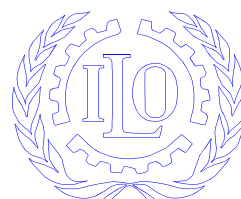


ILO/SAMAT Discussion Paper No. 16

**MICROFINANCE IN MOZAMBIQUE:
ARE DONORS PROMOTING REGIONAL FEMINISATION OF POVERTY?**

Fion de Vletter



**International Labour Organization
SOUTHERN AFRICA MULTIDISCIPLINARY ADVISORY TEAM (ILO/SAMAT)
HARARE, ZIMBABWE
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Foreword

The International Labour Organization (ILO) is a member of the United Nations family of organizations whose special mandate is the promotion of safe and decent work in all countries of the world. Unlike other specialised UN agencies, the ILO is a tripartite organization, and each country is represented not only by its government but also by the representatives of its workers and employers. Similarly, ILO services are provided to trade unions and employers associations as well as to governments. Over the eight decades since its establishment in 1919, the ILO has promulgated a large body of Conventions which deal with labour and social issues. The general thinking behind these Conventions is that, as stated in the Preamble to the ILO Constitution, “the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries”. The Conventions establish benchmarks for all governments in their efforts to promote decent and safe working conditions, and can also discourage backsliding by member States.

In the global economy, the fulfilment of the ILO’s mandate requires new and innovative approaches. To better equip the organization to pursue its mandate in the next century, the ILO Director-General has formulated four strategic objectives. These are:

- (i) promoting and realising fundamental principles and rights at work;
- (ii) creating greater opportunities for women and men to secure decent employment and income;
- (iii) enhancing the coverage and effectiveness of social protection for all; and
- (iv) strengthening tripartism and social dialogue.

These objectives will focus ILO activities in the coming years, providing complementary and mutually reinforcing approaches to ensuring decent work for all people.

In the mid-1990s, the ILO sought to move even closer to its constituents through a major decentralisation of staff, resources, and authority. Under its Active Partnership Policy, it established multidisciplinary advisory teams in Africa, Asia, Latin America, and Central and Eastern Europe. These teams include specialists in areas such as labour standards, employment and labour markets, small enterprise development, occupational safety and health, social security, industrial relations, labour administration, workers’ and employers’ activities, statistics and training, as well as in such cross-cutting issues as gender. Demand driven, the teams respond to requests from ILO member States, trade unions, and employers associations for advice on policy issues and assist governments in the design and implementation of development programmes and projects. The Southern Africa Multidisciplinary Advisory Team (SAMAT), based in Harare, Zimbabwe, provides these services to nine countries in Southern Africa.

As one of its services, SAMAT publishes a series of discussion papers on labour and social issues of which this paper is a part. Through this series, SAMAT seeks to create an ongoing dialogue with governments, workers and employers by promoting the ratification and application of the ILO Conventions in a regional context, presenting ideas for new labour and

social policy directions, and providing regional statistical data and comparative analyses which enable the member States to learn from others' experiences.

I am pleased to present this latest contribution to the ILO/SAMAT Discussion Paper Series entitled 'Microfinance in Mozambique: Are Donors Promoting Regional Feminisation of Poverty?' The paper is one of the background documents prepared in the context of the Study on the Feminisation of Poverty in Mozambique that is being executed by the International Labour Organization's Southern Africa Multidisciplinary Advisory Team (ILO/SAMAT) in Harare, with funding from the United Nations Development Programme (UNDP), Maputo. The background documents prepared under the project consist of conceptual and empirical reviews of the literature on gender and poverty in Mozambique, an analysis of existing survey data in the country from the perspective of the feminisation of poverty, and a set of case studies on coping mechanisms of poor women. These were discussed at two workshops held in Maputo on 22 February and in Nampula on 26 February 2001. They will subsequently be consolidated into a synthesis report.

This paper was prepared by Mr. Fion de Vletter, a development consultant based in Maputo, Mozambique.

I would like to take this opportunity to express our gratitude to colleagues, both within and outside of the ILO, who contributed in various ways to the project, and to the UNDP Maputo which not only funded the project but also participated actively in its formulation and execution.

Ullrich H. Flechsenhar,
Director,
ILO/SAMAT

1. Introduction

The Africa Regional Microcredit Summit (ARMS) held in Harare, Zimbabwe, in October 2000 left a very clear message for operators and donors: microfinance should target the poorest and prioritise women. This position is neither new nor contentious. What left this participant with considerable apprehension was the somewhat dogmatic affirmation of these objectives, accompanied by a minimum of discussion of the practical difficulties in achieving these objectives which have, to date, been systematically avoided by most institutions preoccupied with best practice considerations. This paper, using the experience in southern Mozambique, argues that microfinance programmes that achieved high levels of female participation did so without actually doing much to *target* women – or the poorest – and that this is probably true of programmes in many other countries as well.

What triggered the writing of this paper was a debate sparked off during one of the working sessions involving donors. A group session intended to have been a simple presentation by the donors on their new strategies for achieving the Summit objectives evolved into a discussion prompted by some of the operators about donor conditions for achieving their objectives. One major donor, presenting a policy framework that could be seen as a template for many other donors, stated unconditionally that it would only fund those initiatives that had at least 40 per cent female clients and that their programmes had to target the poorest echelons of the community. This paper will focus primarily on the first condition and why, at least in Mozambique, such a position is likely to widen the regional gender disparities in terms of access to resources and entrepreneurial proclivity. The paper also looks at the recent experience in Nampula Province of offering financial services to the poorest levels of society and why sustainability considerations have militated against these initiatives.

The position of this paper is quite simple: supporting programmes that can immediately demonstrate at least 40 per cent female client participation is likely to only encourage microfinancing in areas where women are dominant or at least very active in informal sector activities, particularly vending. Microfinance support under such conditions will tend to avoid precisely those areas where women are in most need of credit and other forms of microenterprise support. The example of Mozambique will be used to demonstrate the pitfalls of adhering to this donor conditionality as a means of stimulating greater female participation in income generating activities.

Mozambique offers an excellent example to illustrate why such donor exigency can run counter to the prescribed objectives. World Relief started the first serious attempt at microfinance in 1993, building up the largest and most successful programme in Mozambique, focusing mainly in the southern province of Gaza (Community Credit Fund South – FCCS). Recently, it started the Community Credit Fund Nampula (FCCN) under contract to the United Nations Capital Development Fund (UNCDF). Though applying virtually identical methodologies (village banking), the FCCS had, at the outset, and continues to have a female client participation of 80 per cent or higher. By contrast, the FCCN started out with about 15 per cent women, more than initially thought, but with a longer-term objective of eventually reaching 65 per cent after four years. Applying the donor criterion of 40 per cent would have meant that the FCCN would not have been eligible, but support for programmes in the south would have had no problem. This paper argues that it is provinces such as Nampula – where women are, for a variety of reasons, seriously disadvantaged economically and in many other respects – should receive donor attention in terms of microfinancing rather than areas such as Gaza Province where women have made

much greater economic progress and are comparatively better off and more empowered than their northern female compatriots.

2. Confusing the target groups: Women and the poor

A significant and controversial finding of the recent report on poverty by the Ministry of Planning and Finance, Eduardo Mondlane University and the International Food Policy Research Institute (MPF/UEM/IFPRI, 1998) is that female-headed households are not more likely to be poorer than male-headed households. By implication, microfinance programmes that show a greater percentage of women clients than men do not necessarily mean that the programme is targeting the poorer households as is often suggested by both the operators and supporting donor agencies. In fact, close scrutiny of the microfinance programmes operating in the urban and peri-urban areas of Mozambique is likely to show that a high proportion of female clients are mainly from male-headed households, most of which have more than one source of income (often including the husband's wage income from formal sector employment). Such clients are not very likely to come from the poorer echelons of urban families.

There are two general prevailing assumptions which need serious reassessment. One is that a female client is likely to be a female head of household. The second is that a female client is likely to be poor. Though no rigorous analysis has been done of female clients, intuitively one is likely to find that they are, on the whole, not heads of households and not from the poorest echelons of the communities.

Recent socio-economic data of the country does suggest however that, amongst the poorest households, female-headed households are predominant (ANE, 2000). These are the target group that ARMS and the donors want to address. Sadly, it seems unlikely that they are.

Microfinance programmes in Mozambique have overwhelmingly targeted urban female clients, the large majority of whom are pursuing vending activities in the many markets (official or unofficial) that pepper the urban centres or rural towns of Mozambique. Most require that clients have well-established activities and most have initial loan amounts of about \$100. Earlier research on the informal sector (de Vletter, 1996) suggests that to start off a typical informal market vending activity requires about \$40 to purchase a minimum quantity of merchandise and a makeshift *banca*. Very few of those involved in such activities would have taken out a loan carrying interest (money-lending is scarce in Mozambique). Capital in most cases was raised through the husband, a relative or friend. In some cases, assets were sold to raise start-up funds. In any event, it is unlikely that many of these activities would be pursued by the poorest of the economically active women.

The two most common complaints by clients of new programmes is that the initial loan amount is too small and that the repayment intervals are too short. Most of the programmes start off at about \$100 for the first loan cycle. Though not high enough for many of the clients, it is likely that this minimum is too high for requirements of the poorest operators or potential operators of the informal markets.

3. Factors contributing to regional differentiation of gender-based activities

The stark difference between gender ratios between two credit programmes operated by the same organisation, using the same methodologies, highlights the strong dichotomy between the economic integration of women in the South vs. the North.

Many observers glibly attribute these differences to religious and cultural influences. Though these may be important, there are also other important factors that have influenced the economic role of women. These factors are described in fair detail below because they are considered to be important in understanding the regional characteristics of women and why they respond the way they do to microfinance programmes. Implementers of microfinance programmes rarely go beyond a simple questionnaire relating to their income-generating activities and their household assets to assess potential clients. Very little is known about the broader socio-political-cultural-economic context in which they operate.

3.1 Economic factors

Asymmetric regional income distribution

The ANE socio-economic impact study of rehabilitated roads under the ROCS (Roads and Coastal Shipping) programme interviewed almost 4,000 households throughout rural Mozambique. Using a comprehensive survey instrument, economic variables were obtained, allowing for a large number of stratified variables that were quantified into wealth points.

The study attempted to measure household well-being by attributing “wealth points” to the households. A comprehensive set of wealth determinants was selected including: size of *machamba* (small agricultural field); value of crop sales; the use of various agricultural inputs, notably improved seeds, fertilisers and pesticides; livestock ownership; monthly wages; monthly non-agricultural income; annual investments; and housing characteristics (construction materials, provision of water and electricity).

The regional distribution of wealth points demonstrates extreme regional variation, reflecting similar patterns to those of the *National Human Development Report* (UNDP (Maputo), 1999). Households from the South have much higher levels of wealth points than those in the Centre and the North and there is a very clear tendency for household wealth to decrease the further north one goes. Barely more than a tenth of the households from the South fall into the lowest quartile vs. more than a quarter of those from the Centre and more than 40 per cent of those from the North. On the other hand, more than half of the Southern households are in the highest quartile vs. only 17 per cent of those from the Centre and 6 per cent from the North.

The wealth point analysis also demonstrates some very interesting results in relation to the longstanding debate on household poverty and the gender of household head. Significantly, there is a greater concentration of female-headed households in the lowest quartile. Almost two-fifths (38.3 per cent) of female-headed households fall in the lowest quartile vs. just under a quarter of the male-headed households. On the other hand, among the wealthiest households, there appears to be an equal chance among female- or male-headed households to be in the highest quartile.

The significant regional differences in the levels of wealth is probably the main underlying reason accounting for both the relatively underdeveloped informal sector and the much lower participation of women in the informal sector north of Beira as poorer households are likely to be devoting more time to food production from their *machambas* (see below).

Migration

One of the most distinguishing socio-economic differences separating the South from the Centre and the North is the migrant labour system. Migrant labour treaties between South Africa and Mozambique originally prohibited recruitment from above the River Save. Although this restriction has since been removed, migration to South Africa and Swaziland is still largely restricted to the provinces of Maputo, Gaza and Inhambane. For more than a century, Mozambican men from the South have developed a culture of going to *Egoli* (the place of Gold) and becoming a *majonjon* (originally a term referring to Johannesburg and applied to miners but now loosely applied to anyone working in South Africa) effectively becoming a modern initiation process for men. The main appeal was economic as it is usually very easy to distinguish a homestead belonging to a *majonjon* from subsistence homesteads, given the comparatively large earnings migrants were getting and remitting (normally in kind) to their families. Considerable outmigration of males from these provinces has led to a much higher percentage of *de facto* female-household heads. Migration has also led to a higher proportion of *de jure* female heads because of the higher rate of mortality suffered by migrant labourers particularly on the mines and the not so uncommon tendency for migrants to abandon their rural wives and start up new families in South Africa.

Migration patterns of southern Mozambique are probably one of the major factors accounting for the success of World Relief's community banks in Gaza and Inhambane provinces (and more recently CCP (Credit and Savings Groups operated by the French institute IRAM in conjunction with the Bank of Mozambique). These projects have found it very easy to find female customers engaged in informal trading activities.

One aspect of informal sector development in the South that has not been examined very carefully is the extent to which migrant remittances of goods has stimulated their wives in the selling of the transferred goods. Miners were given special exemption from duties in the importing of goods. Truckloads of merchandise can be seen coming across the borders everyday attributed to the miners. Much of the merchandise includes consumer goods that could be easily resold in the rural areas.

The role of the machamba

Though Mozambique has been referred to as one of the poorest countries of the world and for many years held the dubious distinction of being the poorest, one has to be somewhat sceptical of such an epithet when considering asset use, in particular access to land. Mozambique is relatively under-populated and each adult has usufruct rights to agricultural and residential land in designated communal land (all land is constitutionally owned by the State). Land holdings are principally in the form of *machambas* (small agricultural holdings) which average about 2 ha. For the vast majority of subsistence peasants (referred to as the "family sector"), *machambas* in normal years provide most of the family's food requirements. Access to land and its food production potential is probably not realistically factored into the assessment of a country's poverty.

One very important distinguishing characteristic between households of the North vs. those of the South is not only the productivity of land – which in the North is substantially higher and therefore provides higher returns per unit of labour applied – but also the role of the *machamba* for urban populations. Various household surveys over the past decade have demonstrated that almost all Mozambican families, both rural and urban, have an active *machamba* with the distinct exception of Maputo City where only a minority of households have an active *machamba*. As women are the main cultivators of *machambas*, it is likely that in all areas except the city of Maputo, one will find the majority of women devoting at least part of the day to the cultivation of their *machambas* for at least half a year. This factor by itself largely explains why women in Maputo (and to some extent Beira) are so much more likely to be involved in informal sector activities than women in other regions and urban areas.

Financial support systems

A recent (as yet incomplete) study of informal savings and credit systems in the country (undertaken by the author with the African Development Bank) suggests that there are significant regional differences in how people deal with financial deficits or surpluses. The system of *xitique* (these arrangements are commonly referred to in the microfinance literature as ROSCAs or rotating savings and credit associations, whereby members deposit a fixed amount regularly with the pooled amount collected in turn by one member) is practised throughout the country but to widely varying degrees. It is practised more commonly in urban areas, especially amongst workers receiving wages on a common day. *Xitique* is also practised by market vendors, but more commonly in the South than in the Centre or North. *Xitique* is generally pursued for the accumulation of funds to purchase a specific consumer good such a refrigerator, television, bicycle, furniture, etc. Others accumulate funds for the purchase of merchandise and even to start up small informal sector activities. In some circles, e.g. with Indian merchants, *xitique* is practised with thousands of dollars for each contribution. Amongst wage workers it is done on a monthly basis but in the markets it can be done on a daily, weekly or monthly basis.

One of the most important differences between informal vendors from the South (particularly Maputo) and others from in the Centre and North is the quite recent introduction of what is called *xitique geral*, a mobile banking system almost identical to those found in West African countries such as Ghana. It was said to have been introduced to Maputo in the early 1990s where it curiously operates with extreme popularity in a virtual vacuum from the rest of the country. Mobile bankers typically have between 75-150 clients who agree to pay a fixed daily amount (amounts vary from basically a minimum of 10,000 Mt a day (at the time of writing there were 18,000 meticaïs to a US dollar). These deposits are made over a month at the end of which the whole amount is collected, less one-day's deposit serving as the banker's commission. Many vendors in the Maputo markets are members of more than one *xitique geral* for risk averting reasons, should their banker have difficulty returning the money on time or have suffered an assault which happens from time to time.

Xitique geral has a strong appeal because it allows (through forced savings) the members to accumulate money so that merchandise and other business related expenditures could be paid for at the month-end. It also prevents members' spouses (especially husbands) from accessing part of the day's takings as well as resisting temptation of purchasing small unnecessary items for the member or her/his family. This system is said to have been of significant importance in the development of informal sector vending in Maputo City.

3.2 Social factors

Cultural practices

The report *Gender-Based Market Research: Nampula Province* by Nancy Horne et al. (2000) commissioned by the UNCDF and World Relief to determine a gender-focused microfinance programme in Nampula Province clearly highlights the importance of cultural practices, particularly initiation rites, as impeding Makua women in Nampula from performing better in business. They argue that initiation pressures on young women lead to early sexual experimentation that has led to the lowest average childbearing age in the country. Early child bearing not only inhibits women from pursuing economic activities away from home, it also results in very high school dropout rates and thus poorer income earning prospects. The report also clearly shows how, despite the largely matrilineal tendencies of the Makua culture, matrilineality only confers greater power of the spiritual/ceremonial sort on women while economic power remains firmly in the hands of men who are very averse to sharing this power with women. The report also stresses the importance of changing social mores in Nampula, stating that modernisation has brought on a much greater tendency for men to abandon their wives as they get older for younger partners.

Recent research by Machicoa Samgudo, a student at the Faculty of Agronomy of the University of Eduardo Mondlane, found that in both the urban and rural markets the majority of women were single, largely as a result of divorce from their husbands.

Cultural influences and chauvinistic attitudes are much less prevalent in the South. One reason is the prevalence of the migrant labour system which *ipso facto* creates a socio-economic environment very conducive for female income-generating initiatives (see below).

Religion

Religion is undoubtedly a factor that has influenced the extent of women's economic empowerment. The conservative influences of both the Moslem and Catholic faiths in the North are said to have negatively affected women's entry into the cash economy. In Nampula, women very often mentioned that they required their husbands' permission to undertake economic activities (de Vletter, 2000). Though this might be an important barrier, it is possible that financial constraints and fear of borrowing for establishing businesses may be more important. Women belonging to savings stamp groups (see below) often indicated that the appeal of these groups was lay in stimulating them into accumulating the capital necessary to start up the income generating activities that they had dreamt of establishing (de Vletter, 2000).

War

The effects of war have also had some influence on women's entrepreneurial development. It is very likely that the war has had a major role in the explosive expansion of the informal sector in Maputo. Maputo received disproportionately more war *deslocados* than any other city. Furthermore, as seen above, Maputo is the only urban area of the country where the majority of the population does not own *machambas*, thereby lacking an important source of food for household survival. Without access to land, *deslocado* households were forced to turn to the formal and informal sectors for survival. Men tended to find employment in the formal sector more easily than women. Women tended to turn to informal vending as their

principal source of income. The majority of Maputo households had more than one source of income (Sahn, 1993).

3.3 Geographic factors

Sourcing of merchandise

One major influence on the development of the informal sector in the South has been the proximity of the source of merchandise – in particular South Africa and Swaziland. Informal sector vendors can hop on a *chapa* early in the morning and shop in Swaziland or South Africa (often at warehouses specially catering to Mozambican vendors) and return to Maputo within the same day. For many years the *mukhero* system at the border allowed merchandise to be carried through the border without any duties imposed. Customs officials turned a blind eye to the system and all benefited, particularly in the border towns of Namaacha and Ressano Garcia. Recent attempts to apply duties more rigorously on the informal vendors have elicited a strong reaction from the vendors (various news reports). Higher duties as well as the presence of the large shopping complex Shoprite was expected to have serious negative influences on informal sector trading but if this has happened, it is not yet evident.

Studies in Beira (de Vletter, 1996) have also shown that women commonly went to Zimbabwe to buy their merchandise. This was done regularly on a rotational basis as it took considerably more time. Zimbabwe has a considerably smaller range of items to offer the Beira market than South Africa has for Maputo. Trade of this nature between Nampula and the Malawian border is limited to considerably fewer goods.

Corridor traffic volumes

The development of the various corridors between Mozambique and its neighbours has also had a significant impact on the way informal sector markets have developed. The Maputo corridor has led to significant informal market growth in Namaacha, Ressano Garcia, Boane and Matola. Going North from Maputo along the EN1 to Beira, informal market growth has been very evident in towns such as Manhiça, Macia, Xai Xai, Zavala, Inharrimbe, Maxixe, Massinga, Vilanculos, etc. Along the Beira corridor as well, important informal market growth has occurred in Machipanda, Chimoio, Nhamatanda and Dondo. In most of these roadside markets women are either dominant or share the market equally with men. The Nampula-Nacala corridor and the Zambezia corridor are, by contrast, relatively underdeveloped in terms of traffic and correspondingly the size of the adjoining informal markets.

4. Microfinancing the poorest women: Institutional sustainability vs. development

As noted in the introduction, the Africa Regional Microcredit Summit (ARMS) specifically mentioned women and the poorest of the poor as priority target groups. This section will briefly look at two very progressive microfinance methodologies introduced on an experimental basis by Catholic Relief (CARE) with funding from the International Fund for Agricultural Development (IFAD) to service the needs of the poor fishing communities within the orbit of the Nampula Artisanal Fisheries Project (NAFP). These methodologies were adopted from Niger and Zimbabwe with the objective of targeting the poorest of the poor, particularly women. The results of the experiment are very interesting in terms of the concept of the feminisation of poverty and the potential for microfinance to deal with the

problem. The outcome was ironic: despite very good response to the two methodologies, the programmes were discontinued by CARE for sustainability reasons.

The powerful presence of the Consultative Group for Assisting the Poor (CGAP) – the main watchdog group over global microfinance activities – has resulted in a much greater focus on institutional sustainability than on the actual impact of microfinance on the development of their clients. The case of CARE’s experience with the NAFP (Nampula Artisanal Fisheries Project) is a good example where sustainability concerns killed a project with excellent developmental potential and social impact. The two products tailored to target the poorest of the Mozambican poor are described below. These programmes succeeded in achieving what ARMS prioritised – offering financial services to the poorest – but they failed to meet sustainability criteria. For the simple reason that these programmes are a financial drain on their implementing institutions, they will always tend to be dropped from the portfolios of sustainability driven institutions. The paradox of the good intentions of CGAP – sustainability – vs. the good intentions of ARMS – reaching women and the poorest – has generally meant that those programmes which try to achieve the objectives of ARMS tend to be the first to be cut from the financial products offered.

4.1 Gender issues

There are various factors that militate against women in Nampula having the same sort of access to microfinancing as men. These factors were analysed in some detail in the CRER (Credito para Empresarios Rurais) Evaluation Team’s report entitled *An Assessment of Gender Issues* (Almeyda, et al., 2000). Briefly these include:

- women combine household and entrepreneurial activities and therefore have a lower continuous flow of cash to repay loans;
- women are very involved in agriculture and devote considerable time to their *machambas*;
- women’s income generating activities are mainly home-based;
- women have less education;
- women-owned enterprises tend to be less profitable than those owned by men;
- women tend to have less wealth/goods that can be used as collateral;
- women, particularly poor women, may consider themselves “unqualified” to receive loans unless efforts are made to reach and inform them, hence the need to more actively seek them out in their homes;
- societal norms and attitudes create stereotypes that devalue women’s work and contributions to family income; and
- women-owned enterprises tend to be among the smallest.

In peri-urban areas women are involved in miscellaneous trade and processing activities including the production of bread, cakes and flour. In coastal districts such as Angoche women were found involved in the processing and trade of rice and fish (mainly dried and salted). Pottery making is widespread in the rural areas. NGOs have been instrumental in introducing new types of activities for women such as oil presses and the cultivation of oil seeds.

In discussions with some of the female clients of the CRER programme, it became clear that not only were the more environmental influences such as religion, tradition and economic conditions important in influencing a woman’s decision to undertake an activity, but, more

directly, it appeared that women needed their husbands' approval to engage in anything that involved money. Female members of a savings stamp group in Angoche all said that they sought permission from their husbands to join the group. CRER points out that one of the initial obstacles to initiating the programme was the scepticism by husbands towards the programme, initially suspecting the scheme to be a scam for stealing their wives' money in order to recoup on bad debts from the confidence groups. Similarly, the husband's approval is likely to be a prerequisite for any initiative to start up an income-generating activity.

Confidence group credit (CRER) in the project area had only 6 per cent female participation (vs. about 66 per cent for similar types of loans in the South of Mozambique). Of 30 FFPI (Fund for the Promotion of Small Industry) loan clients only five were women (but this will always be biased towards men as the project would like to see the majority of the loans directed towards fishermen). The introduction of the PCR savings and credit rotation programme was hoped to target more women, especially as it involved very small amounts of savings and credit for any type of need, including non-interest loans for social needs (hospital, funerals, etc.). Despite this, female participation is still very low. Women's participation in savings groups in the urban area of Angoche was much more positive with some 75 per cent being women. The principal objective of savings, according to the CRER supervisor in Angoche, is for "social" activities such as illness, funerals, ceremonies, school fees, etc. Some women wanted to save with the specific objective of raising sufficient capital for small informal commercial activities. One woman was waiting until she had saved an amount of 2 million Mt (over approximately a period of two years) before entering into selling peanuts. Asked why they did not want to start immediately into business through a confidence group loan, it was apparent that they were afraid of failing with a loan that they would have to pay back, whereas losing their savings was not seen as a problem.

4.2 Stamp-based savings groups

In 1998 savings groups were introduced to eight districts and as of December covered 1,407 members of whom 71 per cent were men and 29 per cent women (savings groups found on the farmers' association involved mainly men). The average savings balance per person was about \$5. To date, 39 groups have been established in Angoche and Moma-Mucoroge involving 318 members of whom 78 per cent are women.

Groups are usually of one gender. The system allows for members to make deposits of any size which are recorded in savings books using stamps denominated by amounts of 5,000 or 10,000 Mt. Withdrawals can only be made once a page (10 stamps) has been filled. Money is stored in a small wooden box with two locks, the keys of which are held by the President and Secretary of the group, while the box is kept by the treasurer. Groups are encouraged to open bank accounts once deposits of 300,000 Mt are reached. After various stages of training and monitoring, groups are expected to operate totally independently after six months. Savings are usually held for family related expenses such as sickness, funerals, ceremonies, school fees, etc. A significant number save to accumulate for the establishment of informal economic activities, particularly trading. Groups decide how often they should meet (it is not necessary for members to save). When asked why they did not prefer to obtain the required amount immediately through a confidence group loan, respondents clearly feared the stigmas attached to unsuccessful loan repayments. For most it has been their first opportunity to see money as a pooled resource which can grow at the individual and group levels. As a minimum requirement at least one or two members should know how to read and write. Savings groups are highly

suitable in areas where there are nearby bank branches but not so suitable in more isolated areas.

Savings groups seem to be a very appropriate first step towards the formation of a credit union or other type of community-based specialised microfinance institution.

4.3 Rotational Savings and Credit Groups (PCRs)

The CRER evaluation report recognised that the continuing involvement of and funding by the IDPPE (Institute for the Development of Small Scale Fisheries) has kept pressure on CRER to find ways to bring basic financial services to the fishermen and their families following the lack of success of initial efforts to service this sector.

The most interesting development has been the introduction over the past year of the Rotational Savings and Credit Groups (PCRs). Because of the very low minimum savings requirement (as low as 1,000 Mt per week) this product is proving to be very popular amongst the poorest communities.

One factor accounting for its popularity is that the PCR is largely based on the traditional “*xitique*” revolving savings and credit fund (i.e. all members contribute on a daily, weekly or monthly basis and one member rotationally receives the entire pot). The PCR is seen as a “*Xitique Plus*” bringing in the flexibility of allowing members to borrow when they want to and for savers to benefit from interest paid by the borrowers (10 per cent per month). Saving is an important factor for the poor to reduce their vulnerability to crises and emergencies. The PCR introduces savings in an easy-to-understand package which can be managed by groups with low educational and income levels. It also allows for the group to decide to save together for a specific activity.

There are to date 12 groups with 153 members (average 13). So far the experiment is limited to two communities in the project area: Larde has only five per cent women but Quelelene has 30 per cent female membership. Average member savings is \$2.40 and the average individual loan is \$7.30.

We observed the workings of one group of 23 members (2 women): 1,000 Mt had been chosen as the fixed weekly deposit. If a member was unable to make a deposit a fine of half the amount due is added to the overall due amount the following week. Those wishing to borrow from the pot may do so, paying interest of 10 per cent per month. Money is guarded in the same fashion as for the savings groups. All deposits and withdrawals are carefully noted in a book and the group “*fiscal*” is responsible for counting the money. Usually after eight weeks of collection, the money collected is then shared and a new round is started. A small separate fund for social action is kept and given out on an interest free basis, depending on the circumstances. Money was borrowed for a variety of reasons and usually in small amounts (50-100,000) which for the members was sufficient to launch into small income generating activities. Because of the extremely low level of education, committee members, particularly the treasurer needs to be closely supervised for several weeks. After this period these groups should be able to operate totally independently.

The evaluation report had interviewed clients who consistently mentioned how easy it was to learn and put the PCR system into operation. Given the short period of functioning (five months) members seem to have assimilated quickly to the system. The report also found that

training of the members seems effective (the training manual was deemed to be excellent) in helping them to take on ownership of the PCR and develop a group identity.

It is too early to tell whether PCRs will become a self-sustaining and quickly disseminated and adopted methodology. Though based on traditional methods, the “*Xitique Plus*” approach requires at least initial support in training, provision of materials and monitoring. The evaluation report felt that internal controls established by the group encourage permanency, a sense of seriousness and responsibility when joining the group. The PCR groups could easily evolve into a credit union or a village bank.

4.4 Subsidisation as an option for reaching the poorest

Though anathema for microfinance purists, subsidisation of microfinance services may be the only alternative for ensuring that not only appropriate financial products are delivered to the poorest members of society, but also expanding the operational radius of microfinance operators so that remoter communities can be reached. Normally the only other option for reaching the poorest would be through direct safety-net type transfers. By subsidising microfinance operations, Government or the donors would be bearing the non-recoverable element of the financial products which would still be considerably less than straight hand-outs, while at the same time being developmentally preferable.

Such an element of subsidisation has been proposed by the financial consultant for the expansionary phase of the NAFP which will now incorporate the entire length of the Sofala Banks. The project proposal for financial services recognises the importance of the financial products introduced through CARE’s CRER programme, in particular the savings stamp groups and the PCRs. The proposal feels that these products are worth continuing as the response by the fishing communities has been very positive. It is however accepted that such products may be difficult to offer by sustainability driven institutions and therefore sees the provision of these services from NGOs or by project extension officers themselves.

Most fishing communities are located well beyond the sustainable operational limits of existing microfinance operators. Given the poor results of inexperienced NGOs trying to give microfinance in these remote areas, the proposal strongly recommends that only qualified and experienced operators should give credit but recognises that the only way to entice such operators to expand their operational zones would be to subsidise the extra operational costs. The proposal feels that the Fund for the Development of Fishing channel funds for such forms of subsidisation. To avoid the term “subsidisation”, it is proposed that these extra costs (to be borne by donors) be negotiated as types of management fees for operating in specific areas.

The ARMS objectives of *targeting* women and the poorest, laudable as they are, are unlikely to be met by microfinance operators under pressure to achieve sustainability. The Nampula experience in Mozambique offers two strategies that break with the conventional microfinance paradigms but ensure institutional sustainability. One is to encourage NGOs and projects to take on the responsibility for the promotion and management of cost-recovering financial products such as savings stamp groups and credit and savings groups. The other is for government or donors to cover, by way of special contracts with experienced operators, the additional operational costs of expanding outreach to poorer communities.

5. Conclusions and recommendations

This paper has attempted to demonstrate that “gender supporting” donor policies towards microfinance programmes have often tended to aggravate regional gender-related disparities rather than closing them. The problem basically arises in relation to the concept of *targeting* which implies a conscious effort at identifying and serving a particular client. The paper argues that the client profile of most microfinance programmes in Mozambique is a *natural* consequence of the socio-economic environment and not the result of a *strategic effort* on the part of the operator.

Very few operators can honestly say, in retrospect, that the impressive rates of female participation in their programmes were the result of active targeting. Rather, as this paper attempts to demonstrate, high levels of female participation in their programmes is the result of the very different regional constructs between the South and North of Mozambique which resulted, without any special efforts, in a high *natural* rate of female participation. Similar methodological approaches in Nampula have led to only a small minority of female participation. Though the need for assisting women in reducing their poverty and promoting their uptake of income-generating activities is much greater in the North, donor support policies as they stand will continue to encourage operators to establish their programmes in the South. It is hardly a coincidence that very few serious operators are found north of Sofala (with the exception of specific area-focused programmes such as those promoted by UNCDF or the Dutch Government – both in Nampula).

Another aspect of microfinance in Mozambique (as well as many other countries) is that, just as female participation is misconstrued as an indicator of gender targeting, donors and their supported operators also take comfort in assuming that informal sector activities are a legitimate indicator or proxy for poverty. But that is not always, and probably not even likely to be the case if we actually assess how poor microfinance clients are. The informal sector, just as the formal sector, is a melting pot of activities, accommodating the very poorest to wealthiest families. There are likely to be very few urban families – poor or rich – that are not involved in some way financially in the informal sector – whether selling five tomatoes on a scrap of cardboard or negotiating major drug deals from the latest model BMW.

The majority of microfinance programmes in Mozambique have taken the path of least resistance to reaching sustainability, while deluding themselves and their donors that their clients are mainly women from poor households. How one defines poor is relative and though many of the clients are outwardly poor, they are generally *comparatively* much less poor than the poorest families that the ARMS conference seeks to target.

Do sustainability criteria render ARMS-type objectives unattainable, or is there a way out that would receive endorsement from CGAP? The recent initiatives in Nampula suggest that there is but that paradigm adjustments will be necessary, the biggest of which is to accept that non-specialised NGOs, projects and even government have an important role to play in the delivery of poverty and gender targeted financial products. Sustainability arguments and best-practice concerns have resulted in the erroneous assumption that only specialised microfinance practitioners should be involved in the management and delivery of financial products. This paper hopes to have made a convincing case that there is much potential for a collaborative approach between the practitioners, non-specialised NGOs and the government. Such an approach would not compromise the sanctity of institutional sustainability; it may in fact reinforce it.

CARE has shown that serious practitioners, especially those with international experience, can play a crucial role in the development of appropriate financial services for the poorest of the poor. Such services may not necessarily be suitable for institutions to offer because of the costs involved. But they can be passed on to other organisations supported by donors without conditionalities of sustainability. Thus, the savings stamp groups and the PCRs, once developed and adapted to local conditions, can be handed over to NGOs or project personnel for wider replication and application.

Finally, it is recognised that the delivery of best-practice types of microcredit should be undertaken by specialist practitioners. The limitation is that the beneficiaries of such loans have tended to be urban/peri-urban based informal sector vending activities. Donors or governments feeling that such services should also be extended to clients who would otherwise not be reached under the constraints of operational sustainability should be willing to pay for the extra costs involved in getting access to credit provided by experienced operators. This would broaden the outreach of credit to poorer, more isolated clients while at the same time meeting sustainability requirements.

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