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RECOMMENDATIONS FOR USAID'S STRATEGIC PLAN AND ANGOLA'S TRANSITION STRATEGY

Delivery Order No. 7

by:
Fion de Vletter

Submitted to:
James Dempsey, Private Sector Office
U.S. Agency for International Development
Washington, D.C.

Submitted by:
Chemonics International Inc.

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ACRONYMS

BNA	Banco Naçional de Angola
CCF	Christian Children's Fund
CGAP	Consultative Group to Assist the Poorest
DfID	Department for International Development
DW	Development Workshop Angola
FAEN	Fund for Assisting National Enterprises
FADEPA	Fund for Development of Artisanal Fishermen
IDP	Internally displaced person
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IR	Intermediate result
LURE	Luanda Urban Rehabilitation and Microenterprise
NGO	Nongovernmental organization
PARPA	Programa de Apoio Regional para Agricultural
PVO	Private voluntary organization
ROSCA	Rotating savings and credit association
SO	Strategic objective
UNDP	United Nations Development Programme
WFP	World Food Programme
WOCCU	World Council of Credit Unions, Inc.

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Recommendations for USAID's Strategic Plan and Angola's Transition Strategy

A. The Potential Role for Microfinance in Angola's Transition

A1. Background

The Angolan Government's recently announced transition strategy has been prompted by the recovery of substantial territories from the rebel UNITA forces. "Transition" is normally associated with a post-conflict situation, political changes, or ideological transformation. Although the latter two apply to Angola, "transition" in the context of the government's strategy refers to only certain parts of the country. Many of the features of these liberated zones will be similar to more conventional transition (i.e., post-conflict) countries: instability, large numbers of displaced people, destroyed infrastructure, low administrative capacity at the local level, paralyzed private enterprises, etc.

Transition notwithstanding, strategic economic planning for the next few years will have to realistically consider the strong possibility of prolonged war. Thus, one cannot ignore the widening duality between and divergent needs of the urban and rural populations. The size of Luanda's population has exploded. Though the common assertion that Luanda is home to half of Angola's population is an exaggeration, many new residents have been drawn to the area because of its better security and alternatives to the rural income-generating activities that they had to give up. The oil sector dominates the economy and largely funds government expenditures. Yet it is the informal sector that provides the livelihood for the majority of urban residents and for many in rural areas.

The Government of Angola is faced with a policy paradox. On the one hand, transition in the rural areas implies that people will be resettled and integrated into zones of projected economic development. On the other hand, continuing war and rural instability will ensure that people continue to seek refuge in the urban areas. Although it can be expected that a large portion of the urban immigrants will wish to return to their farms once the situation normalizes, many no doubt will stay in the cities where they have established new homes and economic activities. Urban poverty continues to be a major policy issue but strategies to reduce it are viewed with trepidation by the government, as any program that improves the lot of the urban poor will discourage internally displaced persons (IDPs) from returning and may even stimulate more urban influx as rural-urban disparities widen.

The term "microcredit" is increasingly referred to as a viable development tool for Angola. Until now, the term has been used quite loosely, without clearly defining its role and specifying target beneficiaries, except that recent policy papers recommend a rural focus. Largely experimental and yielding unimpressive results, microfinance in Angola is considered by many observers to be far from ready to host sustainable initiatives. However, recent evidence (discussed below) suggests that Luanda offers excellent conditions for sustainable credit programs. The existence of well-organized *kixikila* groups coupled with comparatively high rates of interest for lending should provoke the interest of serious microfinance NGOs. Though most microfinance projects in Angola have failed, it is hoped that two recent initiatives by the NGOs CARE and Development Workshop Angola (DW) prove that microfinance is perhaps the most effective tool for combating urban poverty.

Microfinance, whether on a self-sustainable or subsidized basis — as subsidized programs undermine attempts at sustainability, geographically the two approaches should be separated — can be a powerful development tool. This report evaluates its strategic importance in the context of the complex Angolan situation and how it can best be applied given the two major policy concerns of transitional area-specific development and urban poverty reduction.

A2. Possibilities for Microfinance within USAID's Strategic Planning Framework

A2a. Strategic Plan 2001-2005

USAID Overall Mission Goal: Households and communities in targeted areas improve their food security, their health, and their participation in political processes.

Strategic Objective 1: Enhanced household food security in targeted communities.

- *Intermediate Result 1.1:* Vulnerable groups become more self-sufficient.
- *Intermediate Result 1.2:* Agricultural crops

The consultant was requested to examine the role microfinance can play to support the relevant USAID goals, objectives, and results as described in the box at right.

A broader approach to food security. Though Strategic Objective 1 (SO1) exclusively focuses on increased agricultural production to achieve "enhanced household food security," the consultant feels that a broader approach should be taken to achieve this goal. SO1 gives priority to resettled IDPs and other vulnerable groups such as demobilized soldiers and refugees assumed to have returned home during the current transitionary period. As it is far from certain how many IDPs and others will return home over the next few years, the considerable number of IDPs that will likely continue to live under indefinitely "temporary" conditions should also be targeted. Given that many IDPs are given very small plots of land (1/4 to 1/2 ha), inputs such as improved seeds and better technology are unlikely to achieve self-sufficiency. However, it can be argued that increasing the ability of IDP households to purchase food by raising their non-farm income enhances food security. The need will become particularly acute if emergency food supplies are stopped as expected in early 2001. Just as the informal sector provides livelihoods for much of the urban population, landless or land-short rural populations will resort to alternative income-generating activities such as vending, food preparation, brewing, charcoal production, firewood collection, baking, grain milling, transport, mechanical repairs, and shoe shining.

Financing crop production. Regarding Intermediate Result 1.2 (IR1.2), credit for agriculture and related activities such as processing can play an important role, but only if suitable conditions prevail. Financing smallholder production is risky in the best of times. In Angola, it is inadvisable to offer such credit unless: 1) the farmers are well organized into an association or cooperative; and 2) such a farmers association can market its produce. The Province of Cabinda appears to offer ideal conditions for pilot microfinancing initiatives to support producer associations so that they can supply food to the oil companies, which until now have imported even the most basic food items. Similarly associations located in the comparatively stable southern provinces could benefit from credit programs, provided other markets (e.g., Namibia or Luanda) can be found for production should local demand be insufficient. One of the biggest constraints facing marketing internally produced food — apart from transport security — is the artificially low prices of imported foodstuffs. Financing processing activities, outside of small mills or presses of less than $1,000, becomes more problematic because these activities go beyond the boundaries of microfinance and require specialized institutional structures that can handle individual loans and risk analysis.

Fishing sector. There is a tendency to focus on agricultural crops when considering food security. Given the large number of artisanal fishers, it is important to include this sector. This can be accomplished by working through fishing associations with related activities such as processing (drying, salting, smoking, small freezer units) as well as supporting informal vendors of fish.

Informal sector. The strategic plan refers to three forms of transition: war to peace, autocracy to democracy, and planned to market economy. Another form of transition that should also be noted, one perhaps more evident in Angola than any other African country, is the rise of the informal sector. A consequence of the severely truncated formal sector and the loss of vast areas of agricultural land due to war, the informal sector is now the main source of livelihood not only for the majority of the urban population but also for a substantial percentage of rural folk. The importance of this sector should be recognized within any strategic plan aiming to improve rural or urban livelihoods. It will be assumed in this report that the goal of improving food security can be interchanged with the goal of improving sustainable livelihoods, thus opening the way for a more diversified approach to rural credit.

The Angolan Government's policy goal of "achieving food self-sufficiency, promoting rural commerce, alleviating rural poverty and resettling rural populations" is inherent in USAID's SO1 and its components IR 1.1 and IR 1.2.

The role of microfinance. In various forms, microfinance can be designed to address these goals:

- Increase agricultural production and processing by financing farmer associations/credit unions and making small enterprise loans for processing equipment.
- Promote rural commerce through informal sector solidarity group loans and village banks (restricted to urban/peri-urban areas).
- Alleviate rural poverty through credit for non-farm activities, promoting credit and savings groups and savings-stamp groups.
- Resettle populations by stimulating longer-term agricultural and non-farm activities by using a combination of the above.

Though microfinance was originally seen as being only relevant to IR 1.2, it also has a potentially important role to play in achieving IR 1.1 (if we interpret self-sufficiency as a household's ability to achieve self-sufficiency through non-agricultural income).

Constraints in rural areas. At this point it must be stressed that conditions for rural microfinance *appear* to be far from optimal. The word appear is emphasized because pessimism has been expressed about conditions for urban microfinance when in fact the consultant found, to the contrary, some of the best possible conditions for urban microfinance. Without having visited the rural areas recently and not familiar with the dynamics of the rural informal sector, it would be inappropriate to reach conclusions at this stage. A recent report by the World Council of Credit Unions, Inc. (WOCCU) on establishing credit unions does, however, suggest that conditions are not good, citing in particular high inflation and devaluation rates. Yet discussions with NGOs with considerable provincial experience and some (albeit unsuccessful) credit experience indicate that many areas outside of Luanda use dollars to the extent that loan disbursements and repayments could be made in dollars or at least dollar-pegged.

Capacity building. Successful microfinance intervention for SO1 would largely hinge on a capacity-building strategy targeting:

- Farmer producer groups
- Microfinance providers
- Government microfinance regulators
- NGOs carrying out microfinance-related activities
- Extension officers
- Community leaders
- Microentrepreneurs

Angola, despite its suitable conditions for microfinance in urban areas, has probably the least experience of all African countries in the application of microfinance programs. There is virtually no microfinance expertise in the country and its development will entail a substantial investment in bringing in the appropriate expertise. An organization such as WOCCU or Accion International, which has announced intentions to operate in Africa, is the sort of technical service provider that will be necessary to introduce microfinance with accepted industry norms.

A2b. The Transition Plan

The three goals of the transition plan, to be implemented by the Angola Government in collaboration with the donor community, are to:

1. Continue with multifaceted, flexible interventions in specific contexts using an integrated programming approach, with the aim of meeting the immediate human development needs of vulnerable populations.
2. Continue to focus on vulnerable groups among IDPs and host populations and base interventions on needs assessments.
3. Upgrade local capacities through direct support to provincial authorities and local NGOs.

Under the first goal, the strategy would include "emergency" interventions, "emergency recovery" interventions, and "transition" interventions. Significantly, the locations for interventions under emergency recovery include urban barrios (the government's strategy specifically mentions Luanda), current IDP camps, and some resettlement sites. For transition, locations include some resettlement sites, return areas, and stable areas. In the latter two intervention categories, the plan envisages "microcredit and sustainable livelihoods." Because of the importance of savings mobilization mechanisms, the consultant urges that the term "microfinance" replace the word "microcredit" in the plan.

For rural microfinance interventions, much broader interventions would be allowable than under SO1. Furthermore and very importantly, microfinance would be encouraged in urban areas, where recent experience suggests that it can play an effective role on a sustainable basis. A memo outlining donor policy for the transitional plan mentioned that part of the strategy would be to "undertake integrated programming aimed at strengthening coping mechanisms and developing sustainable livelihoods in stable areas and in Luanda for populations that will not resettle or return."

When forming a transition strategy, one of the biggest issues is the question of the IDPs. It would be naive to believe that they should all be treated as transitory. For many, "displacement" has lasted longer than their stay in their place of origin. Though severe land restrictions for the rurally displaced is likely to force most IDPs to return to their home areas, it seems unlikely that many of the more settled IDPs in urban areas will return. Although this is largely conjecture, a few interviews with IDPs in Luanda suggested that they had found their economic niche and had no intention of returning to subsistence farming.

Given the country's volatile history and that the majority of the population has only known a country at war, peace should be realistically treated as a remote short-term possibility. Consequently, the prevailing conditions should be taken as the parameters around which projects should be implemented. Many community-based projects can work with fluid populations and include financial services such as savings stamps groups and rotating savings and credit associations (ROSCAs) called *kixikilas*. Although the situation can change from day to day due to the war, it is better to start something that *might* be disrupted than not at all. Informal sector activities have been instrumental in helping many IDPs become more economically independent (particularly in urban and peri-urban areas)

It is also likely that microfinance will have a prominent role in the "Poverty Reduction Strategy Paper" (scheduled for December 2000) pending the review of the International Monetary Fund (IMF) Staff Monitoring Program (October 2000).

A3. Microfinance as a Strategic Development and Poverty Reduction Tool

As indicated above, until recently microfinance has shown little reason to be taken seriously as a development or poverty reduction tool for Angola. Insecurity, economic instability, the absence of an enabling legal environment, and poor local capacity have been the main constraints to developing effective microfinance programs in both urban and rural Angola. A recent review by the WOCCU, following an assessment mission (October-November 1999), succinctly summarizes the main concerns that would typically preoccupy potential large-scale providers of microfinance in Angola. These concerns are summarized in Section C of this report. The assessment concludes that it is still too early for the introduction of credit unions, with the proviso that a pilot credit union could be established in Luanda on the assumption that "hyperinflation can be addressed and the exchange rate stabilizes."

The consultant, on the other hand, having been involved in the launching of the microfinance component of CARE's Luanda Urban Rehabilitation and Microenterprise (LURE) project in the Kilamba Kiaxi *municipio* of Luanda, feels that conditions are excellent for microfinancing in urban Angola — at least in Luanda where the extremely well-organized *kixikila* groups dominate the informal sector and the pervasive use of the dollar cushions inflation and devaluation. Preliminary results from the program suggests that well-managed urban microfinance programs can reach sustainability within a much faster period than most other African environments.

A3a. Poverty Reduction on a Sustainable Basis

In the 1990s microfinance gained almost universal recognition in the development world as an effective tool for reaching the economically active poor. Its main appeal is that it can be carried out on a sustainable long-term basis by national institutions long after foreign NGOs have exited and donor programs terminated. Success stories such as the Grameen Bank and Banco Sol have inspired many thousands of microfinance programs throughout the world, both in developing as well as developed countries. To date few have reached operational sustainability, but many are showing portfolio performances that suggest that they can soon exist independently on internally generated funds. Three fundamental prerequisites are usually required to attain sustainability:

1. Sufficient client volume.
2. High repayment rates (95 percent is normally regarded as the benchmark target).
3. Good institutional management.

Donor involvement in microfinancing and adopted methodologies by implementors have over the past decade been much influenced by the Consultative Group to Assist the Poorest (CGAP), which gives paramount importance to institutional sustainability. Largely due to CGAP and the prevailing concern for sustainability, the vast majority of microfinance programs are based in urban or peri-urban areas (concentrated populations allow for low transactions costs because of minimal transport and other dislocation costs for project personnel); target mainly informal commercial (vending) activities (lowest risk of the potential sectors); and are generally more likely to be supporting a majority of female clients. Though little impact analysis of these clients has been done, one can assume that microfinance has made significant inroads in reducing poverty of this urban group.

A3b. Special Developmental Considerations for Subsidizing Microfinance

Microfinancing initiatives that strictly follow CGAP principles of institutional sustainability will generally be averse to considering sectors of the economy that are normally considered to have a more important impact on the economy in terms of value-added contribution. Most microfinance projects pursuing CGAP-type performance indicators, such as high payback, tend to lend to low-risk, low-capital activities, such as informal sector trading, instead of higher risk, higher capital productive activities, such as carpentry, welding, and auto repair, among others.

Economic sectors that are *not* usually favored by microfinance activities are agriculture, small-scale manufacturing, and fishing. It is usually only after certain enabling conditions, such as well-organized associations and secure markets, are in place that financial products are made available in rural areas, often in the form of credit unions. Because of the increasing reluctance of microfinance programs to provide their products in remote areas and to higher risk activities, the development of these sectors will become more reliant on special credit funds, commonly involving an element of subsidization. Such arrangements are often found in transition economies to compensate for greater difficulties and the absence of basic enabling conditions that prevail under more normal conditions.

A3c. Microfinancing in Transitional (Post-Conflict) Economies

The issue of providing credit in post-conflict countries was the subject of a major international workshop held in 1999 at the International Labour Organization (ILO) in Geneva. Typically, the situation will involve the reintegration of demobilized soldiers and many more IDPs. Credit programs for such vulnerable groups are usually complicated and have rarely achieved impressive portfolio performances.

The main findings and recommendations emanating from the workshop are summarized in the paper "Microfinance in Post-Conflict Countries: Toward a Common Framework for Action" (ILO/UNHCR, 1999). Some of the more pertinent points are listed below:

- Considerable evidence suggested that microfinance has played an important role in the initial stages of the recovery process.
- Established microfinance activities appeared to be robust in crises, particularly where high population density facilitated successful microfinance operations. Since clients needed continuous access to funding, they preferred loans rather than grants at the early stage of intervention.
- During the post-conflict stage, some minimal conditions should be in place before preparing the ground for microfinance: low intensity of conflict, reasonable safety, reduced mobility, emerging markets, a minimum level of trust, ample foreign currency, and some enthusiastic partners willing to implement programs.
- Microfinance should not be applied in the immediate post-conflict stage. During this stage, grants and capacity-building efforts were more appropriate. Microfinance activities should not be started before the early post-conflict stage.
- In general, targeted lending should be avoided, and lending to the agriculture sector should be avoided in the early post-conflict stage. Lending to refugees should only be done under certain conditions. Demobilized soldiers should not be targeted.
- The role of national government should be limited to ensuring law and order and defining basic regulation. Governments should avoid getting involved in lending programs as they almost always fail and usually are more driven by vote-getting objectives than sustainability considerations.
- Saving services were found to be important and useful, and savings can be mobilized if funds can be securely kept.

- Since project partners had different approaches, local interventions varied widely. These would generally vary from short-term relief- and grants-oriented programs to long-term development and institution-building strategies.
- During the early stages of transition, particularly the consolidation phase, microfinance operations can be implemented. Resettlement of populations and consolidation of peace are important conditions for their success.
- The combination of ample donor funding and poorly designed programs has often proven to be detrimental to the post-conflict situation.
- One should not perceive microfinance as a panacea. One must bear in mind the importance of a gradual approach. Despite its limited scale in the short term, microfinance can achieve outreach and impact in the long term.
- Guidelines should be made more flexible to allow for more social impact, thus taking a longer time span toward building sustainable institutions.
- A prevailing issue of debate during the workshop was whether to accept lower microfinance performance (e.g., a longer timeframe and higher costs) to achieve social goals. Participants questioned how this could be done without harming further institutionalization and the role of grants and income-generating activities.

B. The Environment for Microfinance in Angola

B1. The Urban Environment and the Informal Sector

Significant information on the urban informal sector has been provided by three sources: "Poverty Alleviation Policy in Angola, Pursuing Equity and Efficiency" by UNDP (2000); "The Informal Sector in Luanda" by Mario Aduata de Sousa (1998); and a survey conducted by CARE under the LURE project (1999).

B1a. UNDP's Study

Covering the five provinces of Luanda, Moxico, Cabinda, Benguela, and Huila, the UNDP study found that more than half of the urban population works in the informal sector. It found that the proportion working in the informal sector is about equal between the better off, the moderate poor, and the extreme poor and more or less the same between all age groups. The study further found a substantially higher share of women in the informal sector. On average, 72 percent of households in the areas studied had at least one member working in the informal sector; the highest percentage (78 percent) was reported in Luanda, with 68 percent in Benguela and less than 50 percent in Moxico, Cabinda, and Huila. Seventy-four percent of the activities were in commerce, and 90 percent of the operators of informal sector activities were self-employed.

B1b. De Sousa's Study

This study of Luanda found a much lower average age in the informal sector than in the formal sector. Much higher levels of illiteracy were found in the informal sector (23.3 percent vs. 5 percent in the formal sector), and the education level of those in the formal sector averaged seven years compared with four years in the informal sector. There was no difference in the size of families between the two sectors. Looking at various indicators, in general no significant differences were noted between formal and informal families. Proportionately, there were twice as many female-headed households in the informal sector than in the formal. Eighty-three percent of females heading families were in commerce. The study also found that over the past decade there has been a tendency for the percentage of heads of households engaged in the formal sector to decrease and for the percentage of those in the informal sector to increase. Positive savings were found in general in the informal sector and negative savings in the formal sector, implying that informal sector participants were better protected against devaluation and inflation.

B1c. CARE's LURE Survey

Region covered. This baseline survey of 300 randomly selected households of the Golf, Palanca, and Vila de Estoril *comunas* in the Kilamba Kiaxi *municipio* of Luanda provides some useful information on the socioeconomic characteristics of the urban population.

Kilamba Kiaxi is a huge sprawling suburban area of approximately 66 sq km, encompassing six *comunas* that are divided into *sectores* of 200 households and then into *quarteroes* of 50 households. Half a million of Luanda's residents are estimated to live here.

Household composition. The survey found that household heads tend to be young; about half of them were less than 40 years old. More than 70 percent of the household heads have 4th grade or higher education (i.e., considered functionally literate) and 22.7 percent have no formal education. Only 6 percent are taking non-school (mainly technical) courses. Many of the residents in Kilamba Kiaxi are relatively new: 42 percent claimed to have lived in the area for less than two years. Though most (63 percent) own their own house, 21 percent rent and 16 percent live with friends or relatives. The average household size is seven, but two-thirds (67.7 percent) of the houses have two or less bedrooms. The vast majority (87.3 percent) of the houses are made of cement blocks or air bricks.

Water and sanitation. The water situation is critical, with three-quarters of the population having to buy water that is trucked in (mainly sold from private wells). Water is generally stored in large plastic drums. Ten percent of the respondents use latrines (40 percent of this group reported using dry pit latrines and 50 percent flush-type latrines).

Possessions. Ownership of possessions was similar to patterns observed in other urban suburbs in developing countries, except that there appeared to be a rather large percentage of television owners. Almost a third (31.7 percent) claimed to own a color television and nearly the same percentage (30.3 percent) said they owned a black-and-white television. Clearly there might have been some overlap, but it appears that possibly half the households of Kilamba Kiaxa own a television.

Food. One rough indicator of well-being is the number of meals eaten during the day. Most (63.7 percent) eat two meals a day, with 6.3 percent one a day and 28.7 percent three times a day.

Income generation. More than half (56.3 percent) of the respondents claimed not to be engaged in an income-generating activity. It is not clear whether the question related to the interviewees themselves or their households. It would seem that the answer to this question requires further analysis. Half (49.6 percent) of those who said they had an income-generating activity operated it at one of the big markets. Most others carried out their activities on the roadside near their homes. The vast majority (83.2 percent) were self-employed businesses. Many of the businesses were new (42 percent allegedly less than a year old). Much (43 percent) of the money needed for business start-up came from the operator's own funds, though more than half of this largely female group had their husbands (30.5 percent) or relatives (22 percent) give them the necessary funds. Most had initial problems with the business such as lack of profit (30.5 percent) and capital loss (15.2 percent).

Income. Information on income is weak and needs to be strengthened with a supplementary questionnaire covering all sources of income (including formal, informal, and agricultural sectors) and approximate magnitudes. The survey considered only income from income-generating activities but even here the responses were generally not satisfactory, with half those surveyed not giving an answer.

The baseline survey established criteria for indicating the economic status of the households but no analysis was made to establish what percentages of the population are found within these categories. How this will be done is still to be worked out. One possibility is to attribute points to different variables and aggregate them, defining the four typologies "absolutely rich," "rich," "poor," and "absolutely poor" according to specific aggregate ranges.

Informal sector. Kilamba Kiaxi in many ways is a self-contained metropolis. Almost any kind of business can be found, including allegedly a five-star hotel. Small productive businesses such as furniture makers, panel beaters, bakeries, and welders can be found along the main roads. There are large and small markets but, increasingly, informal sellers are carrying out activities in small clusters in almost any part of Kilamba Kiaxi.

Many informal sector vendors have organized themselves into *kixikilas*. Membership usually varies from between 15 to 40, but groups of 80 have been found. Female members call themselves *mamas* and their leader is referred to as *mae* (mother). Each *kixikila* has a committee with a president, vice president, treasurer, and councilors. Usually the members will deposit with the *mae* a stipulated amount (or multiples of it, referred to as *cabecas* (heads), for those who are better off and want to have more turns at the pot). The *mae*, for her work, will receive what is commonly referred to as a *gazosa*, which is the term for any commission used to repay a favor (now usually associated with a small bribe as well). The amount collected is generally used for purchasing merchandise in bulk. Groups of vendors are often involved in bulk purchases from wholesale traders (*armazens*) situated near Kilamba Kiaxi. Purchasers of bulk goods often distribute small quantities of merchandise to boys (there are few young girls who sell manufactured goods — apart from prepared food). The boys take the goods usually on faith and sell them at whatever they can earn, paying the minimum stipulated price for goods sold to the owner. This system results in almost every conceivable good being available to passing motorists or in the markets.

B2. The Rural Environment

The combination of war and the transition to a market economy has led to a flourishing informal sector in many parts of rural Angola, particularly in the stabilized southern three provinces that are effectively integrated with the Southern African economy. Restricted land areas due to war and mining and small land allocations to IDPs have forced rural families to take up commercial activities to survive. Significantly, in terms of planning microfinance interventions, these populations are placed according to geographic zones, so if and when they return, they do so in relation to the groups with which they have lived (in some cases for up to seven years). One source said that IDP camps of between 5,000 and 10,000 residents are literally towns or peri-urban suburbs around provincial capitals. In the Bie Province, for example, it is estimated that two-thirds of the population are now concentrated within a 7-km radius of Kuito. A population of 122,000 IDPs are said to be located in some 18 camps.

Because of the small plots allocated to them, many of the IDPs have had to turn to small informal activities (usually vending) to survive. When the World Food Programme's free emergency food supplies dry up in April 2001, the pressure on residents to supplement their incomes will be that much greater, simply because they do not have sufficient land to ensure their subsistence requirements.

One source estimated that 80 to 90 percent of all retail commercial activities outside of Luanda is carried out by informal vendors. Commerce in the sale of two major types of products is evident:

- *Re-sold merchandise:* Ranging from basic food to whatever consumer durables are available, usually sold on a daily basis in urban markets and along major transport routes.
- *Self-produced food or other products such as building materials:* Either sold on the roadside close to the point of production, if near a major road, or at the weekly (usually Saturday) or biweekly (Saturday and Wednesday) markets that take place in villages or small towns.

Kixikilas exist in rural areas but are stronger in the larger urban areas. It is estimated that the gender distribution of informal sector vendors is 60/40 in favor of women. Women tended to be more sedentary in their business while men tended to be ambulatory in their sales. Information obtained from ADRA, the best known and most successful NGO in Angola, indicated that there are many areas of the country where commerce is done in dollars only and that in most of the areas near the larger towns, dollars are always freely available. In fact ADRA intends to provide loans to rural vendors in dollars and receive repayments in dollars as well.

Farmers associations were largely set up in the 1980s, following the earlier Soviet-style approach to cooperatives following independence. Associations still exist in many parts of the country, many belonging to the National Union of Peasant Associations. One source believed that functioning associations were probably largely restricted to the provinces of Kwanza Sul and Benguela. Support and training for the associations comes from extensionists from the Ministry of Agriculture. In general associations are not well organized and will need basic management training before they can be expected to effectively administer loans. The European Union through its Programa de Apoio Regional para Agricultural (PARPA) program to increase agricultural production works only through producer associations in the provinces of Huile, Bengo, Kwanza North, Kwanza South, and Benguela. Other forms of associations belong to the Association of Rural Women (probably having some linkage with the Ministry of Women and Family).

B3. The Regulatory Environment

In the wake of Law No. 1/99 of April 1999 — the Financial Institutions Law — two decrees are currently being drafted that will have a significant effect on the future of microfinance in Angola: one on credit cooperatives and the other on microfinance institutions. A closed committee of government officials was originally considering these decrees. However, since the establishment of the Ad Hoc Microfinance Forum in May 2000, the forum has been invited to make comments on the decrees. Encouragingly, these comments are being taken seriously by the central bank Banco Naçional de Angola (BNA), which sends a representative to monthly forum meetings. Though it is important to have a clearly defined regulatory environment surrounding credit and savings operations, it is essential for the long-term sustainability of the microfinance sector that this environment be a progressive, stimulatory one. Given the still conservative approach to microfinance by state-linked microfinance programs, there is danger that such influence might prevail on the evolution of the regulatory framework.

The draft legislation states that the BNA will fix interest rates for microfinance operators. Such a clause would seriously compromise future microfinance activities in Angola and was extensively debated in the last Ad Hoc Microfinance Forum meeting, with the BNA representative from the agreeing to propose its deletion. A subsequent discussion with a member of the BNA board with strong interests in the future development of microfinance was of the same sentiment.

Though there are no regulations as yet on microfinance, it is advisable that the relevant authorities be informed of new initiatives. Development Workshop Angola, when starting its new phase of credit through Department for International Development (DFID) funding, sought permission from the BNA to issue and recoup credit in dollars or in equivalent *kwanzas*. Permission was given on the basis that the volume of credit would have no significant macroeconomic effect. The generality of this authorization will be critical to the functioning of microfinance in Angola.

One aspect of the law that needs to be examined in-depth is the contractual rights surrounding guarantees, security, and repossession. For now, loan contracts with the *kixikilas* do not build in any possibility of pledging assets against the loans; only a 10 percent guarantee deposit is required.

B4. Microfinance and Microenterprise Support in Angola

The Angolan experience in microfinance and small business loans has, with one or two exceptions, generally been one of failure. Thus cultivating a responsible credit mentality is difficult. Many of the funds earmarked for small and medium enterprise development have been exploited by the political elite and other connected entities, with the expected results. Microfinance initiatives have, to date, done little more than target the poor with inadequate means for loan recovery. Many government-initiated programs still try to justify subsidization based on the perception that the poor are unable to repay commercial interest rates, despite overwhelming international evidence to the contrary.

Until DW, microfinance in Angola had never been approached or even conceived of as becoming a mainstream activity with the possibility of post-project sustainability. Microfinance is usually approached as a component for integrated projects with a life span as finite as the project's, with little demand by the donors or executing agencies to apply commonly accepted norms (such as those of the CGAP). In the consultant's opinion, donors and practitioners should stop treating Angola as a special case because this prohibits the creation of the businesslike approach necessary to make microfinance sustainable in the long run. Offering short-term favors to the target group only denies them the long-term continued financial services that they will need as their activities expand.

B4a. NGO Microfinance Initiatives

The CARE LURE project in Kilamba Kiaxi (Luanda). This project supported by DFID started lending in April with 10 *kixikila* groups (164 members) with initial loans of $50 per member over three months at 20 percent per cycle (approximately 7 percent per month). Eight groups (135 members) paid back loans on time, while two groups faced problems (one group was quite political and the other had a fraudulent head and did not pass on the money paid by her members — this problem is now being resolved). The eight groups have now entered into a 2nd cycle with $100 loans (each cycle increases by $50) and a further 14 groups have launched the 1st cycle. To date approximately $23,000 has been disbursed to 294 individuals. Despite what some observers feel are high interest rates, and despite some internal management problems, the current repayment rate is in excess of 95 percent. These are excellent results for a new project with teething problems. In the consultant's opinion, the key to this success is that this is the only project to date that works with existing *kixikila* groups and does not apply any other criteria other than being a legitimate recognized *kixikila* for loan eligibility. This minimizes preparatory work and training and maximizes the element of solidarity by working with groups that are naturally formed.

Details of how the credit program of the LURE project operates are provided in Annex A.

A two-hour discussion with one of the *kixikila* groups provided some interesting insights. Notably, despite so much controversy surrounding interest rates by policy makers, the issue was not raised as a concern during the discussion. The key issue for the members was the tightness of the weekly repayments (subsequently changed to monthly for 2nd cycles and beyond). Loans were almost universally used for business purposes. Not all members needed loans, so money was distributed internally according to needs. Asked whether the loans improved their living standards, the response was that in general living standards were constantly eroding because of inflation, devaluation, etc., but that the loans at least allowed them to maintain previous standards. Members were keen to establish an association of *kixikilas* that would control the entry of new *kixikilas* to minimize the types of problems encountered with the two groups in the first round.

With the rate of interest currently being charged, the project is expected to become sustainable within three years. Of concern is what form the project will take to perpetuate itself into an ongoing financing entity. One serious proposal is that the loan capital be converted into some form of trust fund for the continued use of the association, as long as certain performance indicators are maintained. In the event that they are not, the funds would be donated to a charitable cause. It is felt that such an arrangement would ensure strict policing and adherence to regulations. The management of the fund could continue with professional technicians such as the credit officers of the project, answerable to a board of directors.

Development Workshop Angola. The new DW initiative to target the "economically active poor" is probably the first initiative to work with a revolving fund ($320,000) that could generate sufficient volume to guarantee sustainability. The program operates more in the market areas as opposed to the LURE project, which is more residentially based. Prospective borrowers are subject to a "qualification test" based on a baseline data survey. Lending groups range from 20 to 30 members with subgroups of 5 to 7 members, each with its own elected leader and constitution. Each large group has a management and credit committee. The credit committee is charged with visiting each member and assessing his/her credit needs (first loans vary from $50 to $100) and making individual loan requests. Once all the paperwork is done (which in the consultant's opinion is considerable), groups have to undertake 10 weeks of training (approximately two hours per week) covering subjects such as group solidarity, interest rates, savings, internal regulations, and small business practices). Loan periods are four months and the loan cycle rate is 10 percent. Groups are required to deposit a guarantee (referred to as "savings" of 10 percent of the loan amount).

To date some 700 potential clients have undergone orientation. A total of 487 individual loans have been given. The number of currently active loans is 367 distributed among 11 groups. Reimbursement rates appear to be satisfactory though some of the indicators (see Annex C) are not clear.

The program is comprised of a coordinator, a long-term consultant, an accountant, and three assistants (with the intention of acquiring four more in the near future). Though this is an excellent initiative to reach the poor, the consultant feels that efficacy of the loans and eventual sustainability will be seriously compromised by tedious administrative processes and controls and a prolonged training period. By satisfying the demands by DFID that the poorest are targeted, the methodology appears to have become unnecessarily cumbersome.

DW provides microfinance training for technicians from other NGOs and institutions. ADRA is currently training four of its technicians at DW with the objective of eventually training 10 in total. This is an important facility for the future capacity building of credit officers from other organizations and institutions.

SIES/UNICEF. There have been a number of microfinance initiatives in Angola, both rural and urban. Two will be discussed briefly here as their experiences are relevant to the LURE initiative. The Italian NGO SIES operates in the same area as the LURE project and has a microfinance component as part of an urban development initiative. Lending groups are solidarity groups (five members) of female heads of households with children ages 17 and under.

The program started in 1997 with a revolving fund of $12,000. Loans are of a four-month duration with an interest rate of 10 percent on the loan cycle (recently increased to 12 percent). Loans are made in *kwanzas* and repaid in *kwanzas* without any link to the dollar. Due to the high devaluation rate, the funds are now worth only $300. A repayment rate of 65 percent was achieved. The program has 80 groups (400 members) with two credit officers who meet the groups at predetermined locations to receive payments and disburse loans from the same locale. It would appear that a fairly lax position on late payments has contributed to the low repayment rate. UNICEF has just contributed a further $10,000 to reinforce the rapidly disappearing revolving fund. SIES is under the impression that the government frowns on the provision of dollar-linked loans (but the recent government authorization for DW to offer dollar-pegged loans, however, should dispel this notion).

Christian Children's Fund (CCF). The CCF appears to be committed to the implementation of microfinance activities in 20 communities located in seven provinces. In February 2000 a consultant team drew up a strategy for a program called "Vocational Training Income Generation through Micro Credit." The program would target 15- to 18-year-old males and females who would form solidarity groups of five members and these in turn would form associations of solidarity groups. Loans would be made to the associations, which would distribute the loans to each group. Initial loans are small, starting at $15 and increasing by $10 per cycle. Loans would be provided and repaid in dollars at an interest rate of 3 percent per month. Initially the microfinancing would target small commercial activities but eventually diversify with the financing of productive activities such as carpentry, tailoring, bricklaying, and mechanics. Financing these type of activities would be part of an integrated package of apprenticeship training, basic business training, kits, etc. Three groups would get assistance: those already in business, those who had a business but failed, and those with no previous business experience. Priority would be given to those already in business. Vocational training is provided by skilled tradesmen (*mestres*) (see discussion below on small business promotion). CCF has teams made up of one representative and between 2 to 5 assistants, complemented by 10 to 36 community-based promoters. The provinces of Huila and Benguela have the highest shares of activities.

Because CCF has had no previous experience in microfinance, it is wisely treating its entry into this area with great caution. From CCF's early work so far, some valuable insights are worth mentioning. First, in many rural areas NGOs take up to six months to start activities because leaders of the target communities are suspicious of NGO motives. Second, CCF also observed different attitudes toward business and cooperation between different socioeconomic zones. In Huila Province where IDPs have been camped for more than 12 years and with an economy quite closely integrated with that of Namibia, there was a more open attitude toward working in solidarity groups than say Benguela Province where there was much more suspicion and a strong reluctance to work jointly. Third, there were strong differences in gender both in terms of collaboration (girls did not want to work together with boys because of lack of trust) as well as activities (girls pursued more sedentary activities and boys more ambulatory). CCF staff also commented on the growth of informal sector commerce in the IDP camps. Alcoholic drinks, both manufactured and traditionally brewed, appeared to be the most popularly sold product.

ADRA. Established in 1990, ADRA is the best known and most successful national NGO in the country. It focuses on rural and peri-urban communities and operates in the provinces of Benguela, Bengo, Cunene, Huambo, Huíla, Malanje, and Luanda. Recognizing the rising importance of the informal sector, since 1993 one of its major areas of intervention is the promotion of microactivities. These activities are seen as particularly important for IDPs and the major constraint in the pursuit of these activities is the shortage of start-up capital.

ADRA's initiatives in financing rural activities is representative of the various other initiatives targeting the rural poor. Following the disappointing results both in terms of impact and credit performance, ADRA is searching for a qualified consultant to evaluate its program of *micro-realizações*. These microactivities included vocational skills development, small animal husbandry, and commerce.

Typical of prevailing attitudes, financial assistance was given with the attitude that the impoverishment of their beneficiaries would result in a less than complete recovery of loan funds but that credit versus grants was important to stimulate a feeling of belonging and diminish paternalism. As a result, like others ADRA opted to lend with subsidized rates of interest (ranging between 2 to 12 percent) with terms between 3 to 24 months. Kits were sold for as little as a quarter of their true costs. In some cases it became obvious that if loans were stopped, so would the supported activities. This caused a credit dependence.

ADRA has financed some 560 clients with money or vocational kits of whom a little more than half were women. The distribution was as follows:

	Benguela	**Malanje**	**Huíla**	**Luanda**
No. of Clients	276	160	115	9

The principal types of activities financed included carpentry/woodwork, shoemaking, fishing, welding, tailoring and sewing, building, handicraft, baking, soap making, and small commerce (principally used clothing and small animal husbandry).

ADRA admits that these programs were administered in a way that lacked the necessary professionalism. It was only in 1998 that a technician was contracted to coordinate this activity from headquarters. The technician presented an economic analysis of the loans (reimbursement rates versus sustainability of the beneficiaries). The results were disappointing to say the least: less than 10 percent of the beneficiaries reimbursed their loans and more than 85 percent of the supported activities did not continue.

As a result of these poor performance indicators, ADRA has decided that it has to clarify its objectives, redefine its intervention strategies, and review the criteria of loan concession that until now have not been clear.

Significantly ADRA hopes that by changing its approach, it can hope to achieve sustainability. To steer into this new direction, ADRA has called for the services of an experienced consultant for four weeks.

ADRA has also provided more than 8,000 peasant households with agricultural credit, distributed as follows:

	Benguela	Huíla	Malanje
No. of clients	7,357	503	275

It is not known how these loans have performed.

B4b. Government-Linked Microfinance Programs

For about a year, the Ministry of Women and Family has implemented a microfinance program targeting women. It started off with a loan capital of $50,000 and is currently about $100,000. Loans are made to small solidarity groups, with initial loans of $100 with subsequent cycles increasing by $100 increments. Monthly interest is 1.5 percent, too low to be sustainable. Loans are given in dollars and repaid in dollars. The program is currently operating in three provinces (Cabinda – just opened, Luanda, and Bengu) but is planning to expand to other provinces. Apart from loans for small informal sector commerce, the program also targets peasant farmers. As with other government-run credit funds, this fund seems destined to failure. It will need to changes its methodology and loan conditions and acquire professional credit officers to reach sustainability. Otherwise the program's dispersed activities will end up with low loan payback rates.

There is still a strong prevailing sentiment within the government operators that the poor cannot support sustainable interest rates and must be subsidized. It is hoped that by greater exposure to international experiences, particularly regional ones, state-owned or -linked microfinance operators will eventually join mainstream thinking on microfinance and the importance of commercial loans and sustainability. It is hoped that principal stakeholders in the microfinance scene in Angola will attend the Harare African Regional Microcredit Summit (October 2000).

B4c. Private Initiatives

Banco Sol. One of the most interesting developments to take place on the microfinance scene is the establishment of the Banco Sol (not to be confused with the Bolivian namesake). This new bank is the brainchild of a former Governor of the National Bank of Angola, Mr. Sabastiao Lavrador. Currently it has capital of $4 million (rumored to be sourced from the First Lady), of which half will be destined for microfinance activities. The other half will be destined for normal bank-type commercial activities. A meeting to present the bank and its objectives was called in September 2000 by the Governor of Bengu Province. Advice on its microlending activities is being provided by a Brazilian consultant. Lending will be done on a solidarity group basis, with loans starting at $100 per member. Discussions with Mr. Lavrador suggested that the Bank Sol was a serious commercial initiative but the proposed interest rate of 1 percent per month would, in the consultant's opinion, never allow the microfinance activities to attain sustainability. When told that the CARE LURE project charged five times the interest rate without any objections from the clients, he seemed surprised and requested to visit the project. Clients envisaged for the microlending component would be those involved in non-agricultural informal sector activities.

The bank is not interested in providing microfinance for agricultural activities, but significantly for USAID's SO1, serious thought is being given to targeting small private farmers with agricultural credit. Presumably the bank would also be interested in financing processing activities. For the time being the bank is restricted to Bengu Province and Luanda, but soon hopes to spread to other provinces. It hopes to start its microlending activities in November 2000.

B4d. The Ad Hoc Microfinance Forum

This is an informal group based on the Mozambican experience, including the participation of 11 NGOs, the BNA, commercial banks, and other government institutions such as MINARS (meetings are held at MINARS on a monthly basis and under a revolving chairmanship). These meetings started in May 2000 and one of the most important achievements to date is providing inputs in the formation of the draft legislation on microfinance. If interest is maintained in the forum, it could become a powerful lobby group for the microfinance industry as it has evolved in Mozambique. It is important that the existence of this group is known to all stakeholders and that forum members continually extend invitations to potentially interested parties. The Banco Sol for example was not aware of the forum and was interested in participating. The forum is entering a critical stage when participants will make a choice in either participating in something that is recognized for its relevance and importance or lose interest in a body that does not offer discussions, presentations, or debates that merit dislocation for two hours a month.

B4e. Small Business Promotion

Small business support programs in Angola have so far not met with much success. The Institute for the Promotion of Small Enterprises at one stage provided credit but no longer does so. It now exclusively provides small business training linked with the Brazilian small business development firm SABRAE. It has delegations in all the provinces with the exception of Moxico and Malange. Three types of courses are offered: starting a business ($25), administering a business ($30), and small business accounting ($50). Fees cover manuals and training, starting from 15 hours over five days. It is not known how many entrepreneurs or prospective entrepreneurs have been trained. Requests for all but the most basic information had to be submitted in writing.

During about a four-year period, the ILO developed elaborate small business training modules for demobilized soldiers, closing in early 2000. The project has produced materials, which are of excellent quality but lamentably seem not to have been used in a productive fashion. The excellent ILO course "Start Your Business" was improved by the project and translated into Portuguese. Hundreds of copies of the manual are now stored in Luanda. The project worked in close collaboration with the National Institute for Vocational Training, which was the institute accredited to offer the course. Unfortunately it does not appear that the course is being offered. One staff member at CCF had been trained as a trainer and is now training CCF provincial staff to teach the course (unfortunately without access to the stored manuals). In addition to the training program, the ILO project developed equipment modules for a variety of microenterprise activities (currently available with the CARE LURE project). Furthermore, contrary to conventional wisdom, the ILO project also prepared an elaborate scheme for microfinancing demobilized soldiers.

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A few years ago the government along with the World Bank had intended to hold a workshop on small enterprise promotion and the legal environment surrounding this sector as well as the informal sector. It is not known whether this seminar was ever held.

The promotion of small enterprise has been pursued on many fronts by a gamut of institutions, which, with the exception of a few, have had limited impact. The unsuccessful funds include:

- Fund for Social Action, which has now limited itself to grants for community-borne infrastructure projects, though there are indications that it wishes to revive its former interest in small business loans.
- Funds managed by the National Institute for Assisting Small and Medium Enterprises.
- Fund for Agriculture and Livestock, which no longer exists.
- Fund for Development of Artisanal Fishermen, which is currently reorganizing.

Despite these failures, the Fund for Assisting National Enterprises, operated through the Ministry of Finance, has demonstrated good results. It provides loans in the range of $5 to $15,000 with interest rates of 20 to 30 percent. It has a good loan repayment rate and is said now to be operating on a sustainable basis. The state-owned Credit and Savings Bank has a special department for lending to small businesses. Interest rates are 115 percent for *kwanza* loans and 9 percent for dollar loans. The politically affiliated Fund for Economic Development, inauspiciously housed in the old Fund for Agriculture and Livestock headquarters, is attempting to fund small businesses but has met with resistance from the banks because they are required to assume full risk.

Basic business training is offered by the National Institute for Vocational Training, which is accredited by the ILO to offer the course "Start Your Business" and the Institute for the Promotion of Small Enterprises, which offers a course designed by the Brazilian small business development firm SEBRAE.

Until now there have been few, if any, initiatives to support productive microenterprise initiatives, especially outside of Luanda. However, the CCF has adopted a plan for promoting microenterprise development for youth that could have interesting ramifications for the reintegration of demobilized soldiers and other special groups. Through its proposed Income Generating and Professional Education Program, the CCF intends to offer credit to small informal sector activities, focusing on those who have already started their businesses or who had started but subsequently failed. Some observations from its experience to date seem pertinent to introducing microfinance in the provinces. In Huila, where traders had much exposure to economic links to Namibia, quite a different attitude toward business was encountered by clients in Benguela. Establishing solidarity groups was much more accepted in the former than the latter. Girls were resistant to forming groups with boys who were felt to be less trustworthy and responsible.

C. Recommendations

C1. Microfinancing Commercial Activities in the Urban Informal Sector

Prevailing opinion has been that conditions in urban Angola are not yet suitable for sustainable microfinance. Until the recent initiatives of CARE and DW, earlier microfinance experiences would appear to confirm that high inflation, rapid devaluation, and apparent lack of client discipline — not to mention the insecurity of prolonged war — militated strongly against the introduction of microfinance. Until his experience with the CARE LURE project in May 2000, the consultant was of the same opinion after several visits to Angola. However, direct hands-on involvement with vendors in Luanda demonstrated that previous observers and consultants failed to recognize the existence of perhaps the best environment for microfinance in all of Africa. Three critical conditions prevail:

- All transactions are tied to dollar equivalent prices, and dollars are readily and willingly resorted to for loan transactions (both in the form of delivery and reimbursement).
- Because of the rapid turnover in commercial activities, the level of interest charged is almost irrelevant to the clients, especially given the high cost of borrowing in the informal money market (50 percent per month).
- Perhaps most importantly, informal sector vendors and producers are well organized in revolving credit and savings associations that form natural groups for financing with minimum training requirements.

Survey results show that, contrary to conventional wisdom, the informal sector should not be associated with poverty. All but perhaps the richest levels of Luanda society appear to be equally likely to be involved in what is unquestionably a dynamic sector, offering returns that are more effectively devaluation- and inflation-protected than the formal sector — at least in terms of formal wages and salaries. Because the informal sector transcends virtually all urban socioeconomic groups, there is a tendency by donors and operators to attempt to use microfinance as a targeting tool, specifically aimed at the urban poor. In the consultant's opinion, once conditions start being applied to eligibility, etc., the process of delivery slows down considerably and the program opens itself to abuse both at the operator and recipient level. One of the appealing characteristics of the *kixikila* groups is that they tend to be quite mixed in terms of activity, volume of trade, and gender. Such mixtures tend to help ensure against unforeseen contingencies, reinforced by solidarity; for example, if participants in one type of activity are doing badly because of a shortage of materials, then others in another more buoyant sector could be expected to assist their temporarily afflicted clients. Similarly richer members can be expected to give periodic assistance to poorer members. It is therefore strongly recommended that microfinancing initiatives try to avoid specific targeting of the poor and work at a more general level, taking advantage of the natural alliances that are made, rather than trying to create artificial groups based on poverty.

Unconditional microfinancing of *kixikila* groups will inject capital into the informal sector in a general way and can be expected to positively benefit a broad section of those involved in this sector — poor and richer alike. Such an approach can be assumed to be beneficial to those who are already members of *kixikilas* and presumably with established informal sector activities. The successes demonstrated by both the CARE project and DW strongly suggest that microfinancing for urban *kixikilas* can be undertaken on a large scale, not only in Luanda, but most probably in other major towns.

Available studies on the informal sector have provided useful insight in terms of comparative aggregate data, but it appears that little is yet known about some of the more dynamic forces relating to the sector. For the transition strategy, developing financial services appropriate for the particular needs of the IDPs may require a somewhat different strategy. It is not known to what extent extended families or the "home-boy" system operates to accommodate IDPs on entering urban or peri-urban areas. Similarly, it is not known if and how *kixikilas* might assist in cushioning the arrival of IDPs who might be relatives of members or what other coping arrangements IDPs resort to.

Financial services such as savings stamp groups or revolving savings and credit groups may well be suitable financial instruments for poor and vulnerable groups attempting to adapt to their new circumstances. Because the socioeconomic environment of urban IDPs is not yet sufficiently understood, and because the proposed financial services are still untried, it is recommended that financial interventions for IDPs be treated cautiously and initially on an experimental basis.

C2. Microenterprise Support for Demobilized Soldiers and Other Special Groups

In the ILO's technical workshop on microfinance in post-conflict countries, it was generally agreed that demobilized soldiers should not be provided with microfinance. Invariably and, usually with justification, they will treat any loan as a form of gratuity for their services. Moreover, most demobilized soldiers do not have previous business experience and would find it difficult to use a business loan.

As already mentioned, the ILO has spent some four years in Luanda preparing a microenterprise program for demobilized soldiers. For obvious reasons, the project has now been shelved. However, with the number of demobilized soldiers estimated at 9,000 and the possibility of an increase in the future, some efforts should be made to reintegrate them back into society.

It would appear that the most suitable approach to reintegration would be a slight adaptation to CCF's Income Generating and Professional Education Program. It is recommended that modules be prepared that would include vocational training through *mestres*. Vocational training would be accompanied by basic business training, appropriate kits, and a small start-up grant.

In Mozambique a similar program was developed with vocational training and kits. Training was mostly done institutionally. Although the ILO's evaluation of the program was positive, it appeared that training was not long enough to learn skills adequately and many demobilized people were found to have sold their kits for the short-term cash benefits. No basic business training was provided.

C3. Recommendations for Operationalizing Microfinance in the Rural Areas

It would be a huge understatement to say that developing a rural financial services strategy for Angola would be difficult. War, economic instability, constant dislocation, isolation, lack of infrastructure, low capacity, mistrust, corruption, etc. all contribute to an environment that mitigates strongly against the introduction of financial services, let alone sustainable ones. Nevertheless, there are encouraging signs of transition and greater security in some parts of the country as well as experiences recently developed in post-conflict economies such as Mozambique that could well be applicable to the Angolan situation. Financial products serving the different needs of the rural population are varied. At one end of the (micro) scale are small individual microenterprise credits for the purchase of processing machinery such as grain mills, oil presses, cassava slicers, etc. Group loans (solidarity groups or village banking) could be offered to informal market traders and small non-agricultural activities such as charcoal production, beverage making, baking, sewing, etc. Loans to farmers can be made either as components of integrated projects or, more sustainably (and therefore with more rigorous conditionalities) through producer associations or credit unions. At the lowest end, and not needing any capital investments, would be introduction of community-based savings and credit groups (seen as effective precursors for credit unions) or savings stamp groups. The importance of savings mobilization is often neglected but is a service that often has a greater demand and appreciation than credit.

C3a. Observations and Recommendations from WOCCU

The 1999 WOCCU mission report examined the prospects of establishing a credit union in Angola. Much of its findings are relevant to the issue of establishing microfinance services in rural Angola.

The report found that through food security programs, four important developments were taking place that would facilitate the introduction of rural financing programs:

- The evolution of community groups as recipients of food that eventually could be built upon for evolving into credit unions.
- Beneficiaries preferring to invest their own resources for the purchase of basic agricultural inputs, indicating a transition from relief to development and self-reliance — important for the formation of credit unions.
- Incentives to rural producers by development agencies to promote local rural production, creating a catalytic environment for the establishment of financial services such as credit unions.
- The evolution from increased household food production/security to increasing household income from rural production resulting in the introduction of credit and savings services to support the current support initiatives (e.g., seed banks, value added technologies, group formation, infrastructure).

The report then identifies four key areas as relevant to the future development of credit unions in Angola:

- *Building on kixikilas.* As seen above, these are a mainly urban phenomenon and form the basis of CARE's urban microfinance program.

- *The evolution of "microcredit programs" to sustainable organizations.* Microcredit programs observed by the mission, including both government and NGO programs, were seen as largely grant schemes or highly subsidized (the mission took place before the establishment of the CARE LURE project or the DW Lending and Savings Program).

- *New roles/incentives for government agencies.* The mission felt that government agencies had to move away from the implementation of microcredit/grant programs to being more focused on policy and mobilization of funds.

- *Promoting the development of a microfinance sector.* The mission drew attention to the heterogeneity of poverty in Angola and that financial services had to be tailored to meet the different needs of the poor. Credit unions were only one of several types of financial services that could be offered in Angola.

The report placed considerable emphasis on the importance of creating an enabling policy environment, mainly through an appropriate legal framework. Since the WOCCU mission, the government has presented its draft legislation for microfinance institutions. Significantly, after the formation of the Ad Hoc Microfinance Forum in May 2000, stakeholders in microfinance have been invited to comment on the draft. The WOCCU report also stressed the importance of identifying appropriate savings services as a key service for pool people (see examples from Mozambique below). Until now, most of the focus has been on microcredit. Indeed, until recently the term "microfinance" was never used, being only referred to as "microcredit."

In the eyes of the consultant, one of the most significant points raised by the report refers to capacity building, not only in terms of microfinance providers but also of preparing beneficiary groups, in particular the development of producer associations in collaboration with such private voluntary organizations as CLUSA or ACDI-VOCA. The Mozambican experience has shown just how effective such a strategy has been for channeling credit directly to farmers (see Section C3d).

C3b. NGO Financing through Integrated Projects

As it will be yet some time before we start seeing broad-based sustainable microfinance institution programs operating in the rural areas of Angola, we are likely to see rural financing coming largely through an integrated project as one of the various coordinated components. The introduction of oil presses, grain mills, cassava slicers, etc. are likely (hopefully) to be linked to some kind of financing arrangement, whereby the beneficiaries are expected to pay back capital and (hopefully) an element of interest. Though international experience with this type of financing has not been great, it is difficult at this point to see alternatives to the provision of food-processing equipment.

C3c. Gender Considerations for Rural Angola

In rural Angola there are likely to be various factors that militate against women having the same sort of access to microfinancing as their male counterparts. The following gender considerations were presented by the evaluation team looking at CARE's microfinance program in Nampula Province (Mozambique). It is the consultant's opinion that many of the team's observations are relevant to rural Angola:

- Women combine household and entrepreneurial activities and therefore have a lower continuous flow of cash to repay loans.
- Women are involved in agriculture and invest considerable time to their small holdings.
- Women's income-generating activities are mainly home-based.
- Women have less education.
- Women-owned enterprises tend to be less profitable than male-owned.
- Women tend to have less wealth/goods that can be used as collateral.
- Women — particularly poor women — may consider themselves "unqualified" to receive loans unless efforts are made to reach and inform them.
- Societal norms and attitudes creates stereotypes that devalue women's work and contributions to family income.
- Women-owned enterprises tend to be among the smallest.

C3d. The Relevance of the Mozambican Experience in Rural Finance

The consultant feels that in many respects, the Mozambican postwar experience in the rural areas, though not impressive over the past eight years, has now reached a stage where rural finance is becoming a focal policy component for USAID (Mozambique). Recent developments in the microfinance industry in Mozambique will be reviewed below as they are felt to be relevant for the possible implementation of a rural financial services program in rural Angola.

With some 40 microfinance programs now operating in all provinces and some that are showing imminent signs of sustainability, Mozambique like so many other of the poorest countries has convinced the donors that this is one of the most effective routes for stimulating income-generating activities and alleviating poverty. Despite its rapid spread and general success, microfinancing in Mozambique suffers from several fundamental weaknesses:

- Microfinancing, despite descriptions such as "village" or "community" banks, has until recently been almost exclusively restricted to urban and peri-urban areas.
- Microfinancing programs, under considerable donor pressure to achieve "ideal" industry standards, will usually chase clients that give best portfolio performance results. Consequently, the vast majority of microfinance clients are involved in commercial versus productive activities.

- Microfinance programs rarely provide initial loans greater than $100, therefore providing credit for only the lower rungs of the economic ladder.
- Until recently, there have been no attempts by any of the microfinance providers to mobilize savings amongst the poor.

Over the past four years CARE International, in Nampula Province with financial assistance from the Dutch Development Cooperation and the International Fund for Agricultural Development, has experimented with a variety of financial services that have had varying results. After this experimental phase, CARE has now entered into a phase of consolidation with focus on institutional sustainability. This has, not surprisingly, meant that many of the services targeting the more remote rural poor will be dropped. However, it is the consultant's opinion that many of the experiments are still relevant to achieve the goals of SO1 and should be considered, even though they may not be attractive to sustainability-driven financial institutions. They could however form effective components for the integrated program approaches foreseen for Angola's transition period. Each of the components are reviewed with some detail in Annex B and briefly described below.

Solidarity/confidence groups. This methodology is perhaps the most widely used in Mozambique and in other parts of Africa. A loan is given to a group consisting of usually three to five members. Initial loans are usually in the $50 to $100 range, increasing incrementally as successive loan cycles are paid off (usually three to six months). Members unable to pay their share of the loan should be able to count on the "solidarity" of fellow members to bail him/her out if the group is to receive a new loan. These loans are normally given in areas of reasonable concentrations of population to ensure reasonable transactions costs and normally target small, usually informal market vending activities as well as some productive activities such as small bakeries, tailors, and small restaurants. In Mozambique some success was achieved in financing the activities of small informal traders who would purchase surplus agricultural production from peasants.

Credit to farmer and fishing associations. This has been the only successful and potentially sustainable method of channeling funds to peasant producers. Loans have been provided to associations for either inputs or marketing. Loans are conditional to proven management capacity, done in collaboration with the American NGO CLUSA, which stimulates the formation of the associations and provides them with management training. A similar approach is being contemplated by the IFAD-funded project supporting the artisanal fisheries sector. This approach has much potential for Angola's artisanal fishing sector, of which many communities already have associations.

Savings stamp groups. These groups were modeled after the successful Zimbabwean experience where some 10,000 groups have been established. They have proven popular in peri-urban areas and other areas with relatively easy access to formal banks. Members of these groups deposit their savings with the treasurer of the group who is in charge of a small suitcase that can only be opened by two other members. In exchange for the money, members receive pages with stamps of different denominations. The objective is to promote savings often accumulated for an economic objective such as setting up a small activity. Once a threshold amount has been attained, the money is put into a formal bank savings account. The Mozambican experience has proven popular with women who want to engage in income-generating activities but who fear the commitments and risks attached to borrowing from microfinance institutions. The problem of such schemes in Angola is the high rate of inflation. In Luanda such schemes are possible because the dollar is commonly used and accessible as the trading currency. It is not known to what extent the dollar can be used in rural towns or other population concentration points.

Community-based rotating credit and savings groups. This service was based on the Niger model and appears to be popular in remote rural areas. The idea is to mobilize savings within rural communities and to allow such savings to be used for small credits to members of these groups. The amounts involved are small but nevertheless seen as fulfilling local needs. Loans are usually made for a period of a few weeks. Meetings to receive deposits and give loans are done on a weekly basis. Interest rates on the loans are comparatively high and are subsequently shared by depositors who usually get their savings (and interest) back after about eight weeks. Such short cycles dampen the effect of rapid devaluation. In Mozambique, these groups are seen as useful preparation for establishment of credit unions. Such groups can also be established in urban areas for recently arrived IDPs who have not yet developed economic activities nor joined a *kixikila* group. The advantage of these groups is that the only investment needed is training by an NGO or extension officer and, because of the short cycles involved, they are appropriate to zones that may not have the ideal conditions of security and stability.

C4. Next Steps

The following are suggestions for facilitating the implementation of microfinance activities and microenterprise support to best achieve the objectives of SO1 of USAID's Strategic Plan for Angola and the Transition Plan.

C4a. Suggested Steps for Meeting SO1 Goals

1. With the assistance of the Ad Hoc Forum for Microfinance, prepare a directory of microfinance activities in Angola, giving contacts, areas of current operations, potential future operations, target beneficiaries, loan conditions, methodology, etc.

2. Identify priority areas of intervention for SO1 and contact USAID-sponsored NGOs/PVOs operating or potentially operating in these areas to see what types of microfinancing activities and microenterprise support activities could be funded.

3. Carefully assess proposed plans in terms of both potential impact and adherence to microfinance best practice principles. Some flexibility should be allowed given the special circumstances prevailing in the more insecure areas of Angola.

4. Once priority areas are selected, identify farmers associations, if possible with the assistance of the EU's PARPA project. If the number of operational associations are deemed worthwhile, an assessment should be made by an organization such as CLUSA or ACDI-VOCA to look at the feasibility of capacity building, bearing in mind, inter alia, prospects of providing these associations with input and marketing loans.

5. Estimate the population of the recently demobilized in the priority areas with the objective of establishing the suitability of setting up a special program. CCF would appear to be the best prepared for handling this type of initiative. A survey of demobilized expectations, needs, capacities, etc. is recommended.

6. Establish a pilot project in Cabinda to supply basic foodstuffs to Chevron's workers from existing associations. ACDI-VOCA could provide capacity-building inputs and possibly credit management, if producer associations are deemed to be in need of loans.

7. Carry out socioeconomic surveys of IDPs (in conjunction with the SO1 rural household baseline survey) to examine their special circumstances in terms of food self-sufficiency and involvement in non-farm income-generating activities. These surveys would facilitate the design of appropriate financial services for IDPs.

8. Implement pilot projects for savings stamp groups in urban and peri-urban areas and community-based credit and savings groups for rural areas, especially for IDPs.

9. Identify NGOs, banks, and other institutions that could provide support (mainly training and finance) to microenterprises involved in food processing and marketing. As opposed to microfinancing, such assistance is usually comprised of integrated packages. Furthermore, financing is usually more complicated, requiring more rigorous assessment and follow-up. Until such financial services are offered (Banco Sol is a possibility), such support is likely to only come from NGOs.

C4b. Suggestions for the Transition Plan Components

1. Use the urban microfinance methodologies practiced by CARE and DW as models for other programs in Luanda and other urban areas of Angola. Funding should be contingent on likely feasibility, impact, and sustainability.

2. Acquire assurance from the BNA that microfinancing can be conducted in dollars (delivery and repayment).

3. Undertake socioeconomic surveys of IDPs in Luanda and other urban areas to develop a much better understanding of urban IDPs. This will assist in design of appropriate financial products.

4. Assess urban-based demobilized people with the objective of designing appropriate support programs (this would be useful for future large-scale demobilization).

5. Provide support to ensure the continuation of the Ad Hoc Forum for Microfinance as well as capacity building (e.g., through exchange visits) for key government officials directly linked with the evolution of microfinance in Angola.

ANNEX A

The CARE LURE *Kixikila* Credit Programme

ANNEX A

The CARE *Kixikila* Credit Programme

(Excerpt taken from consultancy report prepared for CARE by Fion de Vletter, April 2000)

The discovery of the *kixikila* ROSCAs turned to be the turning point in developing a credit methodology that would be easily understood and readily adopted with a minimum of disruptive training. In the absence of the *kixikilas*, the solidarity group method probably would have been the ideal route, but the natural and time-tested form of unity or solidarity is through the *kixikila*. As such, these groups open themselves naturally to the village banking methodology. This entails a loan being made out directly to the *kixikila* i.e., to the president (*mae*). The loan is then distributed to the members of the group. The way in which loans are distributed and collected and individual defaults treated should be a matter of internal regulation. Loan repayments to the LURE project are clearly stated in the contract. The possibility of working with solidarity groups *within* the *kixikila* was ruled out because of the possible divisive effects that these could have on the unity of the natural "mother" group. For example, if one of the solidarity groups within a *kixikila* were to default and not be able to obtain a loan again, this would exclude five members from within a group whose other members could continue to receive loans. This would create obvious tensions. The default of one or two members or even five within a group of 20 to 30 is something that, under normal circumstances, usually can be absorbed by other members to ensure regular weekly payments. The default of one or two members within a solidarity group is, on the other hand, much more likely to lead to problems for the solidarity group.

The external loan agreement is basically very simple. The fundamental principle is that the loan has to be paid back in full with 12 weekly installments. Any weekly payments that are late will be penalized with a doubling of the late payment, due the following week. Reimbursements that are made with two or less late weekly payments will be eligible for a new graduated loan i.e., a group loan raised by an amount of $50 x the number of participating members. Should the loan be made on time (i.e., within the three-month period) but with more than two late weekly payments, the subsequent loan amount would be maintained. If a loan is not repaid within the three months, then the group will not be eligible for a further loan.

First loans start at the equivalent of $50 per member, increasing by $50 per cycle until a ceiling of $300 is reached. Once this is reached, the possibility of other types of loans should be considered and will require a careful review of the situation. Interest of 20 percent will be charged over the three-month period on a flat-rate basis. Although, this is considerably higher than other rates being currently charged, clients do not have a problem with this rate and it is felt, under the circumstances to be realistic and one that would achieve sustainability within a reasonable time frame (the project initially started with an interest rate of 35 percent over three months and even this was happily accepted by the clients). Working in multiples of $50, with an interest rate of 20 percent ensures that all weekly payments will be made in easy denominations ($5, $10, $15, $20, etc). This is highly appreciated by the clients because of the difficulties of obtaining single dollar notes.

Before a loan contract is signed, each participating member of the *kixikila* must undergo registration. This involves a full meeting of all those members who wish to borrow money (it is important to emphasize that not all members of the group are required to register) at the LURE office, when the basics of the loan and contractual conditions are explained (committee members would have had a more detailed session prior to this meeting). A declaration is then signed by all participating members stating that they understand the conditions of the loan agreement and that they agree to participate. In addition to signatures, they must provide proof of identity (in many cases this will BE done with a declaration of residence from a local administrator) as well as pay a 10 percent security deposit. Finally, when all the administrative procedures are completed, all signatories must undergo a quick (one page) questionnaire that provides the basis for the impact assessment survey (see below).

Target Group

It is envisaged by DFID that microfinance should target the poor. The LURE project identified "level 3" residents of Kilamba Kiaxi as potential candidates (level 4 being the poorest identified from a wealth ranking exercise from the Participatory Appraisal Needs Assessment (PANA) baseline survey). Apart from the difficulties attached to "assessing" potential clients, the idea of only targeting only the poor is considered inappropriate for various reasons. The first is that, by identifying the poor and then forming them into artificial groups that have only credit as their *raison d'être* for cohesion, has its obvious dangers. In the longer run, the poorer are likely to be much better served by a mixed group such as the *kixikilas* where members vary between relatively well off to the comparatively poor (judging from their daily sales figures). By giving credit to a mixed group, the more vulnerable, when encountering problems, are likely to be bailed out by their wealthier peers (internal regulations ensuring that such debts are settled one way or the other over time). By lending to *kixikilas* we are lending to a cross-section of the economic ladder in Kilamba Kiaxi. It is felt that working through a more durable structure, the poor (although perhaps in smaller numbers) will be assisted with greater surety over a longer period of time than if credit were given to artificial groups of homogeneously poor members.

Client intake control. Microfinance programmes are always subject to opportunists and Luanda is certainly not short of them. During the early part of the programme, only bona fide *kixikilas* known to the LURE project officers and who have been in existence for at least one year will be considered for loans. As the programme expands, however, it will be more and more difficult to check on potential client *kixikilas*. It is therefore strongly recommended that the *kixikilas* protect themselves from weak or even imposter groups by creating an association of *kixikilas* whose membership would be carefully monitored by existing members (the initial association being created from existing loan clients and those in the pipeline). Only those *kixikilas* that are known to existing members who can vouch for their bona fides can enter (as long as they are at least one year old). Because any defaulting *kixikila* could seriously compromise the loan fund, it is expected that the association would monitor its membership carefully.

Financial arrangements. Loans will be initially given to *kixikilas* by way of payment order from the CARE head office in Luanda. These will then be cashed by the President of the group in the presence of at least two other committee members at the Kilamba Kiaxi branch of the Banco Fomento e Exterior (with whom the head office has an account). To minimize cash exposure, weekly repayments must be paid into the special LURE microfinance account and deposit slips delivered to the relevant credit officer for recording the weekly payment. For reasons that are not completely unjustified, women from the *kixikilas* have expressed concern about dealing with banks. For them to become familiar with banking procedures, it has been agreed with the Kilamba Kiaxi bank branch that a credit officer can meet *kixikila* representatives at predetermined times to show them how to make deposits.

Reporting procedures. One of the most important aspects of managing a microfinance programme is the regular reporting procedures that MUST be followed and closely monitored by management. Two reports are essential: the monthly portfolio report and the financial report. The monthly portfolio report will normally be produced by the SEAD sector head. Timely portfolio reports are essential for monitoring any errant tendencies on the part of the clients and to allow credit officials to take appropriate action before a deteriorating situation sets in. For portfolio reports to be submitted on a given date (the 10th day of each following month is suggested) all records on the client loans must be recorded within 48 hours of each last transaction. Weekly loan repayments should be recorded within 24 hours so that any late payments can be immediately acted upon.

Financial reporting is also crucial as it reviews the monthly flow of funds. The accountant for the LURE project will be held responsible for submitting these reports (also within 10 days of the close of the reporting period). The report will review all payment orders delivered to clients, guarantee deposits from client groups, weekly loan repayments, bank charges and loan payments made from the LURE microfinance account.

Impact assessment. It is now recognized that one of the weakest aspects of microfinance (in general) during the past was the lack of systematic impact assessment. Perhaps too much attention has been focused on portfolio performance and institutional sustainability at the expense of the sustainability of the actual clients. As this microfinance initiative is likely to be observed with much interest (hopefully demonstrating high payback rates and substantially higher interest rates than previously experienced), it is important that the project maintain close observation of its clients, as their development is the ultimate litmus test for donors. For this reason, all *kixikila* members receiving loans will be interviewed with a baseline questionnaire and will continue to be questioned with each subsequent loan so that their development may be closely monitored.

An initial interview has been designed and tested during the consultancy. Fine-tuning of the interview sheet should remain with the Monitoring and Evaluation section of LURE. A suitable follow-up questionnaire will need to be designed for second cycle clients and beyond.

Gender. Gender is not likely to be a serious issue with the microfinance component. As with most urban/ peri-urban based microfinance programmes, it is likely that at least two-thirds of the credit recipients will be women. In the case of the LURE *Kixikila* programme, out of the 465 trainees, 315 (67.8 percent) were women. One issue that should be monitored is the question of empowerment and to what extent credit contributes to the social and economic evolution of women. Although needing much more investigation, anecdotes heard during the consultancy suggest some very interesting socioeconomic relationships with their husbands. It appears that when women are unable to carry out their selling activities, such as during the latter stages of pregnancy or early stages of childcare, the husband often steps in to take over the management of their commercial activities. It is not clear what husbands usually do when their wives are working.

As pointed out earlier, ambulant sellers tend to be young boys who appear to have left school, in many cases forced by circumstance to support their families from small commissions. These sellers are quite different from the normal *kixikila* members who are often the ones who give these boys their commissions. Ambulant sellers normally do not have any capital to start up their own businesses. *Prima facie* they would appear to be good candidates for savings clubs or the rotational savings and credit schemes. These possibilities would allow the boys to accumulate their savings to buy their own stock and to improve their earning power. At this stage, little is known how ambulant sellers operate and to what extent they are organized into peer groups. Further study is necessary on this group to understand their needs, aspirations, interest, potential cooperation, etc. Save the Children Fund (UK) is currently conducting research on "street children." There would appear to be great potential for CARE and SCF to collaborate in assisting this target group.

Cost-recovery, sustainability and institutional development. When this consultancy was first discussed, there was little expectation that the SEAD component would be anything but an exercise in action research, experimenting with methodologies in what was considered a bad environment for microfinance. At the end of the consultancy we have in place a methodology that has good prospects of attaining full sustainability in its 3rd year of operation, on condition that the component is well managed and lending conditions are rigidly applied.

Sustainability depends on two basic assumptions — high volume and high payback. Volume would only be possible if the revolving funds are substantially increased, hence the proposal for $200,000 of loan capital from the African Fund. The funds currently available from DFID are only enough for pilot experimentation and have already been allocated to the first six groups.

A simplified fund flow presented in the section dealing with Africa Fund shows that, under optimal conditions and a growth rate of five *kixikilas* per month, a total of $240,000 would be needed for the revolving fund by the end of calendar year 2001. Interest income during the calendar year 2000 would be $9,000, increasing to $129,000 in the year 2001 (these calculations were made *without* including the use of the 10 percent guarantee deposits). It is recommended that, at least for first two years, all the interest income be ploughed back into the revolving fund, thus resulting in a revolving fund of $378,000 by the end of 2001. During the third year, the operational costs should be fully covered by interest income and the difference be added to the revolving fund. If these projections are realized, there would be a strong justification for reducing the rate of interest from 20 percent per loan cycle to 10 percent.

It is very important that CARE should start developing an exit strategy as early as possible (something that it has historically not been very good at with its microfinance programmes). This programme, assuming good repayment from the *kixikilas* (which in the consultant's opinion is a reasonable assumption) and good management with tight financial controls, should be able to reach full operational sustainability in its third year (in most African experiences, sustainability is usually projected at five years or more). The institutional form needs to be designed within the parameters of the evolving legislation surrounding institutions involved in microfinance. It could take on the institutional form of an NGO or financial intermediary. Whatever form, the component is likely to have a real economic value. DFID and CARE would need to mutually agree upon and define procedures on how to "sell" the entity, which would have about $400,000 of loan capital tied into its operations. It is hoped that by the time its sustainability is proven, commercial interests, especially the banking sector, would be interested in acquiring shares. It is hoped that the project management team would continue to run the new institution on behalf of the new owner and possibly buy their own shares in the operation.

Savings and Credit Groups

According to the Kilamba Kiaxi baseline survey, some 20 percent of the population has lived in the municipality for less than a year. Many of these will be displaced peasants fleeing the war. It is likely that they will have come with only a minimum of assets and will seek shelter from friends or relatives. It will take them some time to understand the confusing economic dynamic of Luanda and they will usually not have the necessary resources to enter into the informal market on an adequate self-sustaining fashion (estimated to be a minimum of about $40). Experience has shown that such people will be reluctant to enter into a loan agreement simply because they do not have the self-confidence that their entry into commerce will be successful. They would generally prefer to save funds to reach a target amount to initiate an activity. However, because of their newness to the municipality, it is often difficult for them to join *kixikila* type groups that would facilitate savings.

It is suggested that during the rest of this calendar year, the LURE team investigate eligible target groups for this subcomponent. In the consultant's opinion, a potential group could be the ambulant vendors who remain undercapitalized and dependent on commissions for their livelihood. Depending on the degree of solidarity that can be organized amongst them, these young men would seem to be an excellent starting point for dealing with the very poor. By allowing them to build up their savings base, they could eventually buy their own merchandise and start their own kixikilas and eventually be eligible for microloans. Once the microfinance component is up and running with relatively few glitches, more focus could be turned toward these sorts of activities.

ANNEX B

Review of Rural Financial Services in Nampula (Mozambique)

ANNEX B

Review of Rural Financial Services in Nampula (Mozambique)[1]

A recent evaluation of CARE's CRER Microfinance Programme in Nampula was far ranging and largely experimental in nature, having phased out some of the less successful components. Its approach was to first determine what product might justify the investment of creating an institutional home. However, in terms of preparing for the inevitable transition of institutionalizing the products that it had developed, the project was lagging far behind. The project demonstrated that rural people were able to overcome the barriers of working jointly in groups of trust for mutual financial benefit. Moreover the project clearly proved that that rural people can and will save.

The main services developed by the program that would be relevant to the rural needs of Angola were:

- Solidarity or "confidence" group lending to mainly informal sector traders in rural towns as well as small scale informal mobile traders.
- Credit to farmers' associations.
- Savings-stamp groups.
- Community-based savings and credit groups.

A. Confidence Groups

More success was encountered in lending directly to what were called "confidence" (solidarity) groups (three to five members) comprising mainly of informal sector vendors and ambulant traders (receiving loans of between $100 to $400). The Dutch Government adopted this experience and, as a result, the bi-funded CRER program was created, with the Dutch component focusing more on the inland activities of ambulant traders and producer associations (in collaboration with CLUSA).

Due to the paralyzation of much of the formal industry in the Angoche area, it is estimated that only 2 percent of the working population are engaged in formal wage labour, while the remaining 98 percent are involved in informal sector activities to be targeted by the confidence group methodology. In the project area the confidence groups were effectively restricted to the Angoche and Moma-Mucoroge areas where only 59 of the original 126 groups operate (for a total of 198 individual members of whom less than 5 percent are women). Though a similar methodology exists in the CRESCE program in Chimoio and Quelimane with excellent performance indicators and much higher volumes, confidence groups seem only suitable for a small economic group within the project area.

[1] Information obtained from the Aide Memoire of the UNOPS Supervision Mission of the IFAD Nampula Artisanal Fisheries Project, April 2000.

In total 566 loans have been disbursed, of which only 4 percent were fishing related: 77 percent of the loans were for general trade and 19 percent for grains. The total volume of loans was just over $150,000 of solidarity groups. The average loan size was $269 and portfolio at risk (30 days or more) was a remarkably low 6 percent (repayments were lower in the project areas). Only 6 percent of the confidence group clients were women. While Malema District has shown active growth and good repayment records, Angoche and Moma, reflecting a more difficult environment, appear to have stagnant demand and poorer repayment records.

The evaluation team found that the confidence group methodology was simple and easy to understand. However, record keeping is very complex and not useful and the bonus system too detailed and cumbersome. There was an urgent need to make data collection and analysis easier and more relevant. Data should be collected simply as a byproduct of the credit granting and collection process in a way that credit officers and clients are not overly inconvenienced but at the same time providing information that is useful and manageable. The evaluation team also called for a review of the lending criteria, target groups and practices to identify gender specific factors, which could be varied to enhance women's access to and use of credit. For example, they called for a redefinition of "regular or daily work," a reduction of loan amounts, flexibility regarding loans for other than business purposes, a revision of group guarantees and greater efforts for targeting credit toward women's enterprises (i.e., in the home).

B. Credit for Farmer Associations

One of the most potentially important components of CRER is the financing of farmer associations. CRER works mainly with associations that have been assisted by the American NGO CLUSA that focuses on improving the organisation, management and marketing abilities of the associations. To date about 100 farmer associations have been assisted, having so far received a total of about $11,000 for marketing or input purchase. Women make up 22 percent of the marketing loans and 13 percent of the input loans.

Associations also participate in the stamp saving schemes (see below). Significantly, one association did not need a CRER loan because two savings groups loaned the association what they needed.

In terms of the project area, these types of loans may have a significant role for the fishing associations as well as the co-management committees once their management capacities have been strengthened along the lines suggested in the Aide Memoire.

C. *Stamp-Based* Savings Groups

The stamp-based savings groups are based on the Zimbabwean experience of 10,000 savings clubs of the Self Help Development Foundation. The underlying assumption is the majority of the people save money at home and very few have bank accounts. The model is a helpful mechanism for those with low literacy.

From the few interviews that were undertaken, it appears that credit is much less appropriate than savings, at least for the poorer echelons (i.e., the majority) of these communities. Savings clubs were initiated in 1998 and cater mainly to the more urban populations.

Savings groups were introduced to eight districts and as of December covered 1,407 members of which 71 percent were male and 28.7 percent female (savings groups found on the farmers' association involved mainly men). The average savings balance per person was about $5. To date, 39 groups have been established in Angoche and Moma-Mucoroge involving 318 members of whom 78 percent are women.

Groups are usually of one gender. The system allows for members to make deposits of any size which are recorded in savings books using stamps denominated by amounts of 5,000 or 10,000 Mt. Withdrawals can only be made once a page (10 stamps) has been filled. Money is stored in a small wooden box with two locks, the keys of which are held by the President and Secretary of the group, while the treasurer keeps the box. Groups are encouraged to open bank accounts once deposits of 300,000 Mt are reached. After various stages of training and monitoring, groups are expected to operate totally independently after 6 months. Savings are usually held for family related expenses such as sickness, funerals, ceremonies, school fees, etc. A significant number save to accumulate for the establishment of informal economic activities, particularly trading. Groups decide how often they should meet (it is not necessary for members to save). When asked why they did not prefer to obtain the required amount immediately through a confidence group loan, respondents clearly feared the stigmas attached to unsuccessful loan repayments. For most it has been their first opportunity to see money as a pooled resource which can grow at the individual and group levels. As a minimum requirement at least one or two members should know how to read and write. Savings groups are highly suitable in areas where there are nearby bank branches but not so suitable in more isolated areas.

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

The evaluation report recommends that CRER take a more pro-active approach to enabling legislation and regulation on savings. In the future, it is suggested that new project design should consider savings in a broader perspective allowing for the methodology to move toward credit. There is also a need to factor in the basic expenses associated with the groups, that is, the wooden suitcase, stamps, paper, etc.

C. Rotational Savings and Credit Groups

The evaluation report recognises that the "continuing involvement of and funding by the IDPPE has kept pressure on CRER to find ways to bring basic financial services to the fishermen and their families following the lack of success of initial efforts to service this sector."

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

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

There are so far 12 groups with 153 members (average 13). So far the experiment is limited to two communities in the project area: Larde has only 5 percent women but Quelelene has 30 percent female membership. Average member savings is $2.40 and the average individual loan is $7.30

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

The evaluation report had interviewed clients who consistently mentioned how easy it was to learn and put the PCR system into operation. Given the short period of functioning (5 months) members seem to have assimilated quickly to the system. The report also found that training of the members seem effective (the training manual was deemed to be excellent) in helping them to take on ownership of the PCR and develop a group identity.

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

ANNEX C

Development Workshop Angola: Savings and Lending Program Core Model

ANNEX C

Development Workshop Angola: Savings and Lending Program Core Model[1]

Formation

1. Group lending targets the economically active poor population, especially women.
2. Groups are formed over a 10-week period.
3. Groups are comprised of 20 to 30 members, made up of 5 to 7 members per subgroup.
4. Groups self-select their members.
5. Groups democratically elect leaders.
6. Group leaders oversee sub-groups of five to seven members each.
7. Groups form their own constitution to govern their groups.

Operational Management

1. Groups hold weekly meetings of 1and1/2 hrs to 2 hrs.
2. Groups pursue social, economic, and spiritual goals through weekly meetings.
3. Groups' leaders are trained to assume all management functions of the group.
4. Field assistants oversee eight to ten groups each.

Financial Management

1. Group leaders constitute a credit committee to assess and approve loans to the group members.
2. Group members receive their loans simultaneously. Loan is made to the group.
3. Group members receive small initial loans average US$50 to $100.
4. Groups contribute savings of 10 percent during orientation period
5. Group loan terms are four months.
6. Group loans are charged commercial interest rates or higher.
7. Group members make weekly loan payments.
8. Group leaders receive, deposit, and monitor members' loan repayments.
9. Group members co-guarantee all loans and weekly payments to their subgroup leaders.
10. Groups do not require collateral instead they operate a group guarantee system.
11. Re-loans are extended to Groups as a continuous, gradual increase "line of credit."
12. Group leaders report weekly financial activities to the Field Assistants.
13. Groups collect and manage savings from their members.

[1] Information obtained from Development Workshop.

Current status:

6 months in operation

Loan Fund of US$320,000 over 3 years

Field Assistants: 3

Outreach: 700 participants have gone through orientation

Disbursements: accumulatively 487 loans have been issued

Active portfolio = 11 groups = 367 loans

Repayment rate: 1st cycle on time 87 percent (qualitative rate) during period 91 percent (quantitative rate), portfolio at risk 47 percent, 2nd cycle on time 100 percent during period 142 percent (at the time of writing) portfolio at risk 0 percent.

Operational sustainability as of end of fiscal year (June) 1 percent

List of participants who attended last Forum meeting

Contacts

USAID

Alfreda Brewer, Program Officer, USAID, Luanda (tel. 399518/19/20)
Jerry Brown, Agri-Business Advisor, USAID, Washington
Gomes Cambuta, Agricultural Advisor, SO1
Jim Jackson, SO1 Team Leader USAID
John Mullenax, Regional Agricultural Adviser, REDSO.
Keith Simmons, Mission Director, USAID, Luanda

Diplomatic Corps/Donor Agencies

(Jill Derderian, Economic Commercial Officer, US Embassy, Luanda (tel. 447028) jill_derderian@yahoo.com)
Barend de Grut, European Union, (tel. 393038)
Havard Hoksnes, Resident Representative, Norwegian People's Aid (tel. 324500)
Zoriada Mesa, Resident Representative, UNDP
Liss Schanke, UNDP
Joseph Sullivan, American Ambassador, Luanda
Jean-Luc Tonglet, OCHA, (tel. 444321/448205/441072; tonglet@un.org)

NGOs

Maria Julia Antonio Christina Children's Fund (CCF) (tel. 323598)
Patricia Buckley, Country Director, CARE, Angola (tel. 340400;345196;345121)
Robert Bulten, Assistant Country Director, CARE, Angola
Ramos Buta, ADRA (Antenne Luanda/Bengu) (tel. 365129)
CARE LURE Project Personnel
Mary Daley, Deputy Director DWA-MFP (tel 445935)
Manuel Felquia, (CCF)
Margaret Giri, Project Manager LSP, DWA-MFP

Masinca de Gove, Head Credit Department, CARE-LURE project
Tendayi Gwarazimba, CARE-LURE Project Manager
Carl van Seth, Representative, Luthern World federation (tel. 348461;347566)
Mariana Sousa, ACORD (tel. 322445)

Commercial Banks
Leonarda Fortunato, Deputy Chief of the Small Business Department, Savings and Credit Bank (BPC) (tel. 390539)
Sebastiao Bastos Lavrador, Banco Sol (Angola)

National Bank of Angola
Jose Pedro Soares, BNA (390187)
Marinela Amaral, Administrator/Board Member, National Bank of Angola (BNA) (tel 392140)

Government of Angola
Julio ???, INAPEM (Tel. 331131,310987,310426)
Joao Manuel Faria, Ministry of Assistance and Social Reintegration (MINARS)
Carlos Jacinto da Gama, Provincial Delegate, Ministry of Labour (MAPESS)

Others
Filomena Andrade, consultant, AUSTRAL (tel. 396841)
Kixikila group, Kiamba Kiaxo Municipality
Monthly Microfinance Forum