

RESEARCH STUDY OF
POST-CONFLICT MICROFINANCE IN MOZAMBIQUE

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ACRONYMS

ADE	Aide à la Décision Economique
ADI	African Development Indicators
ANC	African National Congress
BoM	Bank of Mozambique
BPD	Banco Popular de Desenvolvimento
CCADR	Credit Fund for Agriculture and Rural Development
CGAP	Consultative Group to Assist the Poorest
CRESCE	Credit Sustenavel para o Crescimento dos Empresarios
DFID	Department for International Development
EC	European Commission
ECHO	European Community Humanitarian Office
EIU	Economist Intelligence Unit
ERP	Economic Rehabilitation Programme
ERSP	Economic and Social Rehabilitation Programme
FAO	Food and Agriculture Organisation
FCC	Fundo Credito Comunitario
FGD	Focus Group Discussion
FRELIMO	Front for the Liberation of Mozambique
GDP	Gross Domestic Product
GPA	General Peace Agreement
HDI	Human Development Index
IDP	Internally Displaced Person
IDS	Institute of Development Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
INE	Instituto Nacional de Estatística
MFI	Microfinance Institution
MoA	Ministry of Agriculture
MSE	Micro or Small Enterprise
NGO	Non-Government Organisation
ODI	Overseas Development Institute

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ONUMOZ	United Nations Operation in Mozambique
PCM	Post-Conflict Microfinance
RENAMO	Mozambique National Resistance
ROSCA	Rotating Savings and Credit Association
SADC	South African Development Community
SADCC	South African Development Coordination Conference
SSI	Semi-Structured Interview
UN	United Nations
UNDHA	United Nations Department for Humanitarian Affairs
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
UNOHAC	United Nations Office of Humanitarian Assistance
USAID	United States Agency for International Development
WR	World Relief
ZANU	Zimbabwe African National Union

1. EXECUTIVE SUMMARY

1.1 Background to the Research

Since the end of the Cold War the world has witnessed a wave of intrastate and interstate conflicts. According to the World Bank more than 50 countries experienced conflict in the last 15-20 years. Fifteen of the world's poorest countries have undergone widespread conflict since 1980. Thirty of the world's low-income countries are dealing with past or current displacement of at least 10 percent of their population (Doyle 1998). The nature and duration of these armed conflicts have changed considerably, posing diverse problems for which there are no easy answers. The growing number of low intensity conflicts of unknown duration has profound implications for the design and delivery of appropriate humanitarian interventions.

It is now widely recognised that Post-Conflict Microfinance (PCM) has the potential to assist poor people affected by or involved in conflict (*ibid.*). Waiting for the process of reconstruction to be under way before initiating microfinance projects is believed to be a missed opportunity. Potentially PCM may provide the following benefits (Boyle 2001): (i) Improved access to financial services when all other service providers have ceased their operations; (ii) Improved access to cash to enable the self-employed to resume economic activity; (iii) Support for the reconstruction of the financial system, which is invariably damaged by the conflict; (iv) A relatively smooth transition from short-term humanitarian assistance to longer-term development and; (v) Improved national microfinance policies by enabling microfinance practitioners to contribute to the national microfinance policy debate.

However if PCM is to realise these potential benefits, there is a need to increase the level of understanding in this area. The assumption that the experience gained and lessons gathered in developing countries regarding the design, implementation and management of microfinance services were also applicable to post-conflict countries like Mozambique has proven to be miscalculated. This study therefore aims to address this vacuum in the specific context of post-conflict situations. The purpose of the research is to enhance the awareness, skills and knowledge available to implement successful PCM projects for the poor. During the first phase of the project research was carried out in four countries that have experienced armed conflict in the last three decades: Angola, Cambodia, Mozambique and Rwanda. The research questions addressed three main areas: the environment, coping mechanisms and microfinance products. During the second

phase of the research project (beginning in December 2001) the findings of the specific country experiences will be tested by application to a PCM model in Rwanda.

1.2 Data and Methods

Both primary and secondary data were used for the purpose of this research. Secondary sources included books, journals, Non-Governmental Organisation (NGO) documentation, World Bank and United Nations (UN) literature and government information. Primary data was obtained using a qualitative research approach. The main methods employed were focus groups discussions and semi-structured interviews. Discussions were first held with key actors in the microfinance sector in Maputo in order to provide background information. During the field study the researchers interviewed staff of Microfinance Institutions (MFIs), NGOs, clients, non-clients, ex-clients and local moneylenders.

1.3 Main Findings

The Environment

- i) A lack of understanding of the interrelationships between the political, social and economic situation at national and local levels has a negative effect on microfinance.
- ii) As soon as essential conditions are met, microfinance is an appropriate intervention during the emergency/relief stage in a post-conflict situation.
- iii) The relief to development transition occurs at different paces both within the country and within provinces and this affects the development of the microfinance sector.
- iv) Trust is essential for informal microfinance to develop and security is essential for semi-formal and formal microfinance to develop.
- v) Although high cost and time consuming, considering issues of sustainability at the outset facilitates the development of the MFI and the microfinance sector in the long term.

Coping Mechanisms

- i) The household asset base determines how households cope during and after conflict.
- ii) Coping mechanisms vary within the country, province and district and evolve over time, depending on the environment and affecting the demand for microfinance products.
- iii) Informal microfinance is an important coping mechanism both during and after conflict. Semi-formal microfinance is an important coping mechanism post-conflict.

Products

- i) The types and characteristics of the products demanded change with the evolving environment.
- ii) Inaccurate analysis of demand often leads to inappropriate interventions and poorly designed microfinance products.
- iii) For the poorest people credit for consumption is more important than credit for investment. They prefer the flexibility of informal microfinance products.
- iv) Semi-formal microfinance is an important source of credit for the entrepreneurial poor.
- v) The design of appropriate products for the poor is often curtailed by the quest for sustainability.

1.4 Issues to Consider in Better Practice

- i) MFIs need to analyse the political, social and economic situation at national and local levels and understand the impact on microfinance activities.
- ii) MFIs need to monitor the changing environment, establish themselves as soon as possible and build in sufficient flexibility to respond to important events and developments.
- iii) In a post-conflict setting MFIs should invest and plan to achieve determined levels of sustainability over the long term.
- iv) MFIs must have the necessary expertise and technical support to provide sustainable PCM to the poor.
- v) For a client-based approach to microfinance MFIs need to have in-depth understanding of traditional coping mechanisms, the effect of conflict on these coping mechanisms and their evolution over time.
- vi) Potential microfinance providers should carry out a detailed analysis of demand in order to design appropriate interventions and products.
- vii) MFIs need to invest in innovative product design to ensure that semi-formal microfinance is more suited to the needs of the poorest.
- viii) MFIs need to understand the interlinking nature of the environment, coping mechanisms and product demand for the design and development of microfinance.
- ix) Donors should be prepared to meet the start-up costs associated with the provision of sustainable microfinance for the poor in a post-conflict environment.

1.5 Outline of the Report

The report is divided into eight sections. The introduction sets out the rationale, research approach and research questions. It also provides some definitions and concepts that are central to the study. The next section presents the specifics of the methodology used during the research process. Section four provides an overview of the environment in Mozambique, including a brief history of the conflict and the changing political, economic and social landscapes. This provides the background and context for the presentation of the research data in sections five to seven. The environment, coping mechanisms and products are discussed individually. The data is analysed in section eight and testable propositions are presented and explained. Finally section nine offers some conclusions and issues to consider in better practice.

2. INTRODUCTION

2.1 Rationale for Selection of Topic

Conflict and poverty are inextricably linked. In the 1997 *Human Development Report*, eight of the ten countries at the bottom of the Human Development Index (HDI) had experienced civil war in recent years – Mozambique, Eritrea, Ethiopia, Rwanda, Sierra Leone, Niger, Mali and Guinea (Stewart et al, 2001a). Poverty, or perhaps more importantly, inequality contributes to conflict. Conversely, conflict intensifies poverty. Economic, environmental and socio-cultural factors are now understood to be far more influential in driving violent conflict than the more conventional military and political factors (Boyle 2001). Competition for scarce resources, population pressure, inequality and exclusion and lack of opportunity are regularly cited as factors that increase the risk of war (Pirrotte et al, 1999; Cairns 1997; Tansey et al, 1994). The increasingly frequent and systematic targeting of civilians and their life-support systems has a devastating effect on the local populations. It is the poor who are most vulnerable in these situations, often experiencing loss of assets, savings, property, livelihoods, education and health. This results in exacerbated levels of poverty and inequality in society. If this issue is not addressed in any meaningful way the prospects of lasting peace are thus limited. The tragedy of Mozambique, a nation with great natural resources and now with socio-economic indicators at the bottom of the world economic ladder, offers a graphic illustration of some of the most straightforward linkages between poverty and conflict (Marshall 1997).

The economic consequences of war are multiple and complex. The prolonged conflicts in many African, Asian and Central American countries have resulted in massive destruction of their

physical, human and social capital. These costs can be divided into immediate human costs and longer-term development costs, although both interact with each other. Human costs can be analysed at three levels - the *macro* or overall level of the economy and its outputs and incomes; the *meso* level of specific policies and sectors, which determines how effects are distributed between sectors and groups; and *micro* or household level which is where individuals are affected. The development costs of war consist of destruction of existing capital, in all its senses, and reductions in new investment (Tansey et al, 1994). During almost 20 years of conflict in Mozambique, social capital was eroded, infrastructure was destroyed and food production fell by more than half (Stewart et al, 2001b).

In recent years increasing international attention has been focusing on the challenge of facilitating effective development processes in environments coping with the impacts of war and where unrest remains a critical issue. The same factors that make societies unstable before wars break out also threaten the chances of peace becoming established after the fighting has stopped. This makes a more enlightened approach to post-conflict reconstruction policies of crucial importance (Cairns 1997). According to the United States Agency for International Development (USAID), bilateral and multilateral organisations concerned primarily with development are realising that they must employ a hands-on approach and get involved in situations traditionally left to emergency and disaster response units (Doyle 1998). The World Bank's Post-Conflict Unit advocates early involvement in the reconstruction process to improve project analysis and increase the odds for sustainable development (*ibid.*).

In recent years microfinance programmes have been set up in a number of post-conflict countries. However according to a study carried out by the International Labour Organisation (ILO) few are considered to be potentially self-sufficient (Nagarajan 1999). While the approaches vary widely, ranging from village banks and solidarity groups, revolving funds and guarantee funds to major on-lending schemes involving public banks, their outreach and sustainability are in most cases lacking (*ibid.*). A major criticism was that insufficient attention was given to the analysis of the specifics of conflict-affected countries that may have an impact on financial intermediaries. Moreover, the links between the environment, clients and products are often not addressed within the project design.

PCM has therefore become a topic of increasing interest in recent years. Notwithstanding, there has been little research carried out and even less published. The most informative documents

available are Doyle K. (1998) *Microfinance in the wake of conflict: Challenges and opportunities*, and Nagarajan G. (1999) *Developing micro-finance institutions in conflict-affected countries: Emerging issues, first lessons learnt and challenges ahead*. These documents provide an overview of the rapidly evolving practice of microfinance and microenterprise development in post-conflict situations. A highly insightful document on PCM experience specific to Mozambique has been written by de Vletter (1999), however it stops short of attempting to establish general guidelines for PCM. All have made a significant contribution to the body of knowledge on PCM, however they are desk studies based on project reports and interviews with programme staff and there is a need to begin testing the recommendations that they make (Boyle 2000). Doyle (1998:viii) states that:

'Of great value to the field would be a longitudinal and comparative documentation of programmes in several post-conflict contexts to detail client characteristics, design considerations, methodologies, operations and client and institutional outcomes as they emerge over time. Such documentation would not only demonstrate what level of results can be achieved in terms of outreach, scale, sustainability and impact, but also how these results are achieved.'

This research addresses these issue through research in four countries. The case study of Mozambique is interesting from several perspectives:

- The conflict lasted for nearly twenty years. Its many characteristics and complex nature provide instructive insights into different types of conflict.
- The country has undergone the transition from a centralised economy to a market economy and from an authoritarian regime to a pluralist democracy.
- Mozambique emerged from conflict when microfinance was in its infancy. The initial period of 'experimentation' has provided ample opportunity for analysis and lessons learning.
- Since 1992 there has been sustained peace and economic growth. During this time the semi formal microfinance sector in Mozambique has been established and developed. The considerable time lapse facilitates a study of the evolution of the sector.

2.2 Research Approach Utilised

The study was carried out using qualitative research methods supported with qualitative information. Kane et al (2001:198) point out that with qualitative research techniques '*you get the context in which the action, behaviour or process occurs, which gives a more holistic picture*'. This method therefore greatly facilitated an analytical approach to the complex and interlinking

research questions within the context of the post-conflict environment. The views of MFI clients, ex-clients and non-clients were central to the research. This approach complimented and advanced the existing documentation on the experience of PCM in Mozambique. The research attempted to create propositions that can be applied in other countries. This was achieved by developing testable propositions that were reviewed and modified during the course of the research. The approach emphasised the importance of building propositions based on in-depth investigation of a relatively small number of samples.

Case Studies

The three case study organisations were selected to give an overview of different types of microfinance approaches and methodologies employed in the post-conflict environment in Mozambique. The aim was to collect data that was both representative of the broad microfinance sector that was also generally applicable in a broader context. The three case studies were Credit Sustenavel para o Crescimento dos Empresarios (CRESCE), Concern Worldwide (hereafter referred to as Concern) and Fundo Credito Comunitario (FCC). CRESCE is an MFI created by the international NGO CARE International (hereafter referred to as CARE). Concern is an international NGO. FCC is an MFI created by the international NGO World Relief (WR). Each institution has operations in several provinces in Mozambique. For the purpose of this study research was carried out in their original area as this facilitated the collection of data on the immediate post-conflict period. For a more detailed description please refer to Appendix 1.

It is worth noting at this point that it was not the purpose of the study to assess the performance of these institutions. The use of such case studies was to provide a broad picture of microfinance activities in post-conflict Mozambique. This provided the researchers with substantial background information and facilitated a focused discussion around the research questions. Moreover, the use of such case studies enabled access to important key informants within these institutions and both past and present microfinance clients. The researchers were therefore able to dig deeper into the issues, gaining depth of information.

2.3 *Research Questions*

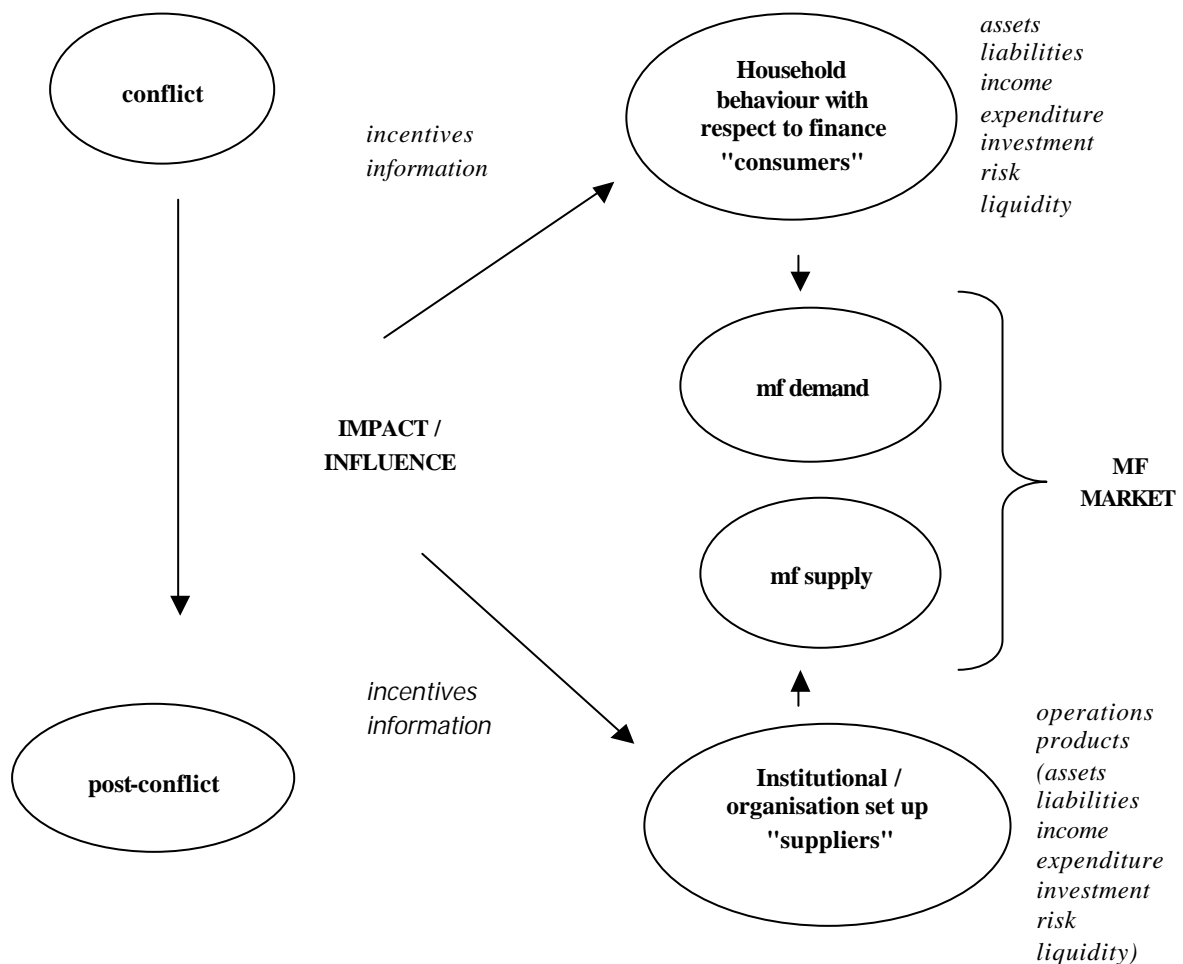
During the six-week period in the field the researchers could not investigate every facet of microfinance in post-conflict situations. To do so would have involved sacrificing detailed rich description for a more superficial broad-brush portrayal of the situation. Therefore, institutional and organisational factors were purposefully left out of this phase of the inquiry. Only where

there was significant overlap with the research questions were these issues discussed. They will be examined in detail in the second phase of the research project in Rwanda. The three research questions in Mozambique were:

- What environmental conditions have the greatest impact on microfinance?
- What are the coping mechanisms of the poor for managing household finances during and in post-conflict situations?
- What types of microfinance products are in demand in post-conflict situations?

The diagram below illustrates the assumed relations between the environment, the supply of microfinance products by institutions and the demand for products by clients.

Diagram 1: Environment, Supply and Demand



Source: PCM Project Research Tools (2001), Springfield Centre. Unpublished document.

The following research hypotheses were constructed for informal testing during the research in each country:

- Fulfilment of Doyle's minimum requirements¹ ensures satisfactory conditions for the supply and demand of microfinance products.
- Fulfilment of Doyle's preferred requirements² ensures satisfactory conditions for the supply and demand of sustainable microfinance.
- When choosing a microfinance product clients prefer those which are flexible, convenient and give easy access to their money.
- Microfinance products strengthen household coping mechanisms during and after conflict.

In addition to the hypotheses, agreement on a list of key areas of study ensured that specific information was collected in all four countries. This was important for the analysis and comparison of findings.

2.4 Definitions and Concepts

This section presents some concepts and definitions that are central to the research.

Post-conflict: the term post-conflict indicates those war torn societies that are undergoing some form of transition towards a more peaceful and stable situation (UNHCR 1999).

Microfinance: originally associated with innovations such as the Grameen Bank, the term has acquired a broader definition which covers any financial service reaching those excluded from the banking sector and involving small transactions (usually less than US\$1,000) (EC 1998).

Informal Microfinance: called the autonomous sector by the EC, this includes institutions created by people themselves, without any external intervention (tontines/Rotating Savings and Credit Associations (ROSCAs), informal savings holders, small mutual funds, investors' clubs, personal loans, moneylenders). These have no legal status (*ibid.*).

¹ Minimum requirements are low-intensity of conflict, reopening of markets and long-term displacement (Doyle 1998).

² Preferred requirements are a bare bones, functioning commercial banking system; absence of hyperinflation; relatively dense population; enabling legislation for MFIs; skilled, educated workforce; social capital; trust in the local currency and financial institutions.

Semi-Formal Microfinance: called the intermediary sector by the EC, this covers institutions created to provide financial services to those excluded from/by the banking sector. Usually the product of outside intervention, with more or less involvement with clients. Highly variable legal status, from temporary projects, through NGOs to Savings and Credit Cooperatives or Unions (EC 1998).

Formal Microfinance: called the banking sector by the EC, this includes the central bank, development banks, commercial (retail) and specialised banks, such as leasing companies (EC 1998).

Microfinance Institution: any organisation that has a single focus on the provision of microfinance services. However the research recognises that there is a spectrum between pure MFIs and NGO or others who specialise in providing microfinance services and at the other end of the spectrum, general service providers, including NGOs, who supply a variety of services including microfinance.

Poor: The poor can be defined as those lacking basic freedoms. Sen (1999:4) states ‘Sometimes the lack of substantive freedoms relates directly to economic poverty, which robs people of the freedom to satisfy hunger, or to achieve sufficient nutrition, or to obtain remedies for treatable illnesses, or the opportunity to be adequately clothed or sheltered, or to enjoy clean water or sanitary facilities. In other cases the unfreedom links closely to the lack of public facilities and social care, such as the absence of epidemiological programs, or of organized arrangements for health care or educational facilities, or of effective institutions for the maintenance of local peace and order. In still other cases, the violation of freedom results directly from a denial of political and civil liberties by authoritarian regimes and from imposed restrictions on the freedom to participate in the social political and economic life of the community.’

Coping mechanisms: strategies households undertake to cope with a shock. Sebstad et al (2000) note that a range of strategies may be taken to manage loss and they may have negative or positive consequences in the long term – the way households mix and sequence these strategies will depend on the nature and extent of poverty. They define three main types of coping strategies – consumption modifying, income raising and personal financial intermediation.

3. METHODOLOGY

3.1 Data Studied

The research was divided into four phases. Phase one was carried out in Maputo between the 15th and 30th June 2001. It involved gaining an understanding of the conflict and recent history in Mozambique and a broad overview of the microfinance sector. As part of this process the researchers identified the range of stakeholders in the microfinance sector. This was used to identify key informants and plan the research. During this phase secondary data was identified and reviewed and interviews were conducted with a broad range of actors in the microfinance sector. Discussions were carried out with the case study institutions and the logistics of the field trips were organised. Phase two took place in Manica province between the 1st and 15th July 2001. This involved a period of in-depth inquiry during which testable propositions were developed. Phase three involved the testing and finalising of these propositions in Gaza province. Phase four took place in Maputo between the 25th July and the 6th August 2001. This entailed additional interviews, discussion of research findings with other microfinance practitioners and feedback sessions with the case study institutions. The preliminary findings of the research were presented and discussed at the monthly informal microfinance working group hosted by the World Bank.

Data came from three main sources. First, secondary information was obtained from books, journals, NGO documentation, World Bank and UN literature and the government of Mozambique. Part of the information was sourced from university libraries in Dublin (University College Dublin and Trinity College Dublin). Other secondary data was collected in Mozambique. This was from the World Bank, UN, NGOs and donors. This provided quantitative information to supplement the primary research. All secondary data used in this research is listed in the references section at the end of the report. Second, interviews were conducted with key informants working in the microfinance sector. This included NGOs, MFIs, donors, government ministries and banks. NGO and MFI staff in both Maputo and the provinces were interviewed. This focused on the environment for microfinance and the development of the sector. Third, primary data was collected from a variety of sources including returnee refugees, Internally Displaced People (IDPs), people not displaced by conflict, MFI clients, non-clients, ex-clients and moneylenders. This focused on household coping mechanisms during and after conflict and the types and characteristics of products demanded.

The choice of provinces was influenced by a number of considerations. Firstly, to ensure representation of different regions of the country. Secondly, to enable discussions with returned refugees, IDPs and those who stayed at home during the war. Thirdly, to incorporate the activities of the three case study organisations. The selection of sites within the provinces ensured representation of urban, peri-urban and rural areas. In addition it ensured coverage of areas controlled by the Front for the Liberation of Mozambique (Frelimo) and the Mozambique National Resistance (Renamo) during the conflict.

Manica province was chosen to represent central Mozambique. The province is bisected by the Beira corridor, along which there is an urbanised belt of population settlement, and to the north and south of which are more remote rural districts. The Beira corridor was heavily protected during the conflict as this provided access between Zimbabwe and Mozambique's second largest port in Beira. As a result it is estimated that up to 350,000 people, almost 50 percent of the resident population gradually concentrated along or near the corridor (UNOHAC 1994). Up to 200,000 people fled to neighbouring countries, mainly Zimbabwe. Some 30 percent of the population were in Renamo controlled areas that represented some 40 percent of the province's territory. Chimoio town, the provincial capital, represents an urban area that was controlled by Frelimo during the war. It received significant numbers of IDPs from the rural areas. The villages of Pindanganga and Chipindaumwe in Gondola district represent remote rural areas that were formerly under Renamo control.

Gaza province was chosen to represent the south of the country. By October 1992 it was estimated that more than 600,000 people, which represented over 50 percent of the total population were either displaced or refugees (*ibid.*). Chokwe town represents a semi-urban area while Chilembene represents a rural area with strong linkages with Chokwe town. The district of Massingir represents a remote rural area. Given its proximity to South Africa there are a high number of returned refugees along the border areas.

3.2 *Methods of Data Collection*

Five main research tools were identified prior to commencing the research. The first two, stakeholder analysis and wealth ranking were preparatory in nature. The other three were timelines, focus group discussions (FGDs) and semi-structured interviews (SSIs). These tools were modified and developed throughout the research according to the specific country context.

The purpose of the stakeholder analysis was to identify the main actors in the microfinance sector in Mozambique. The aim was to produce a stakeholder table and an influence/importance matrix.

The purpose of the wealth ranking was to identify, using locally defined parameters, the relative wealth of households and to gain a greater understanding about livelihoods. The aim was to ask the participants to rank the households in a village, explain what they have and then group them. The participants would then name/characterise the different groups.

The purpose of the timelines was to build up a picture of how the environment has changed over the past and how households respond to the changing environment. Either individually or in groups, community members drew a timeline axis on a piece of paper. This was then used as a basis to discuss household coping mechanisms, often in the form of a life history.

SSIs were designed to collect data from key informants and the community. SSIs with key informants were directed at exploring specific issues relating to their role in and perceptions of post-conflict microfinance. Key informants were primarily those involved in the delivery or support of microfinance programmes in Mozambique. This included NGO staff, MFI staff, World Bank, independent consultants, etc. The community included MFI clients, non-clients, ex-clients and moneylenders (where possible). Depending on the community and the sensitivity of the topics being discussed these SSIs were carried out either in groups or individually. They covered a set range of themes and for each theme a number of specific questions were asked, relating to the environment, coping mechanisms and products. FGDs were mainly designed for gathering information at community level. Often a general discussion would begin in a group and then either later or the next day, individuals would provide more detailed information on certain points of interest. This would take the form of an SSI. FGDs and SSIs were carried out in various locations depending on the sensitivity of the subject matter and the interviewee. Examples are in the market place (for moneylenders, ex-clients and non-clients), in communal areas and outside interviewee houses (especially in rural areas), at community bank meetings (with FCC clients) and within the compound of MFI offices (for MFI clients and employees).

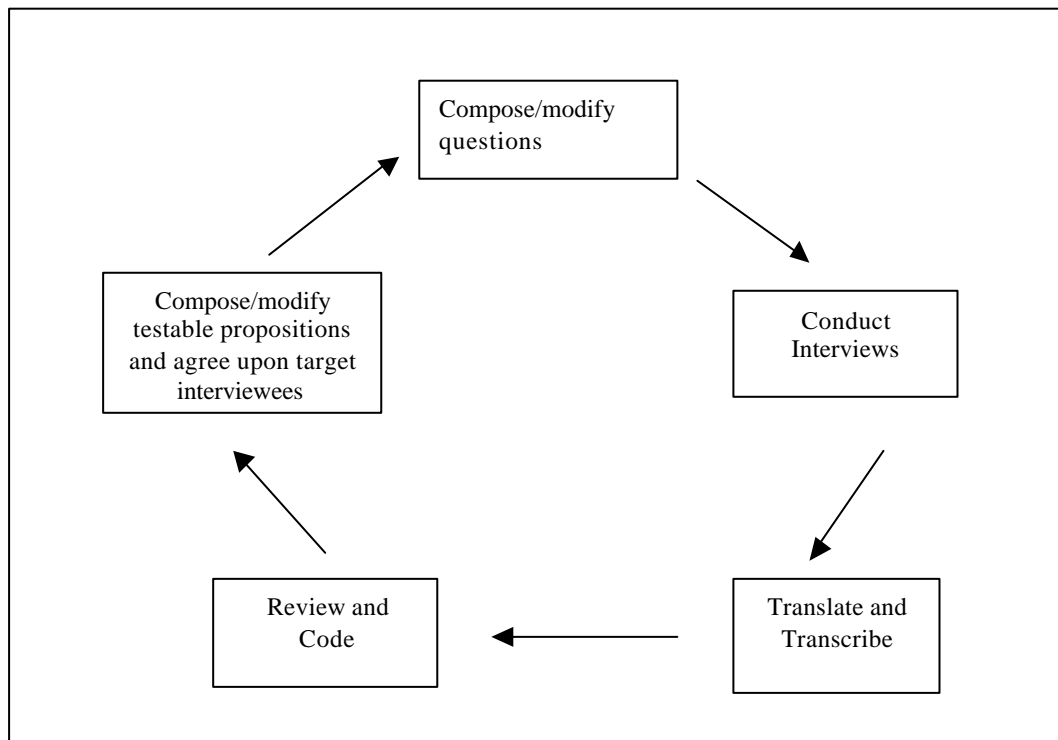
The national researcher carried out the interviews with all of the Portuguese-speaking informants. Where he was not familiar with the local language an additional person was employed for translation. The majority of interviews during the fieldwork were taped and transcribed. Interviews were either carried out in English, Portuguese or the local language as appropriate.

When the researchers considered that the quality of information would be compromised because of the distraction of the dictaphone or if people felt uncomfortable about being recorded (this was sometimes the case when interviewing women in the rural areas) then the interviews were not taped. In these instances extensive field notes were taken by a second person.

3.3 Analysis

Interview transcripts and field notes were analysed periodically using a number of thematic headings. Quotations that captured commonly made arguments in a succinct manner were selected. Quotations from informants that represented deviant cases were also highlighted and selected. As the data was sorted, patterns, themes and categories were identified. This exercise was carried out every two to three days depending on the amount of field research that was undertaken. This detailed analysis enabled the formulation of new hypotheses for each of the research questions. The interview questions were then reviewed and modified in order to test the new hypotheses. As Kane et al (2001:291) point out, *'the research process is a dynamic system involving repetitive loops'*. The diagram below illustrates how this was the case during the research process in Mozambique.

Diagram 2: Process of Research



3.4 Advantages and Limitations of Method

The major advantage of the research method was the flexibility afforded in terms of the approach, methods and orientation of emphasis. While working within a general framework agreed upon between the four countries, the approach enabled sufficient freedom to tailor the tools to match the specific country context. The qualitative research approach facilitated the collection of detailed ‘thick’ qualitative information based on in-depth investigation. The approach also enabled a focus on the demand side of microfinance and the interaction between the environment, household coping mechanisms and the demand for products. This type of research had not previously been carried out in Mozambique.

The main limitation of the method was the time constraint. It is questionable whether the time period was sufficient to explore three substantial areas of research. The nature of qualitative research means that it is inherently time consuming. The logistical challenges in Mozambique add to this. In some cases the researchers found it difficult to generalise from the amount and level of detail of information gathered. This was particularly true for the area of coping mechanisms. In addition, while efforts were made to ensure reliability, various sources are obviously liable to subjectivity. A reliance on qualitative research to collect factual information can therefore be affected by this.

The five research tools described in section 3.2 each possessed various advantages and disadvantages. The initial format of the stakeholder analysis was deemed unnecessarily detailed for the purpose of the research. Instead of doing the stakeholder analysis table and the influence/importance matrix a brainstorming session was carried out. This had the advantage of being simple and participative. The tool was effective in identifying the range of stakeholders involved in microfinance, both directly and indirectly. Kane et al (2001) point out how easily we can bias our results by an almost unconscious selection process, which means that the researcher ends up talking to certain kinds of people and totally overlooking others. This tool ensured that this pitfall was avoided.

The wealth ranking exercise was not carried out for various reasons. The primary reason was the time lapse since the immediate post-conflict period. It was considered that it would be extremely difficult to carry out a wealth ranking exercise to determine the relative wealth of households post-conflict. Concern had carried out wealth ranking exercises in Gondola district in both 1995 (as part of the project planning stage) and 2001 (as part of the end of project review). This

provided some instructive information into the relative wealth and categories of households post-conflict and how this has evolved in the interim.

The timelines proved useful in starting a discussion in the community. They provided a general overview of the situation and were a good starting point for SSIs or FGDs. However especially in the remote rural areas some people were not comfortable with the use of materials. This tool was therefore used selectively.

The main methods of data collection were FGDs and SSIs. These were used intermittently. An advantage of both tools was that they were easy to organise and carry out. A focus group discussion was a good starting point in a village as it facilitated broad participation. The interaction of the group often revealed interesting information. However there was the potential for one or a few individuals to dominate the conversation. At times people were unwilling to broach sensitive issues in groups. For this reason SSIs were often carried out with individuals following an FGD.

SSIs were the most useful tool. They were informal and flexible, allowing the conversation to flow and a broad range of information to be collected. In each interview there was also considerable scope to pursue issues of particular interest which arose in the course of the conversation. In this sense it was all encompassing. Key to its effectiveness was that the national researcher understood when to focus on particular subjects and how to ensure that the conversation did not stray on to irrelevant information.

3.5 Claims about the Data

Raising Expectations

Prior to meeting with the communities, either in focus group discussions or individual interviews, the national researcher explicitly stated that our work was part of a research project and that our presence in no way indicated the implementation of activities in the future. In Chimoio town and Gaza province this was clearly understood and did not impinge on the process of data collection. However in the rural villages in Gondola district, the situation was somewhat different. Concern's intervention had come to an end in March 2001 and the savings facility was terminated. An end of project review was carried out around the same time and the community expressed their wish to continue with the savings component.

The research team was introduced to the village leaders by former Concern staff. While this enabled us valuable access to the community that would otherwise have been impossible, it also associated us with the organisation. As a result, the community kept returning to Concern's intervention and the termination of the savings facility. While this in itself was extremely useful and informative, it limited the scope and breadth of the information gathered.

Time Lapse

The war in Mozambique came to an end in 1992. There has therefore been a period of nearly ten years since the country embarked on its process of reconstruction and rehabilitation. There are several issues worth mentioning here.

The first is the amount of research carried out in Mozambique to date. Perhaps due to the fact that Mozambique is one of the few countries in the African continent where peace has endured, it has become an accessible destination for researchers. Mozambique's experience of post-conflict microfinance is well researched and documented. There is a justifiable feeling among the key microfinance players that things have moved on. Microfinance in Mozambique has entered a new phase. This translates into an understandable lower level of interest in this study than may exist in some of the other research countries.

The second is the availability of key personnel and secondary data. Many of the key personnel involved in microfinance in the immediate post-conflict setting are no longer with the same organisation. In some cases it was possible to contact them in their new position. However often, especially in the case of international personnel, they were no longer working in Mozambique. There is a wide range of secondary data on microfinance in Mozambique and this was of invaluable assistance. However most dates from 1995 and with the exception of a few key documents, there is considerably less information available on previous years.

Thirdly is the issue of information received in the communities. The researchers found that for the most part people were willing to talk about the post-conflict situation in Mozambique. This may be due in part to the considerable time that has lapsed since the end of the war. In this respect the time difference proved beneficial. However in other respects it proved disadvantageous. At times it proved difficult for individuals to provide accurate information on the post conflict situation. This was most evident when asking households questions about

coping mechanisms. Whilst important information was obtained it tended to be rather vague in nature.

3.5.1 Reliability and Validity

Qualitative research is often charged with anecdotalism and unfocused inquiry into a subject matter. Kane et al (2001:198) summarise its potential advantages and limitations:

‘Used properly, qualitative techniques can give you a richness and depth that you are not likely to get through other methods. Used carelessly, they produce material with no more value than a tourist’s snatched impressions’.

In order to avoid these pitfalls of qualitative research techniques, systematic steps were taken to ensure reliability and validity, both internally and externally. Internal reliability was achieved by strict methods of data recording and analysing (sections 3.2 and 3.3). The recording and analysing of data in this way protected against selective note taking and individual interpretations of the information given. Verbatim accounts of what informants said are included in the report in order to provide the reader with access to raw material. The reader can therefore compare his/her interpretation with that of the researchers. The team comprised an international researcher, a national researcher and a research assistant when necessary. Effective coordination and constant communication between the researchers during data collection improved the process. A systematic process of analysing the data and the participation of all researchers in the data analysis limited any personal bias or interpretation of individual team members. Information on the researchers, interviewees, and the location/social setting of the interviews has been provided to ensure external reliability. Detailed information on the methods of data collection and how they were developed and modified have also been included for this purpose.

Several steps were also taken to ensure internal and external validity – that the conclusions are valid and that the reader understands the ‘setting context’, i.e. the environment in which they were developed. In order to ensure that the conclusions are valid, the researchers initially sought to identify causation and then to disprove this through further research. As such, assumptions changed and developed during the research process. Similarly, hypotheses were proposed and modified. The use of three different research locations and case studies enabled the testing of these assumptions and hypotheses in different environments. During the analysis all the data was examined in a comprehensive manner. For example, when discussing types of products all

references made to types and characteristics were identified. When all the information concurred, conclusions could be drawn. If the information was inconclusive then no generalisations could occur. Given that the purpose of this research is to improve the provision of PCM in other post-conflict countries then external validity is extremely important. With this in mind, the researchers have endeavoured to provide detailed description of the environment or 'sending context'. Only with this information will microfinance practitioners be in a position to decide whether the findings of this particular research can be applied to a new setting.

4. ENVIRONMENT

Mozambican society has undergone huge and traumatic changes in its recent history. In the last decade the country has undergone the transition from war to reconstruction and resettlement, from a centralised economy to a market economy and from an authoritarian regime to a pluralist democracy. It has been a period of rapid political, economic and social change (ODI/ADE 2000). While these aspects are discussed separately here, they are of course closely inter-related. An overview of major dates and events during the history of Mozambique may be helpful in providing an overall picture. A list of important dates and events are therefore presented in chronological order in Appendix 3. A brief overview of the conflict provides some historical context.

4.1 History of the Conflict

Except for a brief period of relative stability shortly after independence in 1975, Mozambique experienced almost continuous civil war for nearly twenty years. The war pitted the ruling Frelimo government against Renamo³. Frelimo grew out of a merger in 1962 of three banned nationalist groups and gained support through its virtual monopoly of the campaign for independence. The popular version of the origins of Renamo is that the Rhodesian Central Intelligence Organisation created Renamo in 1977⁴. This was a retaliatory act for Mozambique's compliance with UN mandated sanctions against the regime in Rhodesia and the refuge granted to the Zimbabwe African National Union (ZANU) by the Frelimo government.

³ Renamo was originally called the Mozambique National Resistance Movement (MNR). In an attempt to sound more like Frelimo the name was modified. Renamo is the acronym now more commonly used.

⁴ The other version is that Renamo was founded by Frelimo defectors who later sought aid from Rhodesia and South Africa (Stewart et al, 2001b).

In the early days of independence the Marxist government of Frelimo was hugely popular. First, it had ended Portuguese oppression and second it had brought back basic health care, primary education and adult literacy classes. However by the beginning of the 1980s Frelimo's popularity was beginning to wane. The living standards of the rural poor were decreasing and cracks were appearing in the socialist policies. When Rhodesia became Zimbabwe in 1980, the government of South Africa took over responsibility for Renamo. Now better equipped and better trained, Renamo emerged as a powerful force and rebel movement. Hanlon (1996:13) identified three errors that were to be the downfall of Frelimo:

- The key economic error was to push too rapidly for big projects and modernisation and give too little support to the peasant sector, which remained the real base of the economy. Peasants were unable to produce sufficient food or export crops for the economy while the modern sector had not developed fast enough to fill the gap.
- The key political error was to keep the one-party state and highly centralised government structures of the colonial era. The failure to develop effective low level democratic structures resulted in the leadership becoming increasingly unresponsive and distanced from its base.
- The third and truly fatal error was the failure to predict how sharply the international environment would change. The intensification of the Cold War, the second oil price rise and the sharp rise in interest rates were blows from which Mozambique never recovered.

Renamo capitalised on this discontent and exploited the rejection of Frelimo that was widespread throughout much of the countryside. By the early 1980s the government faced armed opposition from Renamo whose low-intensity conflict was aimed at destabilising the government in Maputo. By 1981 Renamo was active in remote parts of the central provinces of Manica and Sofala, and by mid-1992 it had expanded south into Gaza and Inhambane provinces (Hanlon 1991). There was a gradual escalation of conflict and breakdown in security. The security problems led to the virtual closure of the railway lines that carried produce from neighbouring countries to Mozambique's ports. Agricultural production was also severely affected, as control over the rural areas became more tenuous and Mozambican refugees fled into neighbouring countries (World Bank 1992). The civil war between Renamo and Frelimo was at its bloodiest in 1984-1986. In that period Renamo made significant advances in the central provinces, splitting the country into government-occupied and rebel-occupied territories. The war had hardened into a blend of

conflicts at the national and local levels, mixed in with regional and international politics (Stewart et al, 2001b). It was largely externally motivated and driven by Cold War rivalries and South African geopolitical concerns (Walls 1998).

There were a number of failed attempts to resolve the conflict in the 1980s. Most notably, the government and South Africa signed the Nkomati Accord in 1984, a non-aggression pact in which South Africa agreed to stop supporting Renamo in return for restrictions on African National Congress (ANC) activities in Mozambique. There was repeated evidence afterwards that South Africa continued to support Renamo. Continued South African support and internal tensions ensured that the war continued unabated (Stewart et al 2001b). However by the early 1990s external involvement in the conflict had tapered off, leaving the warring parties less and less able to fight a war. The government was no longer receiving assistance from the Soviet Union and the South African government was no longer interested in pursuing a foreign policy of destabilisation. The economic and social infrastructure was destroyed and the country was almost completely dependent on external assistance. Drought in the early 1990s caused widespread crop failure and massive population movements. In this atmosphere of desperation both sides embarked on the peace negotiations.

Direct talks between the Government and Renamo began in June 1990. A General Peace Agreement (GPA) between the Government of Mozambique and Renamo was signed in Rome on 4 October 1992. The GPA provided the framework for a transition to peace, governing the demobilisation of soldiers; formation of a new Mozambican Defence Force; reintegration of demobilised military personnel into civilian life; resettlement of refugees and IDPs; and the process of implementing multi-party elections. The United Nations Operation in Mozambique (ONUMOZ) was entrusted with the verification of the ceasefire, the demobilisation of both armies, and the organisation and holding of general elections.

The implementation of the peace accord was marked by delays and frustration. The UN peacekeeping force was installed late. Troop demobilisation did not start until mid-March 1994. The elections were delayed until October 1994. These delays raised the level of tension substantially and there were outbreaks of unrest among sections of the military from both sides. Yet the peace did hold and the country opened up considerably during the ceasefire period. Despite the difficulties along the road, the peace process in Mozambique is generally considered

as one of the most successful transitions from internal conflict to peace in recent years (World Bank 1998).

4.2 Political

In 1975 Mozambique gained independence from Portugal. Frelimo took power and established a one-party Marxist state. It embarked on its ambition of imposing the socialist dream of rapid development and equity among all. The main channels of this exercise were to be the central direction of the economy, big heavy-industry projects and state-ownership of large farms. While there were some initial remarkable advances in provision of basic health and education services, Frelimo's dream never materialised. The state never had sufficient resources to direct the whole economy and the growing self-confidence with which the party imposed its plans developed into authoritarianism. Official policies were enforced, like the setting up of communal villages in parts of the country where Frelimo had no roots. This policy of villagisation at times involved forced removals and often caused great distress and suffering (Quan 1987). Faced with an internal crisis, the Frelimo Party Congress formally rejected Marxism in 1989.

As part of the Frelimo move towards political liberalisation, the 1990 constitution permitted opposition parties and multiparty elections. This replaced the constitution introduced at independence, which had established the framework for a highly centralised and undemocratic system of government. In October 1994, multi-party elections were held for the presidency and National Assembly for the first time in Mozambique's history. Despite Renamo threats to boycott the poll, the elections went ahead and were duly declared free and fair. Turnout was high (90 percent of registered voters), the number of spoiled and blank ballots were relatively low (under 10 percent) and the international community and political parties deemed the process free and fair (EIU 1996). Frelimo won the election, however Renamo gained an unexpected 38 percent of the vote, as well as majorities in five of the country's ten provinces (with most of its support in the northern and central areas) (*ibid.*). Notwithstanding, Frelimo rejected the idea of forming a party of national unity.

In 1999 the second multiparty elections were held. Frelimo was returned to power, albeit with an unimpressive victory. Frelimo gained 48.5 percent of the vote and Renamo won 38.8 percent of the vote (EIU 2000). The results confirmed the long existing north south divide in Mozambique, with Frelimo holding on to the four southern provinces and Renamo predominant in the north and centre. Despite the fact that Renamo won majorities in six of the eleven provinces and a

considerable share of the votes, Frelimo again refused the idea of a government of national unity or to appoint Renamo members to administrative positions in the provinces that it won (*ibid.*).

4.3 Economic

The effects of the Portuguese withdrawal pervaded the economy. The main effects were felt in plantation agriculture, rural marketing and distribution, administration of ports and railways and the civil service. The sabotage of productive resources by the departing Portuguese, revenue losses due to attacks on the railways by Renamo and reduced receipts from tourism exacerbated the economic situation. Mozambique therefore entered its immediate post independence period facing severe economic constraints.

The government's Marxist policies centralised economic planning and physical controls over production, allocation and prices were instituted. Resources were concentrated in large capital-intensive agricultural and industrial investments in the public sector. After a brief recovery, the economic situation deteriorated under the combined effects of the civil war and government policies. From 1981-1986 the Mozambican economy experienced a marked and sustained decline in output, increasing economic distortions and financial imbalances (World Bank 1996). In the decade to 1986 Real Gross Domestic Product (GDP) declined at an average annual rate of 3.5 percent per year, overall production fell about 30 percent, exports declined by 75 percent, and imports fell by 30 percent (*ibid.*). Centralised control of prices and distribution led to shortages, inflation and a widespread movement to barter and parallel market activities for goods and foreign exchange. Government policy, climatic problems and massive population displacements led to a decline in per capita food production of nearly 40 percent by 1987 (World Bank 1995). As a result the country became heavily dependent on foreign aid to guarantee a minimum level of food security. As with many countries at war, the effects of the conflict were felt throughout the economy – at macro, meso and micro levels (see Appendix 4).

The first move towards a market economy was in 1983, at the 4th Congress. Faced with an economic crisis and a raging civil war, Frelimo began to change its policies. It resolved to re-direct the economy towards family and co-operative farming and shut down some state farms. A price liberalisation policy was initiated and foreign exchange retention was allowed. In 1984 Mozambique joined the International Monetary Fund (IMF) and the World Bank. In 1987 the government adopted a comprehensive Economic Rehabilitation Programme (ERP), which represented a dramatic change in the country's economic development strategy (World Bank

1996). Under the ERP and the subsequent Economic and Social Rehabilitation Programme (ESRP) of 1989-1990, major reforms were introduced to move towards a market based economy. Macroeconomic imbalances were reduced through a realignment of the real exchange rate, a reduction of the fiscal deficit and movement towards elimination of deficit financing by the banking system (World Bank 1996).

After a brief improvement in the economy in the late 1980s, macroeconomic performance deteriorated again in the early 1990s. Drought and uncontrolled growth of money supply contributed to annual average inflation of 48.6 percent between 1990-95 (World Bank 1997). Beginning in 1994 the government accelerated the implementation of market-based economic policies. Macroeconomic stability was re-established in 1996, when inflation was brought under control, declining to 16.6 percent it then fell to 5.8 percent in 1997 (EIU 2000). Recent economic performance has been impressive and the World Bank and the IMF now consider that Mozambique has entered a period of macroeconomic stability and sustained economic expansion. GDP growth reached 11.9 percent in 1998 (ADI 2001) and increased confidence in the economy has attracted significant injections of foreign investment.

As a result of this progress, Mozambique is often heralded as one of Africa's economic success stories. However amidst the recent enthusiasm for economic growth, it is possible to forget that Mozambique remains one of the poorest and most aid dependent countries in the world. In 2000 it was ranked 168 out of 174 countries on the HDI (UNDP 2000) and 79 out of 85 countries on the Human Poverty Index (*ibid.*). The economic growth has been far from equitable and the rural poor are becoming increasingly marginalised (Allen 2000). The World Bank (2000) reports that the highest 20 percent of the population account for 46.5 percent of income or consumption. While economic growth may be a necessary condition for development, it is evidently not sufficient in itself. Reducing poverty, and especially absolute poverty, depends not only on economic growth, but on the way this economic growth benefits the vulnerable groups in society.

4.4 Physical

Prior to independence the development of physical infrastructure had been largely neglected by the Portuguese. Investment by the Frelimo government was impressive and by 1982 there were already twice as many rural health posts and centres as there had been at independence (Hanlon 1991). However these gains were to be short-lived. The conflict caused immense damage to the country's infrastructure. Because improvements in health and education were the main reasons

for Frelimo's popularity, schools and health clinics were targeted for destruction. Almost 4,000 rural primary schools and 1,100 rural health posts were destroyed or abandoned (UNHCR 1994). Renamo forces adopted the tactic of deliberate destruction of physical capital and food production. The undermining of agriculture proved especially damaging, as more than 80 percent of the population worked in agriculture prior to the war (Stewart et al, 2001b). The transport systems suffered enormous losses and the commercial networks were almost totally destroyed (UNHCR 1994). In the areas most affected by war, land mines were placed in access roads and fields (*ibid.*). By 1987 much of the rural infrastructure had been neglected or devastated by more than ten years of civil war. A 1989 study by the UN Economic Commission for Africa estimated that the civil war in Mozambique caused USD15 billion in damage to the economy during 1980-88 (*ibid.*).

4.5 Social

As with the physical infrastructure, the social infrastructure was largely neglected prior to independence. The Portuguese authorities were extremely reluctant to provide or allow any education or training of Mozambicans beyond a very basic level and implemented a policy of restricting all jobs requiring even minimal skills to Europeans. The substantial exodus of Portuguese settlers at the time of independence therefore severely depleted the available pool of skilled labour. Estimates of the exodus are put at 200,000 people, which constituted 90 percent of the skilled and semiskilled labour force (World Bank 1996). This colonial legacy of very low investment in human resources contributed to a substantial deterioration in economic performance.

Immediately following independence, the Frelimo government assigned high priority to social services, particularly health and education. It embarked on the establishment of a programme with emphasis on poverty alleviation, including a massive expansion of social services with an emphasis on primary education, adult literacy and primary health care. Initial results during the first five years of independence showed impressive progress. Hanlon (1991:16) notes that '*Victory over underdevelopment seemed possible*'. However widespread destruction and disruption caused by the war combined with the sustained effects of macroeconomic mismanagement, led to a substantial decline in service delivery capacity (World Bank 1996).

The conflict had a devastating effect on the population. The Economic Intelligence Unit (EIU) (2000:6) notes that '*as the civil war took hold in the mid-1980s, Mozambique lurched from*

revolutionary experiment to one of Africa's greatest humanitarian disasters.' Frelimo development projects, schools and clinics in the rural areas became a prime target of Renamo. By 1987, 60-70 percent of the population were absolutely poor and Mozambique's social indicators were among the worst in the world (World Bank 1996). Either directly or indirectly the war claimed one million lives (Hanlon 1996). The loss of human capital was devastating for the future development of the economy. Marshall (1997:7) highlights this point:

'In crafting development strategies for a post-war future, reality comes back again and again to the fact that lost human capital (deaths, disruptions, forgone education and demolished schools and clinics) is an even more binding and lasting impediment than damaged roads and bridges and buried landmines'

Renamo forces pursued tactics of sabotage and terrorism against civilians. Aggravated by successive years of drought, this led to large-scale population movements. By 1992, around a third of the estimated total population of 16 million were either displaced within Mozambique or refugees in neighbouring countries. An estimated 1.6 million people were forced to flee the country and become refugees in Malawi, Tanzania, South Africa, Swaziland, Zambia and Zimbabwe (UNHCR 1994). Another 3.7 million were internally displaced (*ibid.*). Massive population movements and the circumstances of war saw a rapid disintegration of the traditional family household and multiple forms of cohabitation among people who found themselves in similar situations (Stewart et al, 2001b).

With peace Mozambique has seen the beginning of a slow return to social stability. The removal of the shadow of fear due to war and the dangers of partisanship between Frelimo and Renamo is a significant liberating factor in its social development. The resettlement of the population played an important role in the social stabilisation of Mozambique. The demobilisation of the soldiers was also critical to the peace process (despite being the smallest beneficiary group for the humanitarian programmes). As part of the reintegration programme they were transported along with their dependants to the destination of their choice. Although they were initially thought to be a likely source of instability they have been successfully reintegrated into society (EIU 2000).

The post-conflict situation was marked by the enormous changes brought on by colonialism, independence, Frelimo development policies, a prolonged war and the recent return to peaceful conditions. While great progress was achieved in the initial years of peace, the war undoubtedly

left its mark on society. Political and social divisions fed by disputes between Frelimo and Renamo and a high degree of distrust between neighbours and within families were sources of real tensions within grassroots communities. In 1998, a report prepared for Oxfam noted that many communities in rural areas were still in a state of post-conflict flux (Walls 1998). There was still a marked lack of social cohesion and of community or civil action or organisation. However in view of the country's recent past the level of relative social peace has been remarkable and security concerns and social unrest are no longer a preoccupying issue in Mozambique (EIU 2000).

5. DATA CHAPTER – THE ENVIRONMENT

What environmental conditions have the greatest impact on microfinance?

5.1 Change in the Environment

The research encompassed the period from independence in 1975 to the present. The emphasis was on the transition from relief to development during the post conflict period following the GPA in 1992. The changing environment can be loosely divided into five periods as set out below. Table 2 summarises the key environmental changes that took place.

a) Post-independence: 1976-1980

The post-independence years are regarded by most people as a period of hope and optimism. Portuguese oppression had ended and there was the promise of the Marxist dream. The government invested heavily in basic services such as health and education and initial results showed impressive progress.

'My life was good in 1980. I had never been to school before, but then I had the opportunity to learn to read and write. I was married with three children. I worked in my machamba (small agricultural plot) and had banana and fruit trees. I have good memories.' (Veronica, Pindanganga)

However the brief economic recovery was short-lived. By the beginning of the 1980s discontent was beginning to grow, particularly in the countryside. Renamo capitalised on this and by the early 1980s the government faced armed opposition. Changes in the international climate fuelled the flames of the conflict.

b) Conflict Phase 1: 1981-1986

Between 1981-1986 there was a gradual escalation of conflict and breakdown in security, particularly in the rural areas. Agricultural production was severely affected and people began to flee the rural areas, taking refuge in the towns and neighbouring countries.

'We were threatened several times by soldiers. Many times we fled to the bush when the fighting was near our homes. One night they came and burnt everything, even my animals. I fled with my family to Bengo and then Cafumpe where I found security. They gave me a plot of land and some food.' (Teresa, Chipindaumwe)

The civil war reached its height between 1984-1986. The economy was in crisis and the country's infrastructure was in ruins.

c) Conflict Phase 2: 1987-1991

In 1987 the ERP was implemented in an attempt to halt decline of the economy. The transition towards a market-based economy began. The country was almost completely dependent on external assistance. A severe drought caused widespread crop failure and massive population movements.

'There was nothing to eat. They (Renamo soldiers) escorted us at night through the bush to the corridor to look for food. We searched for wild mushrooms and anything else we could find while the soldiers looked out for any government army attack. Sometimes we searched for hours and found nothing.' (Madalena, woman held by Renamo forces in Gondola district)

The situation was desperate. By the early 1990s external involvement began to diminish. Both sides embarked on peace negotiations. A partial ceasefire was signed in December 1990 and the situation slowly began to improve.

d) Post-Conflict Consolidation Phase: 1992-1994

The country began to open up during the ceasefire, although insecurity remained a problem in the rural areas. The GPA was signed in October 1992.

'After the conflict the situation was very strange. We knew about the Rome Accord but there was a lot of confusion and a lot of rumours. We were doing emergency assistance in Gondola district. Even though the war was over we still needed to seek permission in Maringue (Renamo headquarters). We went to deliver the assistance with our hearts in our hands. As we were flying

in a helicopter we feared they would shoot us down. But nothing happened. We managed to do the distribution and come back.' (NGO Aid Worker)

A major factor in the transition was the process of resettlement and reintegration of refugees and IDPs. The signing of the GPA in 1992 created the necessary conditions for the return of refugees and IDPs to their home areas. Details are presented in table 1 below.

Table 1: Return of Refugees and IDPs

Category	Refugees/IDPs at October 1992	As % of total population	Returned by January 1993	Returned by January 1994	Returned by November 1994	Outside the country in November 1994
Refugees	1,603,000	10%	186,697	597,431	1,597,785	194,506
IDPs	3,737,000	23%	196,000	2,370,000	3,053,000	684,000

Source: adapted from the Final Report of the Consolidated Humanitarian Assistance Programme 1992-1994. UNOHAC and UNDHA, 1994.

The final report of the Consolidated Humanitarian Assistance Programme (UNOHAC/UNDHA 1994) shows high levels of returnees in border provinces and high levels of displaced in urban areas. During 1994 there were significant population movements. A total of 683,000 IDPs were resettled during that time, 70,500 of those to Gaza province. During the same period nearly one million refugees returned. A small proportion of them, just over 21,000 returned to Gaza province. The IDPs returned at a much faster rate than the refugees. By January 1994, 63 percent of IDPs had resettled compared to just over 37 percent of refugees. The population movements increased population density in the urban areas while causing the rural areas to be even more scarcely populated⁵

The report also details the process of demobilisation. Under the GPA, ONUMOZ set up 49 Assembly Areas for cantonment and demobilisation of both Government and Renamo troops. Cantonment began in late 1993 followed by the start of the demobilisation process in March 1994. Before the GPA there were 13,682 demobilised soldiers. After the GPA there were 75,169. The total number of demobilised soldiers was 88,851.

⁵ Population density in Mozambique is low in comparison with other African countries at 20.1 habitants per square kilometre (INE 1997).

The emergency phase of humanitarian aid that was characterised by the restoration of basic services such as food, shelter, water and sanitation. Market activity was high in the urban areas although still extremely limited in the rural areas.

'There was cash circulating in the towns, namely Chimoio, Manica and Beira and the villages that were linked to the corridor. However there was still insecurity in the remote areas with armed bandits and Renamo and Frelimo soldiers. You have to consider that nearly all of the economic activity was in the towns along the corridor'. (NGO employee)

e) Post Conflict Transition Phase: 1994 – present

After the elections in 1994 there was no serious threat to peace. While there was a reasonable level of security in the towns and cities, insecurity prevailed in certain parts of the countryside. Landmines were also a major problem. Security problems were due to banditry and armed robbery. This was an important consideration for NGOs.

Markets in the urban centres were functioning. However many rural areas were characterised by limited seasonal local markets due to a thinly spread population and subsistence agriculture and exacerbated by a highly damaged rural infrastructure (Boyle 2001). A large section of the rural population was not involved in the cash economy. In Manica province for example nearly all the economic activity was centred around the towns along the Beira corridor.

At the end of 1994 inflation was high at around 70 percent, but the government's macroeconomic policies meant that this was dropping steadily (World Bank 1996). The meticaís was still in use although it had been devalued rapidly since the ERP. In border areas other currencies were also in use such as the Zimbabwe dollar and the South African rand. High inflation and devaluation of the meticaís against the dollar was problematic for savings and credit programmes in operation at that time. With the grant fund in dollars and loans and repayments in local currency, high interest rates were necessary to protect against fund decapitalisation. People who had the possibility chose to deposit in hard currency to protect themselves against inflation.

Social capital was very eroded, with lack of trust evident even within families. Especially in Renamo held areas, there was deep mistrust both within the communities and towards the authorities. The Concern (2001:31) end of project review notes that:

'The levels of distrust can be illustrated by the fact that, at the start of the project, even the Concern staff were suspected by some of the communities in the project area to be agents of Frelimo, while District staff were initially unhappy that scarce resources were being directed to a former Renamo area. Communities initially wanted to retain their own teachers at the newly built schools even though they were untrained and the quality of education provided was poor'.

The banks in the provincial and some district towns were functioning well. However coverage was not high as provinces are large. These banks were not interested in the provision of microfinance.

The elections in 1994 were an important milestone and the acceptance of the results by both parties and the international community was crucial to the transition process. Another important element was the political willingness on the part of the government, both at central, provincial and district level. Other factors were a general improvement in the security situation, increased accessibility and an improvement in levels of trust both within the communities and towards the government and other institutions.

'I would say it (the transition from relief to development) happened around 1994/1995. I think the main feature was people's participation....but this was possible sooner in the towns than it was in rural areas because of lack of trust. Obviously security was an important issue, but, yes, trust in the communities was crucial. I also think an important factor was political willingness. Much was dependent on both Frelimo and Renamo wanting changes to take place for the good of the people.' (NGO Employee)

However an important point to note at this juncture is that the transition from relief to development did not occur simultaneously in all parts of the country. Neither was this the case within individual provinces or districts. Both during and immediately post conflict the rural areas were characterised by higher levels of insecurity. The destruction in many rural areas was considerably greater. Even during the conflict there was market activity in the urban areas. Thus the transition process in towns and cities was more rapid. Manica province serves as a case in point in this regard. Both secondary and primary data make reference to significant levels of economic activity in Chimoio town both during and after the conflict. However the remote rural areas were a very different scenario. Even as late as 1996, the population in villages such as Pindanganga and Chipindaumwe faced *'very limited access to basic services'* (Concern 1997).

There was also a political slant to this issue that is important to understand. The political battle between Frelimo and Renamo did not end with the signing of the peace accords. Rather it manifested itself in other ways, one of which was in the reconstruction and rehabilitation of the country. In 1995 a provincial assessment carried out by Concern showed that ex-Renamo zones were consistently the worst served in terms of basic service delivery and economic development. Yet the government informed Concern that the ex-Renamo area of north-east Gondola was not a priority area for reconstruction and did not encourage the activity (Concern 2001). As a result the transition from relief to development in these areas was significantly slower.

Table 2: Key Environmental Changes

Characteristic	1975-1981	1981-1986	1987-1991	1992-1994	1994-present
Market Activity	Low as resources targeted towards large state farms.	Extremely low. Localised markets in urban areas.	Increased as a result of free market reforms.	Medium-high in urban areas. Negligible in rural areas.	High.
Intensity of Conflict	Low but increasing	Increasing. Highest point 1984-1986	High but decreasing.	Low	Non-existent
Movement of People	Exodus of Portuguese in 1975.	Rural-urban influx to escape Renamo attacks	High. Over half the population displaced or refugees.	Refugees and IDPs returning to place of origin.	Trickle of refugees returning. Significant IDP movements.
Banking System	Existing banking system.	Banks in rural areas destroyed.	Beginning of privatisation under ERP.	Privatisation continues.	Privatisation of banking system completed.
Currency in Use	Meticais introduced. Barter common.	Meticais. Rand and Zimbabwean dollar in border areas. Barter.	Meticais. Rand and Zimbabwean dollar in border areas. Barter.	Meticais. Rand and Zimbabwean dollar in border areas. US dollar in urban areas. Barter.	Meticais. Rand and Zimbabwean dollar in border areas. US dollar in urban areas. Barter.
Inflation	-	Moderate-high.	Moderate-high.	High.	Declining to 3.8 percent in 1998 (HDR 2000).
Social Capital	High.	High but decreasing rapidly.	Low due to massive population movements	Low but increasing. Mistrust amongst returnees.	Moderate.

Characteristic	1975-1981	1981-1986	1987-1991	1992-1994	1994-present
Level of Education	Extremely low. Significant progress made.	Conflict disrupts education.	Conflict disrupts education.	High levels of illiteracy.	Improving. Still high levels of illiteracy.
Microfinance Sector	Limited informal microfinance.	Limited informal microfinance.	Limited informal microfinance.	Limited informal microfinance. Credit and grants from NGOs.	Semi-formal microfinance sector developing in urban areas.

5.2 *Legal and Regulatory Framework*

The post conflict environment witnessed an upsurge of microfinance programmes taking on various organisational and institutional forms. This included projects of international NGOs, registered associations and foundations, credit co-operatives and government ministry projects (Chizdero et al, 1998). However until 1998 these operations functioned in a very uncertain legal and regulatory environment. Firstly, as the work of NGOs shifted from emergency to development even their continued presence in Mozambique was uncertain (de Vletter 1996). Secondly, the many national and international NGOs providing microfinance services were operating outside of the legal framework. In 1992 there only existed a law on Credit Institutions. The fact that most programmes continued to operate unimpeded was due to the situation whereby the government turned a blind eye and did not enforce the laws. While this meant that credit initiatives were not impeded it also resulted in a situation lacking any legal control (*ibid.*).

This tacit acceptance of the existence of microfinance programmes resulted in a very uncertain operating environment. It was not until 1998 that the Bank of Mozambique (BoM) issued a decree (47/98) to regulate microcredit activities. This decree requires that all institutions and individuals providing credit, not registered under another form, to register with BoM. Institutions and individuals registered under this decree are allowed to provide credit but not to capture savings. While there are obvious advantages to such supervision, microfinance providers have pointed to continuing limitations of the system. The legal and regulatory framework for microfinance operators is still evolving and is discussed regularly at the Informal Microfinance Working Group.

5.3 Establishment of Microfinance Activities

Most of the 'credit' activities that were implemented prior to 1996, were in effect in kind distributions and grants (with the exception of WR/FCC). Moreover, many of these credit activities were 'projects', often part of an NGO's integrated programme. This initial phase was therefore characterised by a large number of uncoordinated operations. It is important to note that Mozambique had no prior experience of semi-formal microfinance. There was no best practice or successful models to aspire to or aim for. There was little coordination amongst stakeholders and limited concerns about sustainability. With little or no long term planning from the outset, the transition period became one of trial and error. An NGO employee explained the situation:

'When microfinance projects were initially implemented it was often without a clear idea of what the end result should look like. Emergency staff delivered credit almost as a part of the emergency package. A key issue is how to overcome and switch out of the mindset of humanitarian assistance. The basis for a functioning sustainable microfinance market was conspicuously absent in Mozambique'.

Several factors were important in enabling the establishment of microfinance activities. The most important was security. This was the same for all types of relief and rehabilitation programmes at this point in Mozambique. The issue of security was factored into each part of the programme. Security considerations were a major reason for starting activities in the towns. There was less distance to travel with money and the banks were working.

Many of the credit activities arose from the relief and rehabilitation activities undertaken by international NGOs. There are obvious advantages to expanding activities and developing programmes in a project area that the staff are familiar with.

'It was easy to start with credit because before we were implementing health projects. We knew the communities well and they trusted us.' (MFI employee)

However many of the NGOs found it difficult to implement credit activities where they had previously delivered humanitarian aid using the same staff. There was a feeling amongst the clients that it was not necessary to repay. The establishment of microfinance activities was hampered by the fact that people had become accustomed to handouts during the emergency period.

'The people were not ready and they thought it was a donation. They looked on it like the seeds and tools during the emergency.' (NGO employee)

Moreover, demobilised soldiers felt that the money was their reward for having fought for their country.

'We had just come through a war where we were all used to receiving things, consuming and not paying anything back. When I began in 1996 it was a bit difficult. It was hardly even 4 years since the end of the war. Some demobilised soldiers came here and took money. When we went to demand the payment afterwards they said, 'I lost a leg because of the war and this money is government money.' (MFI employee)

Many NGO projects therefore separated their credit operations from the development programme.

'CARE is an NGO and all NGOs as far as they know carry out activities that are humanitarian aid. We arrived with the name of CARE here in Chimoio and CARE was still doing humanitarian aid. The country was still recovering from war and there were a lot of problems that needed this type of help. So it was difficult for CARE to do humanitarian aid and microfinance at the same time. So as a way of controlling this we left the CARE office and moved to our offices here. We agreed with Maputo that we should begin to call ourselves CRESCCE instead of CARE as this would help us.' (MFI employee)

There was a severe lack of people with qualifications and/or management experience in Mozambique after the conflict. As a result microfinance providers were forced to hire people with basic education and invest in training. The lack of staff capacity is regularly cited by NGOs as the major impediment to the development of their programme.

'I cannot stress enough how the lack of qualified local staff has affected our programme. It is by far the biggest problem that we have had to overcome.' (MFI employee)

Where members of the community were involved in managing money (such as the community bank model) it was difficult to find people with the necessary skills. WR/FCC had initially envisaged that the community banks would 'graduate' and operate independently using their own accounts, however this did not happen (Rhyne 1998). The limited capacity of the community banks translated into a heavier workload for the promoters, limiting the number of groups they

handled. In Mozambique each promoter handled eight or exceptionally ten groups, in contrast to ten in Central America (Athmer 1996).

As mentioned previously, sustainability was not a consideration when microfinance activities began. However as the sector developed and issues of best practice came to the fore, sustainability became an important issue. During the mid 1990s implementers of savings and credit projects began to re-evaluate their activities and plan a transition from projects to MFIs. Concern carried out both internal and external assessments of their microfinance activities in 1996 and 1997 respectively. Documenting their experience in Mozambique, Boyle (2001) states that the issue of sustainability was one of the main problems. Despite changing the methodology *'little thought was given to the type of institution that could realistically continue providing services once Concern withdrew.'* For many, the lack of strategic planning and consideration of long term sustainability at the outset rendered this transition particularly difficult.

5.4 Development of the Microfinance Market

5.4.1 Changes in the Demand for Microfinance

The demand for microfinance existed during the conflict. Refugees spoke of lending amongst themselves and also from locals living near the camp. People in the cities and towns relied heavily on kinship ties for small loans. These loans were used for emergency expenditure or for buying and selling. Three policy-related reforms increased the types and magnitude of trade in the peri-urban areas during the 1980s (Little 1992). The first was the elimination of price controls on fruit and vegetable trade in 1985-86. A second important change was the ERP that relaxed restrictions on other types of trade and on foreign exchange. The third policy-related event was the lifting of restrictions on street trading in 1989.

When the conflict ended the demand for credit increased, especially in the towns. More people tried to get involved in petty trading as a way of making ends meet. But not everyone was able to access the capital needed to invest in their business.

'I had been selling since 1987 but I couldn't get enough money together to increase my business. As I am a poor widow people were reluctant to give me a large amount as they thought that I would not return it.' (Julieta, Chokwe town)

The demand for semi-formal microfinance in Mozambique was high during the post-conflict period. However the demand was for a loan for investment purposes, largely to be used in petty trading and other activities in the informal economy. There was a strong preference to ask family, friends and neighbours for loans for emergencies and consumption purposes.

'Last year I borrowed 40,000 (approximately us\$1.82) meticais from my elder brother to pay for medical treatment. So far I have only managed to repay 20,000 (approximately us\$0.91) meticais. Unfortunately he has passed away, but I will pay back to his children. I don't have the means to pay back regularly, so I have to rely on family' (Felix, Pindanganga).

Many NGO/MFI staff expressed the opinion that semi-formal credit for consumption was not appropriate for the poor. Equally, many of the poor stated that they would not wish to access consumption credit from semi-formal providers.

'I don't think credit for consumption would be appropriate for the poor. Cash requires circulation and if not it doesn't have any value. Especially with the situation of inflation in this country.' (NGO employee)

In the rural areas people were also reluctant to take on credit for agricultural purposes, given the risks involved.

'I wouldn't invest a loan directly in my machamba because it takes too long to get a profit, but mainly because it is risky. If the harvest fails you still have to pay the loan and interest. If we buy a sewing machine then it's quicker and safer to repay the loan and we can keep the business running.' (Woman, Pindanganga)

The demand for credit is largely dictated by market activity and sources of income. People are unwilling to take on credit from semi-formal sources as they do not have a steady source of income that will enable them to repay on a regular basis. Those that do demand credit for consumption purposes are those that have a regular source of income. The demand is therefore higher in the urban areas than in the rural areas and amongst the less poor rather than the poorest. However a problem in Mozambique is that even those who work in the state sector often do not receive their salary. As people increase their assets the demand for this type of credit increases.

It is more difficult to assess the change in demand for savings. Immediately post conflict there was little surplus cash circulating amongst the poor. The first indication of capacity for savings was with the establishment of WR/FCC however as this was linked to credit it does not provide an accurate indicator. The traditional lack of savings facilities in the rural areas meant that the initial demand was relatively low. People preferred to save in their houses or through the acquisition of livestock. However after seeing the initial benefits the demand increased.

'Initially people were not saving with Concern because of a lack of money and lack of knowledge and trust. But they saw that those who joined the savings scheme managed to use their money wisely for business and other household needs. With these results, new members were keen to join.' (Felix, member of Concern savings club, Pindanganga)

FCC mentioned that about ten percent of their clients use the savings facility even when they are not receiving credit. Many of the CRESCE clients interviewed expressed a desire for a savings facility. This was also a finding of its mid-term evaluation. The poor understand that it is an important measure for protecting against external shocks. It is interesting that when they talk of people who have improved their lives, savings are often mentioned. When asked if she had seen people whose lives have visibly improved as a result of being a member of FCC, a client replied:

'Yes, especially people who managed to save and then use their savings to improve their standard of living. For example I've heard of some women who have savings of two, three or even four million meticais. They can then use this to buy goods for personal use. Now I try to save whatever I can.' (Maria, Chilembene)

The examples of Concern and WR/FCC show that demand increases as the benefits of savings become apparent. It is generally accepted that the demand for savings services in Mozambique exceeds the supply. As one microfinance practitioner stated, *'the field is open for savings, but there seems to be a lack of vision when it comes to this'*.

5.4.2 Changes in the Supply of Microfinance

The Informal Sector

The informal sector was extremely important during the conflict. Refugees and displaced people relied heavily on family and friends for loans in both cash and kind. It is suggested that the supply of microfinance in the urban areas increased during the conflict while the supply in the rural areas decreased (de Vletter 1999).

Upon cessation of conflict the informal sector developed far quicker than the semi-formal sector. In urban areas particularly, the levels of market activity meant that there was a demand for credit. In general moneylenders, friends and family members satisfied this need. Friends and family tended to lend with no interest. While moneylenders are not a common phenomenon in Mozambique, they exist in small numbers in urban centres. They also tend to be involved in foreign exchange transactions. Moneylenders were found in the marketplaces in Chokwe town and Chimoio town. Interest rates ranged from 30 to 50 percent a month. They are very careful about who they lend money to.

'I only lend to people I know. I know where they live and I know what they do. You had to be very careful with the people that you trusted after the war because they could easily disappear. I know cases of people who gave their livestock to people to be sold and they never saw those people again.' (Joao, Moneylender, Chimoio town)

'Just knowing my clients is not sufficient. I must trust the person and be sure that they are going to pay back. Otherwise it would be like tying the money to the leg of a hippopotamus and throwing it in the river.' (Jonas, Moneylender, Chokwe town)

The development of the informal sector was slightly slower in the rural areas, partly due to the absence of market activity and partly due to the fact that the war had a significant negative effect on such practices. Friends, family and neighbours were traditionally important sources of credit in the rural areas. However the absence of market activity and income generating activities meant that there was a general lack of cash in the rural economy.

'Some people while internally displaced were involved in petty trading and when they returned they brought some cash home. Those who were well off were generous to lend money to those they trusted to do business. But there was not enough money for everybody.' (Felix, Pindanganga)

Moreover, high levels of distrust meant that many were unwilling to lend money.

'It was difficult because we left this place a long time ago and some of our friends were still in South Africa. For those that remained at home, they lost confidence with us.' (Carmona, Returnee, Massingir)

In response to this environment, the informal sector developed first through in-kind lending and then evolved to lending cash. The supply of informal finance was a crucial stop-gap for many households until semi-formal microfinance became available. But even since other sources of credit have become available, informal microfinance has remained an important coping mechanism for the poor. Clients from FCC commented that it is easier for them to access loans from informal sources since they have savings with FCC and are therefore considered likely to repay. NGOs and MFIs do not lend money for consumption purposes so for most people, informal microfinance is still the only supplier of such credit.

The Semi-Formal Sector

The development of the local economy impacted on the development of the semi-formal microfinance market. As income generating opportunities and availability of consumer goods increased, the demand for savings and credit activities increased correspondingly. To a certain extent providers followed this demand, starting with a focus on urban centres and then expanding into peri-urban areas (as in the case of WR/FCC). However semi-formal microfinance in the rural areas did not develop and the lack of credit was seen as a major obstacle to development.

The emergence in 1994 of the WR/FCC community banking programme as perhaps the most significant and innovative credit programme in Mozambique was a milestone in the supply of semi-formal microfinance in Mozambique. Prior to this semi-formal microfinance had been dominated by low repayment rates, low outreach and unsustainable structures. Hitherto it had been tacitly accepted that the environment was not conducive to such a programme. Rhyne (1998) describes the challenges of working in the environment at that time.

‘In creating this programme, the WRM/CB team has had to overcome many obstacles, including initial scepticism about village banking on the part of most people in Mozambique, a period of high inflation, poor transportation and security conditions, a flood and internal fraud.....The economy had barely begun to rebound, infrastructure had not yet been repaired, and most international efforts were still aimed at providing humanitarian relief or basic rehabilitation.’

In 1998 there were 25 individual initiatives/operations providing financial services to the poor in Mozambique (ICC 2000). In 2000 that figure had increased to 30 (*ibid.*). As pointed out in the 2000 study of the microfinance sector in Mozambique, while it may seem that the picture has not

changed much, these numbers hide a high turnover rate. Since 1998 many operators stopped their microfinance activities and many have also begun. This restructuring of the finance sector is partly due to increased awareness over the last years among operators and donors of good microfinance business practices. New entrants in the microfinance sector are already more advanced in terms of institutional structures, ownership issues and sustainability than the NGO credit projects that have undergone the transition to become MFIs.

Formal Sector

Despite the demand for microfinance products, the formal sector did not target this sector. With the privatisation of the banking sector under the ERP, the formal banks targeted the large, low risk clients. Even the Banco Popular de Desenvolvimento (BPD), the development bank, which had previously been the major provider of credit in rural areas began to target large, urban, low risk clients following privatisation.

'This is the big problem in Mozambique. The banks only loan to well established people. They are not interested in the poor, by that I mean peasants. NGOs did not start with microfinance until much later.' (NGO employee)

It is only recently that private banks providing microfinance have been established in Mozambique. Until now these are all based in Maputo.

5.5 Role of NGOs, Donors and Government

The Role of NGOs

The role of NGOs in microfinance is especially relevant in the post-conflict environment given their ubiquity and prominence in the process of rehabilitation and reconstruction (Nagarajan 1999). This was certainly the case in Mozambique. During the initial post-conflict period non-specialist NGOs were the main providers of microfinance. However this was a time when PCM was very much a new phenomenon. The inexperience of the NGOs and lack of lessons learnt and best practice in PCM meant that successful programmes were extremely limited. However while success in terms of repayment and outreach was negligible, there were other benefits. It is generally considered that the grants and credits that were characteristic of 'microfinance' during the initial stages played an important role in the transition process. This was particularly true in the case of demobilised soldiers where these activities 'bought' peace (de Vletter 1999). Their

role in that sense was important, although when measured against best practice it was decisively less impressive.

The Role of Donors

Given the high level of donor dependency in Mozambique (and in most post-conflict countries), the question of the role of the donor community is particularly pertinent. The post-conflict period in Mozambique was characterised by a severe lack of donor coordination. Out of this situation grew a consensus that much better coordination was necessary, especially in the credit sector. The situation began to change in 1996, with an effort to coordinate donor support for microfinance. The donor approach to funding in Mozambique was geographical. Donors focused on particular provinces and funded a variety of programmes within that geographical area. This has had implications for the longer-term development of microfinance in Mozambique. MFIs have tended to focus on provinces and have relied heavily on one donor. The concept of developing a national structure for microfinance has therefore been neglected.

'The idea of donors dividing up the country geographically was inherited from the emergency period. But this isn't conducive to microfinance. Microfinance is not place specific.' (MFI employee)

The first comprehensive study of the microfinance sector in Mozambique (Chizdero et al, 1998) gathered information on bilateral and multilateral donors to identify their strategy or policy for microfinance. There were 13 donors that were funding microfinance. According to the study *'most donors have funded projects without a clear strategy or policy for microfinance'*. Most donor funds for microfinance were in the form of grants for training, operational costs and capital. In 2000, 74 percent of operators still depended on donors for financing.

The Role of Government

The government in Mozambique has a long history of intervention in the financial market. Both during the conflict and in the post conflict period the state was involved in the delivery of subsidised credit to targeted beneficiaries. This was channelled through the BPD, the Credit Fund for Agriculture and Rural Development (CCADR) and donor and NGO financed development projects with credit components. The results of this directed credit approach were unimpressive. In its 1996 Master Plan for rural credit, the Food and Agriculture Organisation (FAO) notes that the effects of former policy orientation were particularly severe for rural financial markets.

The role of the state has changed significantly in the last few years, most notably with the privatisation of the formal banking sector. In line with recent thinking on financial market development the government has adopted a less interventionist and more market friendly approach. It is now focusing more on the legal and regulatory framework for microfinance.

6. DATA CHAPTER - COPING MECHANISMS

What are the coping mechanisms of the poor for managing household finances in post-conflict situations?

In the existing literature on PCM the subject of coping mechanisms is rarely discussed. However this study suggests that a sound understanding of coping mechanisms is key to achieving the objective of effective delivery of microfinance to the poor. While an analysis of the macro environment is often carried out, the missing link is how the poor adapt and survive within this environment. Moreover, how can they make the transition from survival to subsistence to livelihood? Central to the design of microfinance products to support this process is an analysis of the evolution of coping mechanisms both during conflict and in the post-conflict situation.

It is acknowledged that a detailed analysis of such factors merits a research study in its own right. Notwithstanding, it is instructive to discuss some of the key issues within the context of this research. First the effect of the conflict on households and their livelihoods are discussed. Second, mechanisms for coping with these effects are analysed. Given the extensive nature of this area, focus is on the post-conflict period (for details of the conflict period see Stewart et al, 2001b). The final subsections address the characteristics of households after conflict.

6.1 *Effect of the Conflict on Households*

'The greater part of the human costs of war does not result directly from battle deaths and injuries, but rather 'indirectly' from the loss of livelihoods caused by the dislocation of economy and society resulting from conflict'. (Stewart et al, 2000a)

The conflict in Mozambique affected different people and different socio-economic groups in many diverse ways. However as in many war-afflicted countries, poor households were

especially vulnerable to the effects of conflict. Given the focus of this study this section will therefore concentrate on the consequences for poor households. Conflict affects people's lives in many different ways. In a study of five countries (including Mozambique) Stewart et al (2001a) provide a useful framework for analysing the impact in terms of the destruction of entitlements.

Market Entitlements include monetary entitlements gained from work and the ownership of assets. The most obvious and perhaps most dramatic effect of the conflict on households was the loss and/or destruction of assets. Many people living in the rural areas fled with what they could carry. Others fled only after the rebels had destroyed everything they owned.

'When I fled I didn't bring anything with me because they had burnt everything, even my savings that were hidden in the house.' (CRESCE client, Chimoio town)

'I was living here in Massingir town. When the war intensified I was obliged to look for a safer place to stay. I just left as light as possible because the journey was too long and we couldn't manage to walk to South Africa with all our belongings.' (Carmona, Massingir)

Market entitlements declined dramatically with the onset of conflict. The virtual collapse of state enterprises and the scarcity of formal-sector employment drastically reduced employment opportunities. The few that were employed felt the impact of inflation as their real wages declined.

'People survived on their salaries, but when people lost their jobs there was no more source of income.' (CRESCE client, Chimoio town)

'My husband was working in the government so we had an income. But we could buy less and less with this money.' (CRESCE client, Chimoio town)

Direct Entitlements include goods and services which are produced and consumed on a bartered basis by the same household or extended family without a process of exchange as such. Increasing insecurity in rural areas and huge population displacements severely affected subsistence farming. In Mozambique, an estimated 90 percent of the rural poor depend on agriculture for their livelihood (Chizdero et al, 1998). As war ravaged the countryside, people were driven from their homes and deprived of their previous means of survival.

'Nearly everything is based around agriculture in Manica. It is how people survive and it is how people earn a living. So when people were driven from the countryside because of the fighting the situation was bad.' (NGO Employee)

Public Entitlements included access to publicly provided goods and services which in theory are secured by virtue of citizenship – although in practice they may be reserved to particular groups. Of particular relevance to human well being during war are public entitlements to health services, education, water and sanitation, as well as the public provision of free or subsidised food. Social services were deliberately targeted and destroyed by the rebel forces. Thus the provision of basic needs was severely undermined, especially in the rural areas. Social service provision was minimal.

'Traditional birth attendants continued to offer a basic service to expectant mothers and new born infants but, without access to any materials, medicines or to any training, infant and maternal mortalities rose. A very basic education service was maintained but teachers were poorly trained, had no equipment and often not even the simplest of buildings' (Concern, End of Project Review, 2001:31).

Civic Entitlements include goods and services provided by a local community or non-governmental organisations, often in response to the collapse of public entitlements or in response to a level of poverty which prevents adequate market entitlements. During the war civic entitlements were of a limited nature (with the exception of the refugee camps in neighbouring countries). Security problems in rural areas prohibited access while aid distributions in the urban areas were discouraged in order to avoid further overcrowding. The severely limited resources in the towns could not cope with the rural-urban influx. As security and access improved during the post conflict period, the provision of humanitarian aid increased.

When extending civic entitlements to encompass social entitlements, the psychological effects of war and household make up should also be mentioned. This includes the traumas of war itself and also forced migration and family separation. Even for those who remained in their villages during the conflict, they often did so under the threat of violence.

'When we came back it was still a bit crazy. We weren't sure what we were doing. I think people were still drunk on the blood of war.' (Lito, Pindanganga)

As a result of war the household make up changed dramatically. With the men fighting in the war and families separated, the family unit took on numerous different forms. Due to the casualties of war the number of female-headed households increased sharply. A national census carried out in 1997 (INE 1999) showed that 26 percent of households in Gondola district were female headed. Governed by the need to survive and support their families both during and after conflict, women who had previously remained in the home became involved in various income generating activities. Another phenomenon as a result of war was the prevalence of children working in the market place and involved in petty trading.

'At this time (during the war) I was still a child. But I remember working in the market with my brothers and sisters while my mother was looking for food.' (CRESCCE client, Chimoio town)

Extra-legal Entitlements include entitlements acquired by theft or threat of force. These can be an important source of survival during war for individuals or even social groups; although equally their mirror image – the loss of market or direct entitlements through theft – may be an important loss of entitlement for others, sometimes leading to destitution or death. As is common in war torn societies, survival strategies adopted by the population were associated with the spread of parallel and extralegal activities (Carbonnier 2000). In the immediate post conflict period hijacking of humanitarian convoys carrying aid and banditry were commonplace.

6.2 Coping Mechanisms

Stewart et al (2001a) point out that *'the magnitude of the deterioration depends greatly on household survival strategies, their ingenuity and adaptability'*. Understanding household survival strategies can contribute to identifying more effective ways of supporting and assisting in the process of improving their livelihoods. A useful framework of grouping these strategies is by consumption modifying strategies, income raising strategies and personal financial intermediation (Sebstad et al, 2000). Given the importance of humanitarian aid in the immediate post conflict period this is mentioned separately.

Humanitarian Aid

During the conflict this was the main coping mechanism for refugees as income earning opportunities were limited. For IDPs and those who remained at home, humanitarian aid was an important mechanism. Aid received was often combined with income from petty trading and other activities. Many of those who remained at home were cut off from humanitarian assistance,

especially in the Renamo held areas. After the war, the short-term focus was on meeting the basic needs of food, shelter and clothes. Humanitarian aid was significant in meeting these demands, especially in the form of emergency distributions of food, seeds and tools and clothes.

Consumption Modifying Strategies

Modifying the diet according to what was cheaply available and reducing food consumption was a key coping strategy. Many people talked of eating wild fruits, mushrooms and fish from nearby rivers. Some people in the IDP sites were allocated a small plot and they survived on what they managed to grow there. Since the early 1980s Mozambique has experienced three major droughts (1981-1983, 1986-1987, 1991-1992) which led to famine and malnutrition in various parts of the country. In 1988 the prices of rationed food increased three-fold and malnutrition increased as a result. It was interesting to note that people do not talk of consumption modifying as a coping mechanism. Given Mozambique's dependence on agriculture, the irregular income of the majority of the population and susceptibility to natural disasters, consumption modifying is considered a way of life. Assets are only sold to purchase food when the situation is desperate.

'At times we were very hungry. We were always looking for food and ate whatever we could find. Even now there are times when we are hungry. But that is normal, especially just before the harvest.' (Kativa, Pindanganga)

Income Raising Strategies

A huge number of people turned to the informal economy as an important means of survival both during and after the war. Given the lack of formal employment opportunities the informal economy was an important means of survival for both urban dwellers and IDPs who had fled the countryside. Refugees also reported being involved in small businesses within the refugee camps.

'I had a small business. I managed to set up a kiosk in the refugee camp. My clients were mainly my fellow refugees. They were getting money from ganho ganho (seasonal labour).' (Carmona, Massingir)

A survey of petty trade and household survival strategies in the peri-urban area of Maputo (Little 1992) illustrated the extent of the burgeoning informal economy. More than 60 percent of the traders sampled in 1992 were not involved in commerce in 1986. After the war this continued to be an important income raising strategy for the poor, especially in the urban and peri-urban area

where there were higher levels of economic activity. It is estimated that 90 percent of the total workforce in urban and peri-urban areas is employed in the formal sector (de Vletter 1995).

'After the war finished, with the experience of the population who lived in the cities and the help of their families, most tried to get involved in business, buying and selling. Cutting firewood was a lot of work. So everyone tried to start a small business and life went from there.' (CRESCCE client, Chimoio town)

However the increase in the number of traders obviously affected profit margins. While most traders noted that the market reforms had resulted in a more favourable environment for commerce, information on welfare and income levels showed that the majority of them did not feel that their incomes had risen substantially, or that their business was any more profitable in 1992 than it was in the late 1980s (Little 1992). The considerable competition cut into their incomes and they suffered considerable uncertainty caused by rapid inflation.

Following the peace agreement, often some members of the family stayed longer in the urban areas while others returned home to establish the household and begin to prepare the *machamba*. This ensured at least some income, albeit irregular, for the household.

'I was earning a small bit of money and I had a machamba so I stayed a bit longer with the children. My husband went back to the village before us, anyway we were not sure about security. He started to open up the machamba again and then we went back later.' (Aida, Chipindaumwe)

Income diversification is an important coping mechanism. Households rarely depended on one source of income. People were involved in numerous activities in order to survive.

'People did a bit of everything to survive. We were lucky to have assistance from WFP while getting settled but that was not enough. We did ganho-ganho and buying and selling what we could find while we were opening up our machambas. Other sources of income were handicraft, baskets, mats and clay pots and charcoal production. These were sold in Gondola and Chimoio town but during the wet season access was very difficult.' (Tomas, Pindanganga)

Data gathered in 1996 showed that about a quarter of all urban households rely on their micro or small enterprise (MSE) for more than half of their income while in rural areas this percentage is only about 16 percent (MOA/MSU 1997).

Another important way of raising income both during and after conflict was to mobilise labour. Many of the refugees worked as labourers in the local farms.

'We were not allowed to work for cash, but there were ways of escaping the control. I did seasonal jobs like working on the farms to get some money. It was illegal because we were not allowed to work by law. If you were unfortunate you would get arrested and repatriated through Maputo while your family are still in the (refugee) camp. Then you would walk again to South Africa.' (Senhor Ngovene, Massingir)

IDPs in the cities worked in those areas of the countryside that were accessible. When the IDPs returned to their origins in the countryside, clearing and preparing land was a considerable task. Many did seasonal work on other people's land in return for payment in cash or in kind. When labourers received food as payment they often sold this to meet other needs. Migrant labour (especially to South Africa and Swaziland) is also an important factor in the Mozambican economy. This is mainly limited to the provinces of Maputo, Gaza and Inhambane.

'I am lucky because my husband is working in South Africa so I don't need to borrow money. He sends goods sometimes in a friend's lorry and also money with trustworthy friends.' (Teresa, Chilembene)

The sale of physical assets was also commonplace. Humanitarian aid was often sold on the black market or traded for other commodities. Some refugees returned with belongings they had accumulated in the camps, particularly zinc sheeting (it was easier for them as transport to their place of origin was provided by the United Nations High Commission for Refugees (UNHCR)). Many chose to sell this in order to meet pressing basic needs.

'The money I brought from South Africa was finished already and I sold some of my commodities to get cash.' (Carmona, Massingir)

For people who were unable to partake in economic activity or physical activities, this was often the only income raising option available. This included the sick, disabled and elderly, i.e. the

most vulnerable households. In these cases it was often a 'distress' sale with others acquiring the good at a rock bottom price. The reduction of physical assets (and minimal income received in return) further increased their vulnerability.

'I don't have anyone to borrow money from. My chickens are my support if I need to pay school fees or buy books for the girl or if there is an emergency. I sell them in the town but I don't always get a good price.' (Kativa, old woman living with her grand daughter in Pindanganga)

In the longer term an important income raising strategy was the production of an agricultural surplus to be sold in the market place. This was an important step in advancing from survival to livelihood and transcending the poverty trap. It also kick started the rural economy by providing an injection of cash into the communities which could then be invested for other purposes.

'Money only began to circulate here in 1995 when those people who had returned had started farming and had some surplus. Then the interaction between people from the town and here was increasing mainly to buy and sell agricultural surplus.' (Tomas, Pindanganga)

However even though the degree of market participation has increased since 1992, many agricultural households (particularly in the remote rural areas) stated that they were not able to sell any part of their output. Secure access to fertile land is an important issue here. While most people had access to land in the immediate post conflict period (all land in Mozambique is owned by the government), security of land tenure and levels of fertility varied considerably. Labour is also an important component, and many vulnerable households have neither the manpower nor the resources to hire extra labour. When asked to explain how people in the village became wealthy, the interviewee responded:

'They had big families helping in the farming work. The surplus (maize) was ground and exchanged for labour to extend their farms, or sold in cash. Those people were also breeding animals which enabled them to have access to cash.' (Felix, Pindanganga)

Poor infrastructure, lack of transportation, absence of information and communication links also limited the opportunities to engage in the market place.

Personal Financial Intermediation

Although in a very limited capacity, some people managed to save during the conflict. While the refugees used some of their income to supplement provisions, they also saved small amounts. Those refugees with identification were able to open savings accounts, others saved in the camp.

'It was difficult for many people because they didn't have any id. But myself I had a passport which could enable me to save at the Post Office. I could withdraw money any time without inconveniences. Those with no official document ran the risk of saving in the refugee camp.'
(Carmona, Massingir)

The refugees also lent small amounts to each other in the camps, which were returned with no interest.

'We knew each other and developed a certain trust amongst ourselves. Some of us were well known even with the local people so you could borrow money from them. I am talking about 10 or 20 Rands (approximately one or two US dollars) and we returned the same amount with no interest.' (Jorge, Massingir)

Some refugees therefore (it is difficult to determine what percentage) returned home with a limited amount of cash. In addition those who were earning money often chose to return home at a later date, as they were aware that income earning opportunities in Mozambique were scarce. Similarly, some of those who had income earning opportunities during the conflict managed to save small amounts. Hence drawing on savings was a mechanism that was employed by the economically active in the post conflict period.

Borrowing in cash and in-kind were also important coping mechanisms. Borrowing cash to meet basic needs was principally through friends, neighbours and family.

'Neighbours, relatives and friends are people to knock their doors in moments of crisis to solve immediate problems like paying hospital bills if someone is sick.' (Armando, Massingir)

Links with people in the less poor categories was therefore important in this respect. Amounts were small, repayment was flexible and usually without interest. Borrowing in-kind was common before the first harvest and often this was paid back in-kind with interest after the harvest. In the short term loans were usually for consumption purposes to meet basic needs.

'There is no moneylender in this community, but there are some people who are better off who usually give loans on the basis of trust. Repayment depends on the agreement. If somebody has no food they can go to someone else to borrow a bag of maize to be repaid after the harvest with interest of half a bag.' (Felix, Pindanganga)

6.3 Characteristics/Categories of Households after Conflict

As mentioned previously the structure of households was dramatically changed as a result of the conflict. Casualties of war, temporary migration to look for work and the rural-urban influx altered the composition of the Mozambican households.

The level of assets of a household was important in determining its category in terms of wealth ranking. It should be recognised that after the conflict assets varied greatly depending on how the household had been affected. Some returned in nothing more than the clothes they were wearing whereas others spoke of returning with zinc sheeting, livestock, cash and other personal belongings.

'I brought some zinc sheets, domestic utensils and cash in South African rands and then exchanged them into local currency.' (Carmona, Massingir)

Some returned to retrieve some belongings, whereas others found everything destroyed upon arrival. While it is difficult to ascertain what percentage and what sectors of the population had varying levels of assets, it is important to realise that there were considerable variations.

'It is difficult to say what people came back with. It's hard to generalise. Some brought money from the ganho ganho they were doing, others just some clothes and food while others came with nothing. The lucky people found their bananas and other fruit trees still producing which enabled them to cope well and buy animals and have people working for them. Some of us were fortunate to find our houses and some of the plates and pots still hidden and in good condition. Others found nothing.' (Maria, Member of Savings Club, Chipindaumwe)

Another element which is harder to quantify but is nevertheless important to consider is the effect of trauma as a result of war. People that were severely traumatised by war were less able to take affirmative action to rebuild their lives.

'In many cases they were so traumatised that they could not even focus on how to get their life back together. I don't think enough attention was paid to this aspect.' (NGO employee)

In order to ascertain the different categories and characteristics of households, Concern carried out wealth ranking exercises during community meetings in 1995 in Pumbuto, Chipindaumwe and Pindanganga. Wealth groups and characteristics were agreed on and the results are presented in table 3.

Table 3: Wealth Ranking

Wealth Group	Characteristics
Least Poor Families	Stable family; possess small animals (goats, hens, etc); possess bicycle; possess sewing machines; large fields and/or 'baixas' (wetlands); possess sleeping mat; food reserves – 'eat well'
Poorest Families	Blind; physically injured or disabled; orphans; lack food reserves; elderly widowed; lone mothers; poorer land; few or no hens/ducks

Source: Gondola Participatory Rural Development Programme, 1996-2000, Manica Province, Mozambique, Project Proposal. Concern Worldwide, unpublished document.

The Concern project proposal (1995:10) noted that *'during visits by project teams to family homes within the programme area, many families were encountered for whom the daily struggle for existence was such that it gave them little chance from then even to think about other activities.'* It is interesting to note that an important characteristic of 'least poor families' is the ownership of assets (including livestock), access to fertile land and sufficient food. The exercise was repeated in 2001 as part of the end of project review. Interestingly, in two villages the wealth group 'wealthiest' was suggested. The main characteristics of this group were the level of assets and resources. Agricultural surplus and small income was also a factor.

7. DATA CHAPTER – PRODUCTS

What types of microfinance products are in demand in post-conflict situations?

This chapter examines various issues surrounding microfinance products. It begins with an overview of informal and traditional systems in Mozambique. Next it focuses on the products existing after conflict and their development over time. The third section looks at the change in

demand for products as a result of the developing environment. Finally the success of providers in meeting the demands of clients is assessed.

7.1 Informal and Traditional Systems

Recourse to the informal autonomous sector is one of the best indicators of potential demand (EC 1998). If people regularly borrow at very high interest rates, if they pay commission on savings, then real demands for credit and savings evidently exist. An understanding of traditional systems is also useful in the development of appropriate delivery mechanisms and products. While systems that worked in a pre-conflict environment cannot necessarily be transposed in a post-conflict environment, it is nevertheless important to be aware of systems that were previously in existence and the effect of the conflict on these systems.

Little is known about informal and traditional practices relating to credit and savings in Mozambique (de Vletter 1999). It appears that village money lenders and informal rural financial mechanisms are not widespread, in marked contrast to neighbouring countries such as Malawi where informal markets mobilise and allocate large volumes of savings (World Bank 1992). This is most likely due to the disruptive influence of war in the rural areas and low and declining levels of income (*ibid.*). De Vletter (1999) suggests that while it is probable that the war had a significant negative effect on such practices in the rural areas, it may have helped to stimulate such practices in urban areas to help cope with the deteriorating economic situation.

Chizdero et al (1998) describe some of the most common ways of saving and lending in Mozambique. Two notable features are that most involve savings transactions and are membership based. Most of the informal systems are urban except for the in-kind schemes, informal loans and the trader credit. It should also be noted that there are considerable regional differences.

Informal loans – informal loans between households, friends, family and neighbours are common, especially in rural areas. Repayment is flexible and is normally without interest.

Xitique – This is the best known practice in Mozambique and is a form of rotating savings and credit association. Members (4-10 persons in a group) meet regularly to make contributions and receive funds from a rotating savings fund. Each member makes an equal contribution. The funds collected are lent to one member. Each member gets a turn to receive the funds.

Frequency of repayments and the amount contributed depends on the resources of their participants and their needs. Funds can be rotated on daily, weekly or monthly basis. Groups are divided by gender. Market vendors, vegetable producers, as well as salaried individuals in the same place of employment use xitiques.

Xitique geral – This is a recent introduction and is particular to the south of the country, particularly Maputo where it was reputedly introduced in the early 1990s. It is a mobile banking system whereby clients agree to pay a fixed daily amount over one month (thus constituting a type of forced savings). At the end of the month the whole amount is collected less one-day's deposit as the banker's commission.

Money collector – The money collector is a person who is trusted by a group of depositors. He/she collects the daily surplus from clients and pays it back after a total of 30 days. The collector deposits the funds in the bank at no interest, and gets one day of savings (31st day) in payment for collecting and keeping the clients' money safe. The collector is only allowed to accept funds from those on an approved list. Those on the list must approve additions to the group. Market women who have daily savings that they are unable to deposit in a safe place often use this service.

Solidarity funds – These funds are organised by people living in the same neighbourhood or work place. Contributions are very small but regular and are made available to members for social events (mostly funerals but also weddings).

In-kind savings – Individual peasants save in the form of crops and/or livestock, which are either kept and represent savings, or are bartered or sold at some point to get domestic goods that are saved or sold later. Dry manioc, sorghum, maize or beans are the crops usually saved. This type of savings is common during times of high inflation, and in some areas with poor monetisation possibilities.

Animal credit – animal credit schemes are employed by peasants to restock their animal herd/flock. A peasant will lend an animal to another peasant. The borrower will care for the animal and will either return it to the lender after offspring are born, or the animal is slaughtered and shared between the two parties. The borrower pays for the animal by giving some of the offspring to the lender (e.g. for two chickens loaned payment may be half of the chicks; for a

male pig payment may be one baby pig). The loan period will depend on the animal and time it takes to produce offspring.

Trade credit – Prior to independence, peasants could obtain seed and other agricultural inputs on credit from cantineiros (rural shopkeepers). This practice has virtually disappeared and also the sale of consumer goods on credit is less common than in the past.

7.2 The Development of Products Post-Conflict

The microfinance sector in the post conflict period in Mozambique has been described as ‘chaos’ (de Vletter 1996). Microfinance products were offered by various providers. This included international microfinance specialist NGOs (such as World Relief and CARE), international general development NGOs (such as Concern), donor agencies, national NGOs and the government of Mozambique. During this immediate post-conflict period many microfinance activities adopted the maximalist approach. This entailed the inclusion of supporting activities such as business skills training, technical support, etc. This was particularly the case of microfinance activities targeted at demobilised soldiers. During the initial post conflict period many activities that called themselves microfinance were effectively grants, especially in the case of demobilised soldiers. Terms for credit ranged greatly from highly subsidised rates of interest of about 15 percent (commercial rates being 45-48 percent) to programmes effectively charging 72 percent per annum (*ibid.*). The majority of the semi-formal credit schemes were in urban or peri-urban areas. In the rural areas in-kind microfinance was common, especially in the area of animal restocking.

Semi-formal credit was for investment purposes only (although money is obviously fungible). The most common approach was to provide loans for individual activities but within the solidarity group or community banking methodology. A few NGOs such as Concern gave loans for group activities. Credit for consumption smoothing was solicited from friends, family and neighbours. There has been little development in consumption lending from the semi-formal credit sources in Mozambique.

Formal and semi-formal savings services for the poor were practically non-existent. In the urban areas informal mechanisms were common. In rural areas people hid savings in the house. The development of savings products over the years has been extremely limited. The BPD (now Banco Austral) offered savings services, however a high deposit requirement means this is not a

possibility for the majority of the poor. The most recent study of the microfinance sector in Mozambique (ICC 2000) noted that in comparison with 1998, the numbers of operators offering a voluntary savings service as well as the number of clients seemed to have increased. However this is still extremely low with only nine operators offering or planning to offer a voluntary savings service.

As the microfinance market grew and matured, the majority of providers adopted the minimalist approach. For example health promotion used to be an important component of the WR/FCC microfinance programme but over the years there has been less emphasis put on this aspect. Over time many providers withdrew from microfinance, notably general development NGOs and to a lesser extent the government. New MFIs and microfinance banks entered the sector in the late 1990s. There have been various attempts to introduce microfinance to the rural areas although due to the difficulties facing rural microfinance in Mozambique no successful programme currently exists.

A major catalyst in the transition of 'emergency' products to 'development' products was WR/FCC's community banking programme. Among other things, it provided a working example of: (i) market based interest rates that take inflation into account; (ii) a savings facility; (iii) emphasis on repayment and; (iv) credit cycles with larger amounts each time. As Rhyne (1998) highlights in the matching grant final evaluation:

'Its example is proving important in helping establish an understanding of microfinance in Mozambique, including an understanding of best practice principles, and thus, its impact goes beyond the services it provides directly.'

In more recent years there have been new developments in credit products. Individual loans are now becoming more common. This can be attributed to two reasons. First, it is in response to clients who have gone through the credit cycles and their businesses have developed to a point where they need larger amounts of capital. They have proved themselves to be reliable and creditworthy.

'At the moment we have two people receiving individual loans of 12 million meticaís. They have demonstrated that they are good at managing money. They began when we were giving loans of (us\$35 to us\$40 equivalent) in meticaís and they have gradually grown up to this point.'* (MFI employee)

Secondly, it is in response to the increasing levels of competition in the microfinance sector in Mozambique. Until recently CRESCE was the only major provider of microfinance in Manica province. They will soon be joined by NovoBanco and Socremo. As one MFI employee explained:

'We are planning on introducing various products but I can't be more precise at the moment. Some of our clients started with small amounts but they have developed their activities and they don't want to join up with someone who wants to borrow 100,000,000 meticaís (approximately us\$45). There are some clients that need 15 or 20 million meticaís (approximately us\$682 or \$us\$909) because of the volume of their businesses. So what we are quickly beginning to think about is individual credit for those that have shown themselves to be good clients..... There is now more competition entering Chimoio, with Socremo and NovoBanco. If we don't satisfy the requests of our clients then we will see that when this competition arrives some of our clients will switch. We don't want to lose them.'

Another recent development is the introduction of credit for consumption purposes. Concern recently introduced a credit component as part of its education programme in Chimoio town. Loans are made available to teachers and the repayment is deducted from their income at source. This requires an agreement with the Ministry of Education. Other MFIs are also looking at the possibility of providing credit for consumption purposes. This is more feasible in the towns where there is a higher level of paid employment. One of the new microfinance banks has recently introduced credit for consumption purposes in Maputo where there is a high level of demand.

The development of microfinance products has been heavily influenced by the quest for sustainability. The Consultative Group to Assist the Poorest (CGAP) Microfinance Fund was introduced by the World Bank in 1995. It has assisted and supported the development of the microfinance sector in Mozambique and the adoption of best practices. While there is ample recognition of the importance of adopting best practice principles, specifically outreach and sustainability, there is also concern that at times these goals hinder the development of products most suitable for reducing the vulnerability of the poor and poorest. This discussion is perhaps most relevant for the NGOs providing microfinance. This was highlighted in de Vletter's (1999:16) article on post conflict microfinance in Mozambique,

'An interesting debate is emerging as to whether microfinance practitioners may not have lost sight of their objectives. By focusing on sustainability and the creation of viable MFIs, we may have ultimately ended up choosing our clients by the same criteria as formal banks were criticised for following i.e. pursuing relatively low risk, short-term commercial credit at the expense of the higher risk, longer term productive loans.'

While it is not possible to debate the details within the context of this study, it is worth raising as it has important implications for product development and geographical location in post conflict situations. It will therefore be an important consideration during the second phase of this project. In Mozambique some credit programmes have increased the first loan size with the objective of achieving greater levels of sustainability. Savings programmes (that were extremely popular amongst the poor) have been discontinued for sustainability reasons. Rural microfinance has been largely ignored, principally due to the difficulties of finding a methodology that is sustainable (de Vletter 2001). This would seem to indicate that the overriding factor in product development is sustainability. While this can be and indeed often is compatible with the needs of the poor, there are indications that it also risks compromising their priorities for the goal of sustainability.

7.3 Demand for Products

Various factors can help to measure the level of demand for different types of products. The coping mechanisms in the previous section shed some light in this respect. In addition, an analysis of the local economy and production systems, the specific problems faced by the poor in making productive investments and their possibilities for increasing productivity and income is key in pinpointing demand for credit. Similarly an analysis of household budgets, specifically patterns of income and expenditure is useful in determining repayment possibilities. In a post conflict environment these elements are often the subject of rapid change and this is reflected in a changing demand for microfinance products.

The change in demand for microfinance products in post-conflict Mozambique was closely linked to the developing environment. Demand was higher in the towns where there was increased security, a cash economy, functioning markets, increased population density and higher (albeit extremely low) levels of income. Immediately after the conflict there was a high demand for low risk, low investment activities with a rapid turnover. This derived not only from the need to

survive, but also from a tendency not to make any long term plans. This in turn translated into a demand for small amounts of credit, with short cycles and regular repayments.

'For my part I was still in an area where there were some security problems. To do business and buy products was difficult. We did just enough to survive. But I did not want to have borrowed money or goods inside my house. It was preferable just to lose your own things. So it was small amounts and from day to day.' (CRESCCE client, Chimoio town)

In the urban areas there was a preference to save in cash. Access and liquidity were important.

'Personally I prefer to save in cash because any time I can access the money and buy anything. I would save some in animals if I was still living in the rural area where people still respect others property but here there are lots of thieves. I need the money at hand. If I was to deposit money on Monday, often I need it by Wednesday. So I can't put all my money in the bank.' (CRESCCE client, Chimoio town)

An impact survey of CRESCCE clients showed that some 60 percent save, of which 56 percent held bank accounts, all of whom were with BPD (de Vletter 1998). The high deposit requirement of 300,000 meticaís (approximately USD20) meant that this was not feasible for all clients. There is a demand for savings amongst the poorer clients.

'I would like to save but I don't have enough to go to a bank. Also I am not literate. The little I have I keep at home.' (CRESCCE client, Chimoio town)

Many clients have requested CRESCCE to take savings on their behalf (*ibid.*).

Given the starkly different environment in the rural areas, the initial and evolving demand for microfinance products was significantly different. In the initial stages the lack of a cash economy, availability of consumer goods and income generating opportunities limited the demand for credit and savings in cash. In the remote rural areas this was also due to the fact that even prior to the conflict much of the population had been outside of the cash economy and were not used to dealing with money. In progress reports Concern noted that this was an issue in some of the project areas. There was therefore demand for in-kind credit, such as livestock during this phase.

'When I came home I needed some help to start animal breeding. I would suggest that the loan would be in kind because it was difficult to purchase animals. To go to the market in Chokwe took a lot of time and was expensive.' (Carmona, Massingir)

A small number of animals also provided an asset which was often sold in times of hardship. A number of farmers interviewed during the Concern (2001) end of project review mentioned that they had already sold animals to buy blankets and one single mother had exchanged a goat for cultivation of her land. The project monitoring system identified others who have constructed grain stores, paid school fees for their children, bought a sewing machine or purchased basic needs such as soap, salt, sugar or oil.

However the demand for in kind versus cash depended on the levels of market activity and links to the market place. As the links between urban and rural areas were restored, consumer goods became available for purchase and trading began to take place. An important aspect here was the ability to produce agricultural surplus for sale. As marketing opportunities increased there was greater demand for credit in cash. However as mentioned previously people were reluctant to take on credit for agriculture given the risks involved. Credit was used for the marketing of agricultural produce rather than its production.

Given the severely depleted asset base of the poor, alternative collateral was necessary. This meant that the village banking model or solidarity group model was appropriate. An added advantage to this was the mutual support, both emotionally and financially which this kind of methodology afforded. The poor and those with no previous experience therefore expressed an initial preference for this system.

'We worked well as a team because we could remind ourselves about meetings, rules and exchange experiences with other group members. I had not had a business before so the support of the other women in the group helped me.' (Maria, ex FCC client, Chokwe town)

However some of the better off and those with experience did not like the system.

'It leads you to share other people's problems. If you are in a bank with people who are not serious or who do not have experience in business then you will suffer.' (Teresa, Chilembene)

The prolonged climate of war contributed to creating an environment where theft became almost acceptable (especially from international NGOs who were seen to have ample resources). Being answerable to peers within the community decreased this possibility. While it may seem that lack of trust and social cohesion would make this methodology quite unworkable, the experience of microfinance providers did not reflect this. WR/FCC considered that setting out clear rules and regulations could override this negative factor and therefore included a comprehensive training period prior to the first loan disbursements.

'It is important that the rules are very clear. This can overcome lack of trust in a post-conflict situation. There are already examples that prove that lack of trust is not an excuse for not having success in microfinance.' (MFI employee)

While the poor continued to prefer this methodology, those who built up successful businesses in their own right developed a preference for individual loans. The lack of social capital in the post-conflict environment resulted in a strong preference for operating individually rather than as part of a group. Evaluations of Concern's group activities noted that conflict amongst the groups was a major problem. Another issue in this respect was the very long and negative history of collective action in Mozambique.

'In 1997 I started a business with some other women in the village with a credit from Concern. But it was difficult to work in a group and there were problems with mismanagement. Some members gave up and the group fell apart. I would like to run the business on my own now.' (Aida, Member of Savings Group, Chipindaumwe)

As income generating activities provided cash income the assets of the poor increased. In turn this created a demand for savings mechanisms. It is interesting to note that in 1996 a substantial percentage of the savings of the BPD was coming from rural areas, including from the family sector (Athmer 1996). Even with relatively small amounts of cash, there was a demand for savings facilities amongst the poor. The primary reason is a secure place to hold cash, not just from theft but also from fire, flooding and other natural disasters. Other reasons were to improve discipline and to help in planning and prioritising household expenditure.

'Before I joined the savings team I was using the traditional methods of saving, that is hiding inside the house, burying it somewhere or giving it to a family elder for safekeeping. However

none of these methods are safe as they are vulnerable to fire, thieves, can decay and can even be lost if the elder dies before returning the money. When people save they can access their money when it is needed most and it also allows time to plan and prioritise expenditure. If you keep your money at home you may end up spending it on things of less importance for the household. Look at Joao here – when the savings club finished and he withdrew his money he went out and bought these clothes that he doesn't even need!' (Lito, Member of savings club, Pindanganga)

When the Concern savings project in the rural areas of Gondola district, Manica province was initiated, there was no other similar programme. Average initial deposits were high, at US16.96. This indicates that there was an unmet demand for savings services, especially amongst women (35 of the total 52 initial clients were women). In March 1999 it was decided to introduce charges to cover the costs of the administration of the system. This effectively meant that the clients were receiving a negative real interest rate on their savings. However only a few people withdrew their money and the number of savers continued to grow steadily. This is an indicator of the value clients attached to the service. The women made much smaller deposits than men, indicating that they have considerably less disposable income. The average withdrawal by men was also considerably larger than for women. This may indicate that they are making investments or sizeable purchases, whereas the average withdrawal by women would be more in line with domestic expenses. This observation based on the statistics was confirmed by clients during interviews.

'Myself and my wives are engaged in business and we all had separate accounts when the savings club was still operating. My wives had freedom to use the money for small household expenditures like a bag of flour, soap, etc and they would inform me at the end of the day.' (Felix, Member of Savings Club, Pindanganga)

The fact that Mozambique has suffered two serious floods in recent years seems to have heightened the need for a safe place to save money. The informants, particularly in Chokwe town and Chilembene where the floods in 2000 had a devastating effect, frequently mentioned protection against floods as an important reason for using a savings service.

'I saved there (with FCC) but the floods have ruined my life because they happened just after I withdrew my savings. People now do not want to leave money in their house in case we have more floods.' (Maria, ex-FCC Client, Chokwe town)

7.3.1 Analysis of Demand

The post-conflict period in Mozambique coincided with the promotion of microfinance as a panacea for poverty alleviation. The plethora of credit programmes at subsidised interest rates and low repayment rates in the immediate post conflict period influenced the subsequent demand, as credit was seen as not dissimilar to a gift.

'When we began in 1994, during the first cycle we had many clients because some thought that it was easy money. But when they realised that it was serious some gave up. Then the group realised that it was necessary to carefully select the members.' (MFI Employee)

These observations of demand for microfinance in Mozambique are supported by Buckley (1997) who points out that it is not surprising to find a high demand for credit among informal sector entrepreneurs. He claims that demand is clearly conditioned by what people perceive as credit and what people perceive as their problems. Hence when people say that they would have liked credit during that period it is often unclear whether they mean credit or money. When carrying out interviews people often used the words 'give' and 'lend' and 'credit' and 'money' interchangeably. (It is easier to determine actual demand today as the concepts and best practice of microfinance are more widespread.)

A Concern evaluation of activities highlighted the fact that the problem to be addressed through the provision of credit is usually expressed as a 'lack of money'. Doyle (1998:23) states that *'distinguishing between a general demand for cash as compared with a demand specifically for credit is difficult'*. This refers to the challenge of identifying what economists call 'effective' demand. This involves looking at their capacity for debt (how much debt they can bear without getting into trouble) and their capacity for credit service (on what terms and by what means can they repay the debt) (Dichter 1998). In hindsight, an NGO employee explained:

'I don't think that credit is always the answer to lack of cash and I think maybe our analysis was weak. A lot depends on how the facilitator interprets this. So why do I say that credit is not the answer? Well to use credit requires capacity, people who are used to handling money and people who have the capacity to start up an activity. In reality people were not ready for that. Credit is useful when the shortage of cash means the person cannot afford agricultural inputs, fertiliser or hire extra labour. But it is no replacement for the provision of education or health facilities.'

7.4 Meeting the Demands of the Clients

Microfinance providers in Mozambique operate in a country with 16 million inhabitants, of whom two thirds are living below the poverty line (Chizdero et al, 1998). Based on the available data, cumulative outreach between 1992 and 1997 was a total of 28,409 clients (*ibid.*). Active clients at the end of 1997 totalled approximately 6,000. By 2000 this had increased significantly to 16,000 (ICC 2000). Although this is a marked increase in the number of active clients, it is still extremely low for a country with the population of Mozambique. This could indicate that there is a huge demand-supply gap.

Different categories of providers had varying degrees of success or failure in meeting the demands of the clients in the post conflict environment. Levels of success varied greatly between types of provider and geographical location. However there is general consensus that within the microfinance sector in general, neither the supply of credit nor savings facilities was sufficient to meet demand. The lack of credit in rural areas was particularly acute and the lack of savings services in general was a huge shortfall. The response of the formal, semi-formal and informal sectors are discussed below.

Formal Microfinance

Microfinance from formal institutions was non-existent during the post-conflict years. The string of failed credit programmes in the immediate post-conflict period did nothing to encourage formal financial institutions to venture into the area of microfinance. The BPD (now Banco Austral) was one of the few banks with branches in the districts that offered savings facilities. However the minimum deposit rendered it prohibitive to the poor. Since the ERP in 1987 the BPD moved away from development and agricultural banking into industrial and commercial lending (World Bank 1992). The following remarks reveal how people perceive the formal banking system.

'Formal banks are very demanding and ask for lots of guarantees.' (MFI employee)

'There is a bank in town but I never keep my money there. I think that it is difficult if you didn't go to school. It's threatening. I heard that people are saving money in banks but I think it's only for people who are saving a lot of money.' (Jorge, Massingir)

'I don't ask for credit in the bank because it's a long process. Anyway the bank only gives to those who already have money.' (Julieta, Chokwe town)

The introduction of microfinance banks such as NovoBanco are promising developments within the formal microfinance sector. They are registered as formal banks but are exclusively involved in the provision of microfinance. However their product portfolio is still limited. At present NovoBanco only offers credit. A savings facility is planned, but will not be implemented until next year. This type of bank has the potential of demonstrating that lending to the poor can be profitable and thereby encouraging other formal banks to consider such activities.

Semi-Formal Microfinance

Semi-formal institutions were very active in the area of microfinance during the post-conflict period. Most of these organisations were generalist NGOs and were initially involved in the provision of emergency relief to affected populations. The provision of microfinance was therefore a follow-on from these activities as many NGOs identified financial needs in the communities where they were working. There was therefore a delay in implementation and microfinance was not provided during the initial relief period. There were a large number of NGOs involved in microfinance, however the outreach of each programme was extremely low. The supply of credit, both in cash and in-kind was insufficient to meet demand. Statistics from the WR/FCC programme clearly indicated that demand was higher than expected. The programme initially targeted 2,280 members receiving loans during the first four years of operation (1994-1998) (Rhyne 1998). This figure was greatly surpassed and the total number of clients receiving loans by 1998 was 5,049 (*ibid.*).

The demands of the clients for savings services were not adequately met by the semi-formal institutions. The lack of savings facilities was mentioned by many informants. The example of the Concern savings club demonstrates that there is a demand for savings in their own right, not only when linked to credit. For the poor, savings is often more important than credit (Chizdero et al, 1998). Many are unwilling to take on a loan from the semi-formal sector but they would use a savings facility that was appropriate to their needs. While there are legal restrictions regarding accepting deposits, alternative and innovative ways to support these activities exists. However for the most part microfinance providers did not endeavour to pursue this avenue.

In order to see whether the demands of the clients have been met it is interesting to talk to former clients of semi-formal credit providers. In Mozambique, microfinance (with the exception of some savings programmes) is aimed almost exclusively at the entrepreneurial poor. The majority of people that have ceased to demand microfinance are to be found at either end of this spectrum. While some of the poorest people who demanded credit successfully made a profit, others failed and left the programme. Some of the explanations are presented below.

'I joined FCC because I was facing some difficulties to feed my family at home. I was selling second hand clothes here, in Massingir and Guija. I took the loan but I had to buy some food. Then I couldn't pay it back. I borrowed from my brother to pay back my loan and then I left the programme.' (Felismina, Chokwe town)

'The poorest often use the money for personal needs and not for investing in business. There are two groups of poor people. Both have nothing but one has initiative to start a business—they just lack the capital. The others have nothing, but access to capital is not the answer. They use this to buy food and clothes, then they can't repay and they are in trouble.' (MFI employee)

'According to my experience in this place, I have realised that a high number of clients giving up are women. The reason why is because most of them are single mothers responsible for their families. When they access money before investing they use some amount to buy food and clothes for their family and when it comes to reimburse the loan they found themselves in big trouble and they end up giving up. It is very risky to give loans to people who are very poor because there is no way that they can do business without any food at home.' (MFI employee)

'Many people have left the bank. They know better than me the reason why they left but I think it was due to poverty. I mean people with no food at home who have used the loan for food or people who have fallen sick.' (Phalafene, Chilembene)

Several former clients lamented the rigidity of the repayment structure.

'I decided to abandon the community bank because the way the repayment is scheduled they forget that some people may have serious problems in the household. After I left I borrowed money from a relative who is in South Africa. The repayment conditions are very flexible.' (Helena, Chilembene)

When asked whether she would reconsider rejoining the community bank, a former client replied:

'No because I may have some more health problems so I cannot take the risk. If I could have a credit without those strict rules I wouldn't hesitate.' (Maria, Chokwe town)

At the other end of the spectrum, some ex-clients talked of their needs outgrowing microfinance services. The reasons were various - for some the loan size was too small, others no longer wanted to work as part of a group or spend time at meetings.

'I work with my own capital now. The money that CRESCCE gave me became too little to increase as I wanted. And there were some problems with repayment in the group. I prefer to work on my own now.' (Carlos, Chimoio town)

The semi-formal microfinance providers have responded more effectively to the group of entrepreneurs at the upper end of the spectrum. For those entrepreneurs who find it difficult to adhere to a strict repayment schedule there is no product that allows for such flexibility. The poor who may not be in a position to make use of credit for productive purposes, often demand credit for consumption smoothing. At present they rely on family friends and neighbours. The research found that the poor stated that they would be unwilling to avail of semi-formal credit for this purpose. It is possible that with the availability of more flexible products in the market place this preference would alter. However with the information available it is impossible to reach any firm conclusion.

8. ANALYSIS

The first section of this chapter aims to compare the findings of the research with the hypotheses. Next, testable propositions for each research area are presented and explained. Given the interrelatedness of the subjects there will be some overlap.

8.1 Hypotheses

The Environment

Hypothesis: Fulfilment of Doyle's minimum requirements ensures satisfactory conditions for the supply and demand of microfinance products.

Hypothesis: Fulfilment of Doyle's preferred requirements ensures satisfactory conditions for the supply and demand of sustain able microfinance.

While the findings of the research generally concur with the hypotheses, there are some additional comments worthy of mention.

Doyle (1998) states that essential pre conditions are low intensity of conflict, reopening of markets and long-term displacement. It is probably easier to deal with each in turn. *Low intensity of conflict is also defined as reasonable security or stability or a certain amount of stability of access.* The research in Mozambique supports this statement. However levels of conflict and security may vary in different parts of the country. For this reason the transition from relief to development does not occur simultaneously in all provinces or all districts. Thus microfinance possibilities often exist in some parts of the country, even though the country may be technically still at war. Informal microfinance existed in situations of insecurity.

The second essential condition is the reopening of markets. While it is true that the demand for microfinance increases as the markets begin to develop, there is also the argument that if microfinance is introduced earlier, it may inject much needed cash into the economy and may thus act as a catalyst for the development of the markets. Countries like Mozambique where there is a high level of cross border trading may be a case in point. Cash may not be considered appropriate during the earlier stages if there is a lack of consumer goods for purchase. However if these goods are available in neighbouring countries then the situation is very different. Immediately after the conflict border controls between Zimbabwe and Mozambique for example were very lax and this encouraged cross border trading and the development of markets in Manica province. In-kind microfinance can effectively respond to the absence of cash and market opportunities. It enables the poor to build up assets which they can then convert into cash when appropriate.

The third essential condition is long-term displacement (a minimum of 18 months). The WR/FCC microfinance programme provides an interesting example in this regard. The programme began during a period of significant population movements and many of the clients were IDPs. In 1996 a total of 40 percent of their members left as part of a refugee resettlement (Rhyne 1998). However all the loans were repaid (*ibid.*). It is interesting to try to understand why the clients felt obliged to pay back the loans. Some suggestions from interviewees were:

- From the outset the rules and regulations concerning the conditions of the loan were very clear.

- They understood that non-repayment would have a negative effect on the remaining group members. They did not want the stigma of non-repayment.
- They were keen to pursue further loans in their area of origin and WR/FCC indicated that they would support community banks.

Long-term displacement is therefore desirable but perhaps not essential. If the place of origin (or final desired destination) of the client is known and the MFI is flexible enough in its approach to consider expanding operations then this can be overcome. This obviously depends on the distances involved and the capacity of the MFI. On a large scale this would be difficult to handle, but mechanisms can be built in to make it easier to manage.

The preferred conditions are: a bare bones, functioning commercial banking system; absence of hyperinflation; relatively dense population; enabling legislation for microfinance institutions; skilled, educated workforce; social capital; trust in the local currency and financial institutions. Many of these conditions were not present in the post-conflict situation and indeed are still lacking today. In many cases microfinance practitioners found ways of minimising these drawbacks. Explanations and additional comments are presented below.

The commercial banking system was limited to provincial capitals and district towns. This was one of the reasons why microfinance was limited to urban and peri-urban areas.

Inflation was an important consideration (especially until 1995/1996) although it did not reach the point of hyperinflation. While the only macroeconomic indicator that Doyle (1998) mentions is inflation, stable exchange rates and low market interest rates are also desirable. While they are not essential for the provision of microfinance in the short term, they are factors that will impact on the ability to provide sustainable microfinance to the poor in Mozambique. A stable exchange rate is important since many clients in Mozambique are traders and are buying goods across the border. Low market interest rates reduce the cost of funds from commercial lenders. In a high interest rate environment it would take an MFI much longer to become financially sustainable.

Low **population density** has hindered the development of microfinance in rural areas. This is one reason why nearly all post-conflict microfinance was in urban and peri-urban areas.

Legislation for MFIs did not exist in the post-conflict environment in Mozambique. This did not hamper the development of microfinance activities. While an enabling legislation is preferred, the most harmful situation would be an obstructive legislation. In this case an enabling environment is sufficient while the MFI legislation is discussed and agreed by all those involved in the microfinance sector.

The lack of a **skilled and educated workforce** was one of the most notably absent conditions in Mozambique. WR/FCC overcame the problem of an extremely low level of education in the workforce through investing heavily (time and money) in the training of staff. Additional support was also necessary in the village banks.

Lack of **social capital** was also evident in the immediate post-conflict period. To minimise the negative effects of social capital, there was an emphasis on a training period during which the rules and regulations and their implications were clearly explained.

The final preference is for **trust in the local currency and financial institutions**. While other currencies were in use in the border areas, the meticaís remained the main currency of exchange. Trust in financial institutions is preferred, however arising from the case of Mozambique is the preference for trust in institutions in general. NGOs were often seen as either supporters of Frelimo or Renamo and this obviously inspired mistrust from certain sectors of the population. It was suggested by several of the field staff working for WR/FCC that one of the factors contributing to their success was the fact that they were a Christian operation and not associated with any political objectives.

An additional preference arising from the research in Mozambique is for a certain level of entrepreneurship, understanding of the market and habit of dealing with money. This is desirable for people to make effective use of credit for investment. As a money lender explained:

'Prices were going up so you had to know how to do business. You had to understand the market place. Those who didn't returned to the countryside to work in their machamba. Business is not for everyone, it's an art.' (Joao, Moneylender, Chimoio town)

Concern's end of project review (2001) noted that many of the activities failed because of conflict within groups, but more particularly because of inexperience of handling money and insufficient

analysis of the market (as a result of which little or no profit was made). Concern fieldworkers mentioned that lack of information about the markets was a serious obstacle to making effective use of credit.

Coping Mechanisms

Hypothesis: Microfinance products strengthen household coping mechanisms during and after conflict.

The research confirmed this hypothesis. The coping mechanisms of the poor in post-conflict situations are varied and complex. While microfinance is no panacea, it can play a vital part in the rehabilitation of households and their livelihoods. Informal microfinance, both in cash and in-kind, was an important coping mechanism for IDPs, refugees and those that stayed at home during the war. It has continued to be an extremely important coping mechanism in the post-conflict situation. For those with access, semi-formal microfinance was an important coping mechanism. This was mainly restricted to the urban and peri-urban areas of Mozambique. For many clients, semi-formal credit was key to the transition from 'survival' to building a livelihood for themselves and their families. Outreach in Mozambique was extremely low in the post-conflict period and the overall role of semi-formal microfinance was therefore small. However the research highlighted the potentially important role of semi-formal microfinance in strengthening household coping mechanisms.

Products

Hypothesis: When choosing a microfinance product clients prefer those which are flexible, convenient and give access to their money.

The research found evidence to confirm the above hypothesis. Following conflict, flexibility, liquidity and access were some of the most important characteristics demanded in products. Friends, family and neighbours were preferred sources of credit for consumption purposes as reimbursement was more flexible. Many MFI clients lamented the lack of flexibility in the repayment schedules of semi-formal credit. Security and access were important aspects of savings products. This was demonstrated in the case of Concern when even after the introduction of an administrative fee, few people withdrew their savings.

8.2 Testable Propositions

The Environment

- i) A lack of understanding of the interrelationships between the political, social and economic situation at national and local levels has a negative effect on microfinance.*

A recurring subject throughout the duration of the research was the importance of understanding the general political situation and the political dimensions of relief and development work. Indeed, it was repeatedly stated during interviews, especially with MFI staff that a detailed analysis and understanding of the political situation is crucial as it dictates the socio-economic situation. Given the increase in 'complex' emergencies in recent years, this will undoubtedly continue to be an important element of operating in a post-conflict environment. This finding is supported by Cliffe et al (2000:1).

'It is now part of received wisdom that humanitarian assistance in conflict and post-conflict situations may be ineffective or even counterproductive in the absences of an informed understanding of the broader political context...'

Microfinance obviously operates at the household level. However the micro level of the economy is linked with both meso and macro levels. Focusing on the micro level in isolation will not reap results. However small the microfinance programme, its linkages with other levels of the economy must be clearly understood and exploited. When an NGO employee was asked if he would do anything differently with the benefit of hindsight, his comment was:

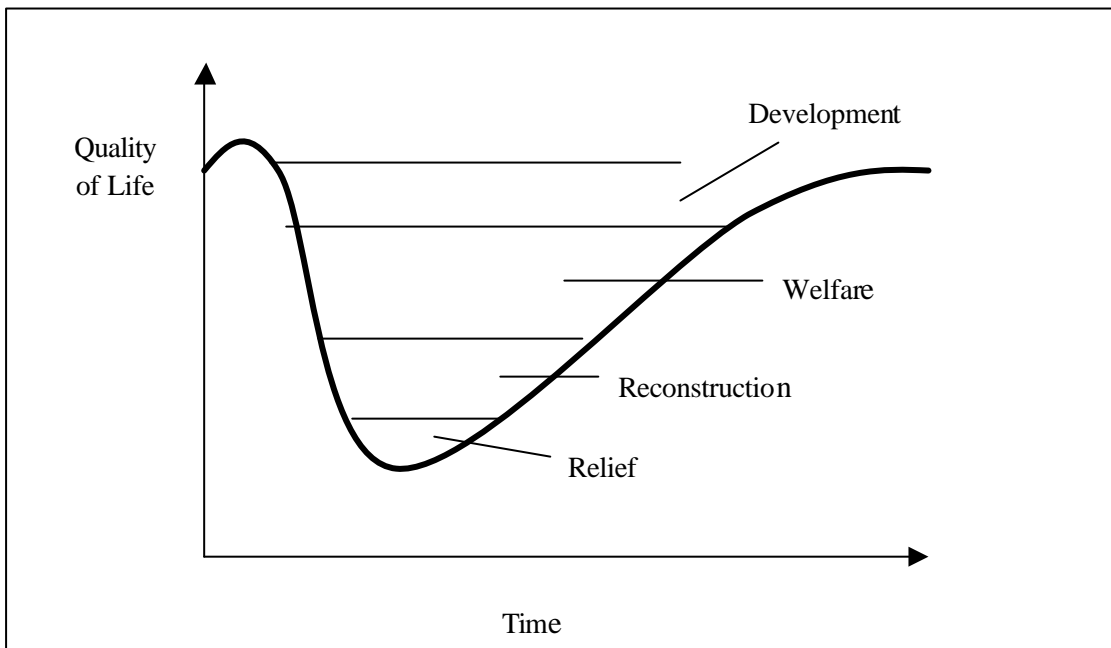
'First of all I would do a much deeper analysis of the socio-economic situation. I think the mistake we made was to analyse our target group in isolation. They should be viewed in the wider context as there are many external factors than can facilitate or impede.'

- ii) As soon as essential conditions are met, microfinance is an appropriate intervention during the emergency/relief stage in a post-conflict situation.*

The transition from relief to development is not clear-cut. A point in time cannot be pinpointed when relief activities finish and development activities begin. More recent thinking advocates the idea of the relief-development continuum. While the specifics of rehabilitation activities will vary from country to country and from region, five main elements can be identified (Green 2000).

These are access to basic services; empowerment to restore or enhance livelihoods; local (rural and peri-urban) infrastructure (to support the above); resource mobilisation and calamity/catastrophe security structures. Some of these are immediate and short-term whereas others are more developmental. The important point here is that they are not mutually exclusive, indeed they are complimentary. This is demonstrated in diagram 3.

Diagram 3: The Relief to Development Continuum



Source: Walker, P (1994), 'Linking Relief and Development: The Perspective of the International Federation of Red Cross and Red Crescent Societies', IDS Bulletin 25 (4)

This shows that different needs can be met by different types of interventions at the same time. The implication for microfinance is that it can be an important part in the process of rehabilitating livelihoods, even during the early stages of the relief to development continuum.

iii) The relief to development transition occurs at different paces both within the country and within provinces and this affects the development of the microfinance sector.

This refers to the transition from relief to development type activities and the transition of the population from 'survival' to 'livelihood'. The pace of the transition in Mozambique depended to a large extent on the effect of the conflict and the amount of the resources directed at specific districts and provinces. In some Renamo held areas such as certain areas of Gondola district,

large levels of destruction and few resources meant that the transition was an extremely slow process. This impeded the development of the microfinance market.

iv) Trust is essential for informal microfinance to develop and security is essential for semi-formal and formal microfinance to develop.

Even during the war informal microfinance occurred between family and friends on the basis of trust. Upon cessation of conflict the microfinance market expanded in the urban areas and re-established itself in the rural areas. It was not until areas became more secure that semi-formal microfinance began to develop. As with all relief and development activities at that time, security was the main consideration.

v) Although high cost and time consuming, considering issues of sustainability at the outset facilitates the development of the MFI and the microfinance sector in the long term.

Many of the environmental factors in the post conflict environment in Mozambique make the goal of sustainability more difficult. There is a need for a high investment in the training of clients and staff. The lack of national staff with microfinance and/or management skills means that technical support is necessary. Systems have to be designed according to the national staff capacity and controls have to be stringent.

'One of the legacies of war is that people think it is acceptable to steal, especially from an international NGO. So good systems and controls are essential to mitigate against fraud.' (NGO employee)

While sustainability will take longer to achieve in a post-conflict situation than in a 'normal' situation, it is still an important goal. As one MFI employee stated, *'your expectations should be the same but your timeframe is different'*. In Mozambique those NGOs and MFIs that did not consider issues of sustainability during the early stages found the transition to become a sustainable microfinance provider problematic. The separation of microfinance operations and organisational structures from the rehabilitation and development activities of the NGO was considered an important step. There are implications here for microfinance practitioners and donors.

Coping Mechanisms

i) The household asset base determines how households cope during and after conflict.

The extent to which individual households cope with the effects of conflict depends on their asset base. The research demonstrated that in the immediate post-conflict period it was those with greater assets that were less vulnerable to external shocks. Assets were physical (e.g. housing materials, clothing, household appliances, animals) and financial (e.g. cash, savings, loans, remittances). Those with physical assets were able to sell them in times of need to meet emergency expenditures. They could also use them or sell them to hire labour. Those with financial assets could use them to meet their basic needs. There was great variation in what assets people returned home with and what people found upon their arrival. This dictated their level of vulnerability.

ii) Coping mechanisms vary within the country, province and district and evolve over time, depending on the environment and affecting the demand for microfinance products.

Coping mechanisms are varied and complex. As communities move from survival to livelihood their coping mechanisms also change. During the initial post-conflict period in Mozambique humanitarian aid was an important coping mechanism in both rural and urban areas. In urban areas low investment, quick return activities were important for people during and after conflict. As this was dependent on market activity, it was not the case in rural areas. In the rural areas agriculture was key to survival at subsistence level (it was also an important coping mechanism in the urban areas, but not to the same extent). Labour was therefore an important coping mechanism. It was important for clearing land and also for hiring out in return for payment. As the infrastructure improved, links with the markets were established and other income earning opportunities were created. The type of coping mechanisms determines the demand for different microfinance products.

- iii) *Informal microfinance is an important coping mechanism both during and after conflict. Semi-formal microfinance is an important coping mechanism post-conflict.*

The research demonstrated that informal microfinance is an important coping mechanism both during and after conflict. All categories of households, i.e. refugees, IDPs and those who stayed at home all mentioned loans from friends, family and neighbours. In this case social networks are important. For those with access, semi-formal microfinance was especially important post-conflict. This was primarily the entrepreneurial poor in urban and peri-urban areas. The findings of the research indicated that with greater outreach, semi-formal microfinance has the potential to play a larger role in strengthening household coping mechanisms in the post-conflict situation.

Products

- i) *The types and characteristics of the products demanded change with the evolving environment.*

The research showed that as the types and characteristics of microfinance products evolved over time. For example in the rural areas immediately after conflict people demanded in-kind microfinance. In-kind microfinance responded effectively to the lack of commercialisation and monetisation of the rural economies at that time. It was also an appropriate response when necessary inputs or livestock were not available locally for purchase. As the links with the markets were re-established there was a greater demand for cash credit. Another example is the initial preference amongst the poor for solidarity group model and community banks. The support was important in the beginning. However over time many people grew out of this system and preferred individual loans. At the beginning the demand is for small short-term loans however over time many clients prefer larger amounts over longer periods of time as they build up their business. Initially post conflict the demand for savings services amongst the poor was limited due to lack of surplus cash. However as they built up their asset base a demand began to develop.

ii) *Inaccurate analysis of demand often leads to inappropriate interventions and poorly designed microfinance products.*

In Mozambique the poorly defined problem of lack of cash was often addressed with a microfinance intervention. Credit can be used to address problems such as lack of capital for a viable small business, seasonal/temporary lack of cash for an emergency or consumption and lack of capital for an expanding agricultural production. However credit cannot address problems such as lack of employment (only indirectly), lack of surplus to convert to cash for other purposes, lack of market for surpluses and lack of skill to develop a business (Sealy 1997). Moreover, it is not likely to achieve the desired effect if the basic infrastructure is absent. The diagram in Appendix 5 illustrates how credit is one of many possible interventions and an important contribution to the livelihood of the poor, however it is not a sufficient intervention in itself.

iii) *For the poorest people credit for consumption is more important than credit for investment. They prefer the flexibility of informal microfinance products.*

The research revealed that the poorest people most often avail of microfinance for consumption purposes such as medical bills, school fees, etc. They are wary of the perceived inflexibility of semi-formal loans and prefer to borrow from friends, family or neighbours. In this way they are not obliged to adhere to a pre-arranged repayment schedule and can repay irregular amounts as they are able.

iv) *Semi-formal microfinance is an important source of credit for the entrepreneurial poor.*

During interviews with clients, they stated that MFIs provided important access to credit. Many had not been able to borrow the amounts required for their business from informal sources. It meant that they did not need to ask their friends and family anymore and could then turn to them in emergencies. However for many of the poorest this type of credit was not suitable. Many ex-clients told of how they had used some of their credit to meet immediate needs and then had been unable to repay according to the schedule. Others were forced to leave when there was an emergency and they could not keep up repayments. Some clients took out a loan for business purposes but were unable to make a profit due to lack of business skills.

- v) *The design of appropriate products for the poor is often curtailed by the quest for sustainability.*

In Mozambique the adoption of best practice and the goal of sustainability has affected the development of microfinance products. Products designed to meet the demands of the poor require investment and commitment. Savings facilities for example are demanding of resources, however they represent a vital way of reducing vulnerability levels and protecting the poor from external shocks. Savings facilities, rural credit, small and flexible loan products have not yet realised their full potential in Mozambique as they are not compatible with the goal of sustainability.

9. CONCLUSIONS AND ISSUES TO CONSIDER IN BETTER PRACTICE

This report aimed to document the experience of microfinance in Mozambique and to highlight the main challenges confronting NGOs and MFIs. The findings presented in the previous section highlight the complex task of providing microfinance in a post-conflict environment. Based on the findings of the research in Mozambique it is possible to propose a number of issues to consider in better practice. These are listed below.

- i) MFIs need to analyse the political, social and economic situation at national and local levels and understand the impact on microfinance activities.
- ii) MFIs need to monitor the changing environment, establish themselves as soon as possible and build in sufficient flexibility to respond to important events and developments.
- iii) In a post-conflict setting MFIs should invest and plan to achieve determined levels of sustainability over the long term.
- iv) MFIs must have the necessary expertise and technical support to provide sustainable PCM to the poor.
- v) For a client-based approach to microfinance MFIs need to have in-depth understanding of traditional coping mechanisms, the effect of conflict on these coping mechanisms and their evolution over time.
- vi) Potential microfinance providers should carry out a detailed analysis of demand in order to design appropriate interventions and products.

- vii) MFIs need to invest in innovative product design to ensure that semi-formal microfinance is more suited to the needs of the poorest.
- viii) MFIs need to understand the interlinking nature of the environment, coping mechanisms and product demand for the design and development of microfinance.
- ix) Donors should be prepared to meet the start-up costs associated with the provision of sustainable microfinance for the poor in a post-conflict environment.

It is hoped that the information presented in this report will contribute and build on the work to date in the field of PCM. The research highlighted the importance of the environment and traditional coping mechanisms and how they affect the demand for microfinance products. Moreover, the experience of Mozambique demonstrated the challenges facing MFIs both during the immediate post-conflict period and the transition from emergency to development. The diversity of approaches and methodologies in the delivery of microfinance and their development over time provided some valuable and insightful information.

PCM is a vast and challenging area that is still largely unexplored. As mentioned in the introduction, it was not feasible to investigate the numerous facets of PCM within this study. Rather, a few key areas were selected for in-depth investigation and analysis. Many aspects therefore require further research and investigation. It is hoped that this report may serve as a useful contribution to the increasing body of understanding on PCM and also as a useful starting point for further research.

10. REFERENCES

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APPENDICES

Appendix 1: Case Studies

	Concern	FCC	CRESCCE
Legal Structure	NGO project. Began in 1996. Project terminated in March 2001.	Started as a WR project in 1994. Made the transition to an MFI. Still operating under a licence from the BoM granted to WR.	Started as a CARE project in 1996. Made the transition to an MFI. Still operating under a licence from the BoM granted to CARE.
Financial Products	Credit. Savings.	Credit. Savings. ⁶	Credit.
Client Profile	Rural peasants interested in developing an income generating activity.	Small-medium sized micro-enterprise entrepreneurs. No experience necessary.	Small-medium sized micro-enterprise entrepreneurs. 6 month experience of economic activity required.
Loan characteristics	For investment purposes. Loan characteristics varied depending on the group and the purpose.	For investment purposes. Four month duration. 5% interest rate per month (fixed balance). Fortnightly repayments.	For investment purposes. 10 or 20 week duration. 1% base rate per week. Weekly repayments.
Methodology	Group loans.	Solidarity group (5 people). Must be self-selected.	Community banks. Must be self-selected group of 20-30 people.
Collateral	Solidarity.	Solidarity.	Solidarity. 10% of loan. Goods as guarantees.
Loan size ⁷	Varied.	First loan 750,000 meticaïs. Maximum loan 4,500,000 meticaïs.	First loan 1,200,000 meticaïs. No set maximum.
Outreach (at June 2000)	248 people at project end	5,193	2,020

Source: Concern Worldwide (2001), End of Project Review and ICC (2000) and II Study of the Microfinance Sector in Mozambique

⁶ Savings are a mixture of forced and voluntary. In calculating repayment requirements it is assumed that 12 percent of the loan amount will be saved during each cycle. However there is no penalty if the borrower fails to save the expected amount (Rhyne 1998). Additional savings are encouraged.

⁷ Exchange rate at time of writing was US\$1 = 22,000 meticaïs.

Appendix 2: List of Institutions and People Contacted/Interviewed

Type of Institution	
NGO	CARE International ¹ Concern Worldwide ² World Relief ³
MFI/Microfinance Bank	Accion CRESCCE FCC NovoBanco Tchuma
Donors	European Commission Food Security Office (EU) European Community Humanitarian Office (ECHO) Department for International Development (DFID) United States Agency for International Development (USAID)
Government	Institute of Rural Development (INDER)
International Financial Institutions	The World Bank
Independent Consultants	Various

Notes

1. Informants in head office and field offices were contacted. Interviews were carried out with project management and field workers.
2. Informants in head office and field offices were contacted. Interviews were carried out with office based staff and field staff.
3. Informants in head office and field offices were contacted. Interviews were carried out with office based staff, community bank supervisors and promoters.

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Name	Location	Relevant Information
Felix	SSI, Pindandanga	Member of savings club. Owns bakery and drives a 'chapa' (local transport).
Tomas, Joao, Lito	FGD, Pindandanga	All are involved in various activities – handicraft, petty trading and hiring labour.
Four women	FGD and timeline, Pindandanga	Agriculture, mainly for subsistence. Sell surplus when possible.
Veronica, Madalena	SSI, Pindandanga	As above.
Kativa	SSI, Pindandanga	As above.
Felix	SSI, Pindandanga	As above.
Jacinta	SSI, Pindandanga	As above.
Royane, Luciano, Chimoio, Aida, Maria, Teresa, Leonor	FGD and timeline, Chipindaumwe	All members of the Savings Commission.
Three women	FGD, Chimoio	All market traders and clients of CRESCE.
Carlos	SSI, Chimoio	Market trader. Ex-client of CRESCE.
Joao (m)	SSI, Chimoio	Moneylender.
Celeste, Rute, Julieta, Sara, Antonio, Rafael, Teresa	FGD and timeline, Chokwe	Market traders. All members of FCC community bank in 3 rd Barrio Chokwe.
Maria	SSI, Chokwe	Market trader. Ex-client of FCC.
Felismina	SSI, Chokwe	Dependent on family. Ex-client of FCC.
Jonas, Siteo	SSI, Chokwe	Moneylenders and moneychangers.
Celeste	SSI, Chokwe	Moneylender.
Jose, Maria, Sebastiao, Florinda, Phalafene	FGD and timeline, Chilembene	Market traders. All members of FCC community bank in Chilembene.
Helena	SSI, Chilembene	Ex-client of FCC.
Maria	SSI, Chilembene	Ex-client of FCC.
Teresa	SSI, Chilembene	Non-client. Remittances from South Africa
Carmona	SSI, Massingir	Agriculture and animal breeding.
Ngovene	SSI, Massingir	Fisherman.
Jorge	SSI, Massingir	Agriculture and animal breeding.
Maria, Biro, Jorge	SSI and timeline, Massingir	Family members. Agriculture and animal breeding.
Armando	SSI, Massingir	Animal breeding.
Samuel	SSI, Massingir	Lends animals for breeding.

Note: Pindandanga and Chipindaumwe are remote rural villages in Gondola district in Manica Province. Chimoio is the provincial capital of Manica province. Chokwe town is the main town in Chokwe district, Gaza Province. Chilembene is a village in Chokwe district. Massingir is a district in Gaza province that borders South Africa.

Appendix 3: List of Dates and Events

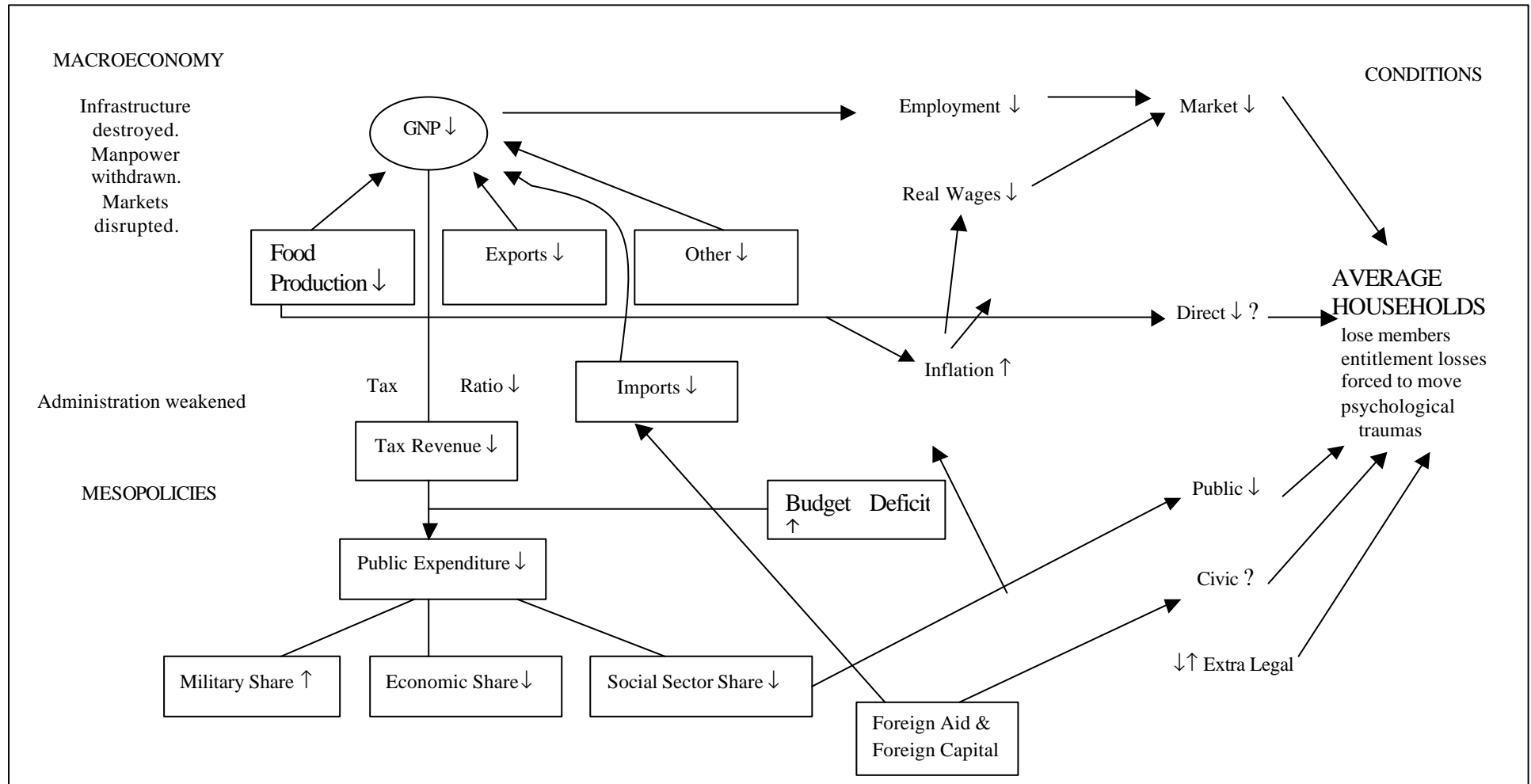
Date	Event
1962	Frelimo founded
1964	Armed struggle begins
1970	Election of Samora Michel as new President of Frelimo
1975	Independence
1976	Sanctions imposed against Rhodesia
1977	Frelimo Third Congress – move to planned economy
1977-1980	ZANU allowed to operate out of Mozambique. Rhodesia retaliates by attacks.
1979	Rhodesia liberation war ends
1980	First conference of South African Development Coordination Conference (SADCC)
1981	Ronald Reagan takes office as US President
1981	South African commandos raid Maputo suburb of Matola
1981-1983	Major drought
1983	Frelimo fourth congress – initial move towards market economy
1984	Nkomati Accord with South Africa
1984	Mozambique admitted to IMF, World Bank
mid-1985	Major escalation of the war; railway from Malawi to Nampula cut
1985	Documents captured at Goronogosa show increased South Africa support for Renamo
mid-1986	Major South African backed Renamo invasion from Malawi. Zimbabwe and Tanzania send more troops
October 1986	President Samora Michel killed in unexplained plane crash
1986-87	Major drought
January 1987	Introduction of ERP.
1988	Prices of rationed food increased three -fold; malnutrition increases
1989	Government announces ERP to become ERSP in 1990
1990	Nelson Mandela released from prison in South Africa
1990	First meeting between government and Renamo, in Rome
1990	Adoption of a new, pluralist, democratic constitution
August 1992	The South African Development Community (SADC) is formed.
4 October 1992	Peace Accord signed in Rome
15 October 1992	Cease fire
December 1992	UN Security Council finally approves ONUMOZ
October 1994	President Joachim Chissano and Frelimo win first multi-party elections
8 December 1994	First session of new parliament

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1996	The main state Bank, Comercial de Mocambique (BCM) is privatised.
1998	Municipal elections are held
1998	Debt relief granted under the Highly Indebted Poor Countries (HIPC) initiative.
1999	Second multiparty elections are held. Frelimo wins a slim majority.

Source: Adapted from Hanlon J (1996), Peace Without Profit.

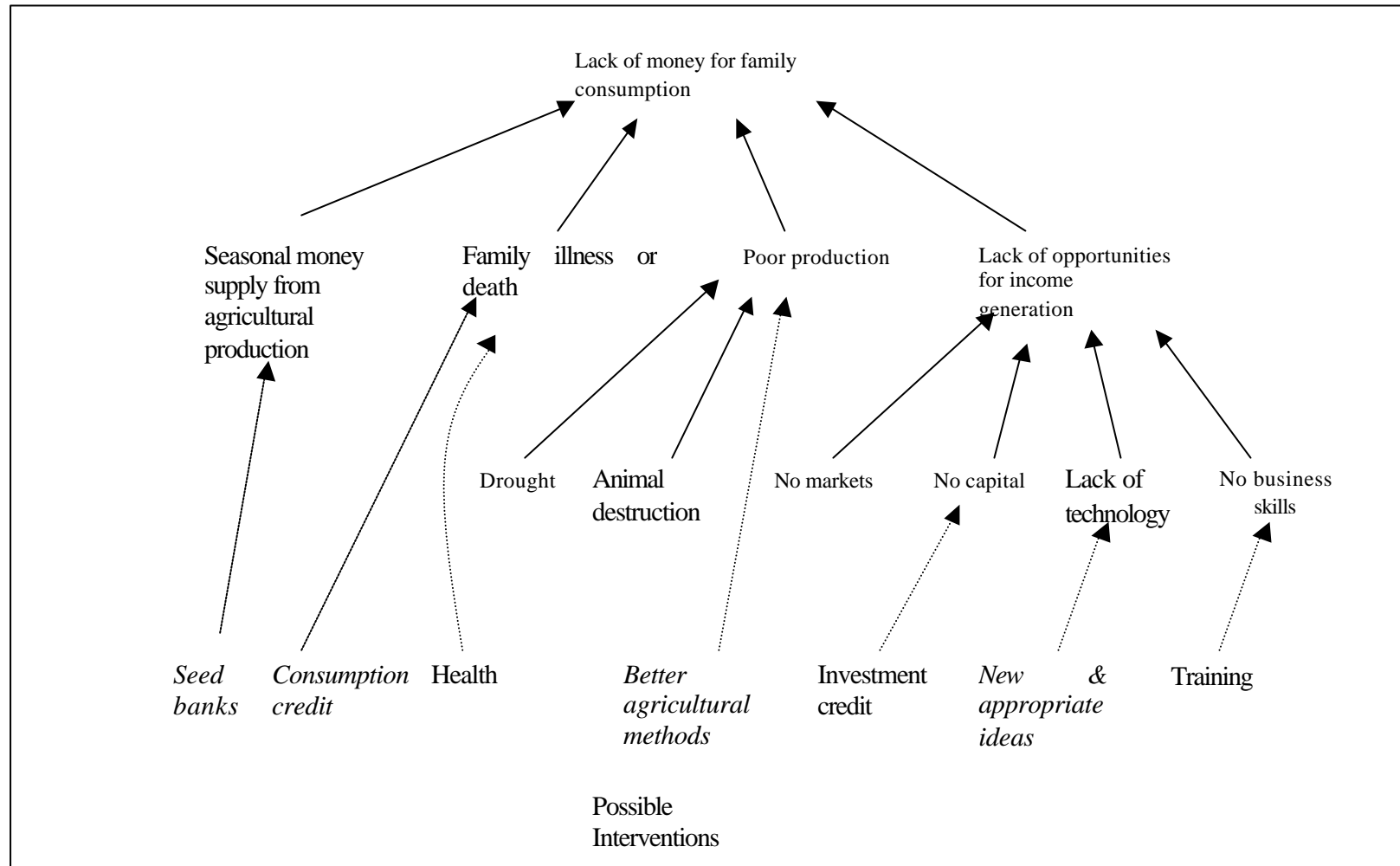
Appendix 4: The Effects of Conflict



ARROWS
 ↓ Fall
 ↑ Rise
 ? Direction Uncertain
 → Direction of causality

Source: Stewart, Francis, Valpy Fitzgerald and Associates (2001a). War and Underdevelopment. Volume I: The Economic and Social Consequences of Conflict. Oxford University Press.

Appendix 5: Possible Interventions For Livelihood Support



Source: Sealy, Chris (1997). 'Concern Mozambique: Review of Credit and Small Enterprise Activities, Final Report'. Unpublished report.