (e.g., by INE itself or by the statistician of our team, by sending the data or *in loco*.)
b) Calculate a poverty index on the basis of the data of the National Household Survey with regard to ownership of assets in Maputo City, and test the necessity to include education level and demographic data (size of the household) to the index.
c) Prepare a questionnaire and discuss the questionnaire with Tchuma's management.
d) Discuss the questionnaire with the statistician of the IA team
e) Prepare a data entry programme
f) Discuss with Tchuma how clients will be located.
g) Recruit and train enumerators
h) Conduct the interviews with the same sample of clients used for the analysis of the loan appraisal data and with a sample of the depositors
i) Enter the data, clean the data
j) Analyse the data, conduct statistical calculations

k) Write a report on the results of the survey
l) Present results to the management of the MFI, and discuss which results can be shared with the other MFIs
m) Write a report that can be shared with other MFIs

5.3.4. Expected outputs:
a) A poverty index
b) A questionnaire
c) A report on the results of the survey for Tchuma
d) A report to be shared with other MFIs

5.3.5. Discussion and decision making with Steering Committee
Members of the Steering Committee will give their comments and suggestions on:
a) Content of the questionnaire.
b) The reports

5.3.5. Time frame
August, September, October, November

5.4. PHASE D: Qualitative impact research

5.4.1. Objectives:
a) To deepen understanding of the impact of access to financial services on female and male clients and ex-clients, their businesses, household members and employees.
b) To obtain information on female and male clients' satisfaction, clients' experiences with the market, demand for additional products and reasons for dropping out.
c) To obtain a better understanding of the impact of the micro-financial services on women's empowerment, with regard to Tchuma's clients.
d) To link findings about (lack of) impact to clients' borrowing, repayment and savings behaviour.

5.4.2. Assumptions:
a) Impact is complex and varies significantly between clients.[131] Some benefit more than others, some may also suffer (e.g. from over-borrowing or through struggling to repay after personal calamities). It is useful to know about unexpected as well as predicted impacts.
b) The problem of attributing impact to the financial services will be effectively addressed by this qualitative method. Impact can be inferred from the consistency *within* client narratives and consistency across *client* narratives. With accurate record keeping the process of drawing overall inferences about impact can be subject to audit or peer-review. Hence it can be as rigorous as quantitative and statistical impact assessment

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[131] It also has material, relational, attitudinal and cognitive dimensions, all of which can be important. See M.Chen (1998?) "Individual impacts of microfinance" on this. Available from the USAID AIMS website.

5.4.3. Activities

a) Select a small random sample of clients and ex clients from the sample used for the analysis of the loan appraisal data. Selection will be stratified according to client category.

b) Select an additional sample of female and male clients of Tchuma and NovoBanco who have a deposit account.

c) Develop a questionnaire and discuss the questionnaire with each MFI involved

d) Carry out detailed qualitative semi-structured interviews with the selected clients, following "QUIP" guidelines.

e) Analyse and summarise this data as described in the QUIP guidelines. Develop a simple scoring system for quantifying findings and analyse these scores against the findings of the analysis of the data of the MFIs, to gain a better understanding of which clients (m/f) are doing better or worse and why.

f) Write a report of the findings of the qualitative research of each MFI

g) Discuss the report with the MFIs management and decide which parts of the report can be shared with the other MFIs

h) Discuss with the MFIs if focus group discussions are needed for a better understanding of certain issues.

i) Organise focus group discussions if needed.

j) Write a report of the focus group discussions according the methodology developed by MicroSave Africa.

k) Write a report and discuss the findings of the focus group discussions with the MFIs.

l) Write and discuss an aggregate report of the findings of the in-depth interviews and of possibly the focus group discussions.

5.4.4. Expected output:

a) Questionnaires per MFI

b) Reports per MFI on the results of the qualitative survey

c) Aggregated report on the results of the qualitative survey

5.4.5. Discussion and decision making with Steering Committee

Members of the Steering Committee will give comments and suggestions on:

a) The selection of clients to be interviewed. Donors may be particularly interested to interview a good number of the poorest clients. The institutions, on the other hand, may be particularly keen to interview older and more established clients who have revealed growth potential.

b) The questionnaires.

c) The reports for the MFIs

d) The aggregate report

5.4.6. Timeframe

October, November, December 2004, January, February, March 2005

5.5. Phase E: Institutionalisation

5.5.1. Objectives

a) To evaluate the relevance of the findings for strategic planning of the MFIs

b) To explore the scope for continuing with client monitoring and assessment as a routine activity within each institution, in order to provide the basis for strategic planning.

5.5.2. Assumptions
   a) There is an interest at the top of the institution (and among its investors) in continuous monitoring of social performance in some form.
   b) Such work generates useful data for strategic planning, product development, staff training and marketing purposes helping to justify its cost.
   c) The learning experience of implementing this project makes it possible to streamline such work and thereby reduce its costs to acceptable levels.
   d) Periodic auditing of such work is accepted by external donors as a more than adequate substitute for independent impact assessments and evaluations.

5.5.3. Activities
   a) Write a synthesis report to MFIs and the Netherlands Platform for Microfinance, presenting:
      - An overview of the microfinance sector in Mozambique
      - An analysis of the poverty outreach and impact of the three MFIs by summarizing the three individual impact assessments
      - Conclusions and issues for further policy development
   b) Discuss this report with senior staff, board members and members of the Steering Committee in a joint workshop
   c) Consider the scope for routine collection of some social indicators. This might be done through periodic repeat of the client survey, or though inclusion of a small number of social indicators in routine information collection systems.
   d) Consider the case for retaining some capacity to commission further qualitative impact studies – whether by contracting specialised consultants or as part of the work plan of research/marketing staff.

5.5.4. Expected outputs:
   a) The synthesis report
   b) The conclusions of the workshop

5.5.5. Discussion and decision making with Steering Committee
Members of the Steering Committee will give comments and suggestions on the synthesis report. A joint workshop will be organised with Steering Committee members, MFI management and board members to discuss the results of the assessment and further steps.

5.5.6. Timeframe
March 2005

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Annex 2: Reports per phase of the assessment

Initial consultations and preparations (Phase A):

G.Athmer and H. Hunguana, December 2004: *Characteristics of the microfinance sector, and of the three institutions involved in the impact assessment.* www.microfinance.nl

Reports Analysing loan appraisal data (Phase B) :

H. Bekkers in cooperation with G.Athmer, August 2005: *Changes over time in businesses and households of SOCREMO´s clients divided by loan categories*

H.Bekkers in cooperation with G. Athmer, November 2005: *Changes over time in businesses and households of Tchuma´s clients divided by loan categories.*

G.Athmer in cooperation with H. Bekkers, November 2005: *Changes over time in businesses and households of NovoBanco´s clients divided by loan categories.*

Poverty assessment report (Phase C):

H.Bekkers in cooperation with G.Athmer, October 2005: Poverty outreach assessment of Tchuma´s clients.

In depth interview reports (Phase D):

B.Murambire, December 2005: Pesquisa qualitativa aos clientes e clientes não activos da Tchuma.

H. Hunguana, December 2005. Pesquisa qualitativa aos clientes de NovoBanco.

G.Athmer, December 2005. In depth interviews NovoBanco´s clients with deposit accounts

G.Athmer, December 2005. In depth interviews Tchuma´s clients with deposit accounts

F. de Vletter, January 2006. Microfinance impact study: results of four client categories of SOCREMO (Maputo)

F. de Vletter, January 2006: Microfinance impact study: in-depth interviews with dropouts of NovoBanco (Maputo)

Annex 3. Investors and Partners of the MFIs
Table 1: Shareholder structure SOCREMO[132]

Shareholder	Percentage of the shares (16 January 2004)
Office for Employment Promotion (Government of Mozambique)	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

4.1.1 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	

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[132] Shares are denominated in Meticais. 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 in 2004

Shareholder	Percentage of the shares[133]
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

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[133] From 19 May, 2004