


# Effective Aid for Small Farmers in Sub-Saharan Africa: Southern Civil Society Perspectives



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## MOZAMBIQUE CASE STUDY



## **FOREWORD**

This study of food security and agriculture development in Mozambique and two accompanying studies for Ghana and Ethiopia were commissioned by the Canadian Food Security Policy Group in the second half of 2006 as a way of giving voice to civil society organizations concerned with agricultural development in these CIDA-priority countries. The civil society organizations consulted were intended to be representational but, obviously, not comprehensive.

The views expressed in this report are those of the author and/or those civil society organizations consulted and may or may not reflect the specific views of all of the members of the Canadian Food Security Policy Group or the views of the Mozambique Ministry of Agriculture.



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## ACRONYMS

ASCA	Accumulative Savings and Credit Association
BOM	Bank of Mozambique
CCCP	Caixas Comunitárias de Crédito e Poupança
CCM	Conselho Cristão de Moçambique
CPC	Cooperativa de Poupança e Crédito
CTA	Confederation of Trade Associations
CMN	Caixa das Mulheres de Nampula
DE	Direcção de Economia
ESAN	Estratégia de Segurança Alimentar e Nutricional
FCC	Fundo de Credito Comunitário
GDP	Gross Domestic Production
GOM	Government of Mozambique
ICC	International Capital Corporation
IDPPE	Instituto Nacional de Desenvolvimento da Pesca de Pequena Escala
MEDA	Mennonite Economic Development Association
MFI	Microfinance Institution
MINAG	Ministry of Agriculture
NGO	Non-Governmental Organization
PARPA	Plano de Acção Para a Redução da Pobreza Absoluta
PROAGRI	Programa Nacional de Desenvolvimento Agrário
UE	European Union
UNAC	União Nacional de Camponeses
USAID	United States Agency for International Development



## I. BACKGROUND

Geographically, Mozambique is located in Southern Africa with area of 799,390 kilometres. The country shares a border to the north with Tanzania, to the north-west with Malawi and Zambia, to the west with Zimbabwe and South Africa, to the south with Swaziland and South Africa and to the east with Indian Ocean. The coastal area runs 2,515 Kilometers from north to south. The country's population is currently 18,082,523 million people, and the annual population growth rate is 2.6%. The country is administratively divided in 10 provinces and 139 districts, and the official language is Portuguese.

According to World Bank statistics, Mozambique is one of the world's poorest countries. The 16 years of civil war lived in the country halted the process of economic restructuring and growth after the country became independent in 1975, creating vulnerability mostly among the rural population, which had to abandon fields, houses, animals, goods, etc., moving to safe places and living as refugees.

However, peace was re-established in 1992 through a peace agreement signed in Rome. From that period, the government started to design macroeconomic reforms aiming to develop and stabilise the country's economy to respond to the needs of the population across the country, particularly in the rural areas where the majority of people live. One of the major government priorities at that period was to help refugees to return to their communities to rebuild their lives. The political stability led to a good ambience and confidence within which the first democratic government was elected in 1994. The multi-party elections took place peacefully, and the International community considered Mozambique as a good example of emergent democracies in Africa. This scenario encouraged increase of both domestic and foreign investments in different sectors of the economy - mainly agriculture, which was considered the basis for national development.

Gradually the national economy started to improve; two of the macroeconomic indicators are the inflation rate, which was reduced to a single digit, and foreign exchange rates which were also stabilized. In FY 2002, the real growth rate of GDP was 9.2%, and the GDP composition by sector was as follows: agriculture (33%), industry (25%) and services (42%). The GDP per capita purchasing power parity was \$900 and inflation rate was 10%. The principal agricultural crops are: cotton, sugarcane, tobacco, tea, cassava, corn, beans, rice, sorghum, groundnuts, coconuts, sisal, citrus, tropical fruits and potatoes.

To reinforce these economic gains, the government decided to introduce, under the fiscal reform context, the value-added tax and reform of the customs service that increase the government ability to collect revenues. Although the national economy shows signs of growth, Mozambique remains dependent upon foreign assistance for

much of its annual budget, and the majority of the population (54%) remains below the poverty line. Subsistence agriculture continues to employ the vast majority of the country's labour force, constituting the main livelihood source.

In Mozambique, the prevalence rate of HIV-AIDS in adults is 12.6% and the country is placed in 11<sup>th</sup> position among 25 African's countries ranked. In terms of education the number of literate people is still low. 80% of the country population is living in rural areas where the illiteracy rate is 71 %.

The government of Mozambique (GOM) has embarked on a country-wide vigorous Poverty Alleviation Program that is aimed as addressing the needs of Mozambicans in both rural and urban settings. The national poverty assessment, recent analytical work and interim Poverty Reduction Strategy Paper (PRSP) highlight important policy implications for the poverty reduction strategy, based on an analysis of determinants of poverty. These include the need to:

- Accelerate economic growth, particularly in rural areas.
- Improve educational levels, particularly in rural areas.
- Improve the productivity of smallholder agriculture, through simple technology and input improvements.
- Generate off-farm employment opportunities
- Increase the market integration of small-scale farmers, mainly through increasing infrastructure.

To comply with its responsibility for poverty reduction, the GOM established synergies with different stakeholders, including international organizations, to implement or fund needed programs and projects under the policies in place such the Action Plan for the Reduction of Absolute Poverty (Portuguese acronym PARPA).

The Canadian International Development Agency (CIDA) has developed a new programming framework to renew Canada's commitment to assist the Government of Mozambique in its approach to poverty reduction. Four key areas were identified:

- Education
- Agriculture and rural development
- HIV/AIDS
- Governance

Gender equality, HIV/AIDS prevention, capacity development, and environmental protection are integrated into all initiatives because of the impact these subjects have on the success of a development program.

Identified as one of six priority areas in the PRSP (PARPA), agriculture and rural development is of critical importance to the Government and people of Mozambique and is fundamental to the country's long-term economic growth and sustainable development.

Poverty is deeply rooted in Mozambique's rural regions, where 70% of the population lives. Rural incomes are considerably lower than Mozambique's average per capita annual income (US \$210) which is already among the lowest in the world. One third of the rural population experiences chronic difficulty meeting their basic food needs. Rural areas are highly vulnerable to alternating floods and droughts, which regularly threaten livelihoods.

## 2. OBJECTIVES AND METHODOLOGY OF THE STUDY

Although the importance of agriculture in Mozambique is known, CIDA's funding to the sector still low (CDN 10 million in CIDA's total Mozambique budget of CDN 42.3 million in 2006/7) compared to the other areas included in the cooperation program, such as education. This is why the Canadian Food Security Policy Group is undertaking a research project to examine the specific requirements of aid activities to benefit small farmer agriculture in Mozambique. This work is being undertaken as part of the ongoing advocacy by the Group toward increasing the quantity and quality of Canadian development assistance to small farmers in Sub-Saharan Africa.

To achieve the objectives of this research, face-to-face interviews were conducted with relevant persons within government, non-government organizations, and civil society. The sampling design was based in four categories of stakeholders as indicated below:

- Government (Policy maker)
- Donors (Funding provider)
- NGOs (Programs/Projects implementers)
- Farmer Associations (Beneficiaries)

**Table I. List of Organization and person contacted**

<b>Acronym</b>	<b>Name of Institution</b>	<b>Name of Individual</b>	<b>Position</b>
UNAC	Uniao Nacional de Camponeses ( <i>National Peasants Union</i> )	Diamantino	
ORAM	NGO working on land issues advocacy	Lorena Manganhe	Programs Official

Aga Khan	Aga Khan	Abdul Manafi	Agricultural Program Facilitator
Kulima	Kulima	Enga. Lurdes	
MINAG/EU	Ministry of Agriculture/European Union	Jean Risopoulos	Assistant
USAID	United States of Agency for International Development	Elsa Mapilele	Rural Enterprise Advisor
EU	European Union	Alber Losseau	Food Security NGO Project Officer
CCM	Conselho Cristão de Moçambique (Christian Council of Mozambique)	Jorge Samuel	Programs Director
CTA/Hortofruticola	Confederation of Economic Associations	Adelino Buque	Member of Agriculture and Trade Commission
VW	World Vision	Francisco Matuca	Agricultural Programs Technician
CARE	Care Mozambique	Michelle Carter	ACD Programs
MINAG/DE	Ministry of Agriculture	Jaqueline Massingue	Agricultural Policy Analyst
MINAG/DE/DP	Ministry of Agriculture	Luis Osvaldo	Department of Planning (PROAGRI) Technician

### **3. SUMMARY OF THE CSO PERSPECTIVES ON SMALL FARMERS' DEVELOPMENT AND FOOD SECURITY IMPROVEMENT PRIORITIES IN MOZAMBIQUE**

In general, many organizations interviewed prefer to target small-scale farmers, as Mozambique is a very poor country and most of its population lives in rural areas, with agriculture as the most important livelihood source. Thus, it is consensual that increasing crop production and productivity, and improvements in marketing systems can lead to poverty reduction and guarantee rural families well-being.

On the other hand, some organizations opt to work in specific issues affecting small-scale farmers' lives, such as land tenure as the main factor for agrarian production, and food security guarantee. Other areas of intervention of the contacted organizations are:

- Food security in general
- Post-harvest and processing
- Nutrition
- Formation and development of associations
- Legalization of land tenure
- Information and capacity building on land and forestry laws and regulations
- Constructions of infrastructures (small dams) and improve access (roads)
- Promoting improved crop varieties, seeds
- Promoting participation of small-scale farmers in big debates regarding national issues such PARPA
- Increasing access of small scale-farmers to marketing
- Increasing awareness of HIV/AIDS and Gender issues
- Micro-credit, savings rural finance
- Natural disasters prevention
- Reforestation and Environment, and natural resources management

Generally, the sustainability of activities of organizations working with small-scale farmers is still a problem. Some organizations develop and include exit strategies in their plans while others do not. The fact is that in many cases the communities are not able to continue with activities after the end of projects.

Although the governments upholds the agriculture sector as the base for development, some organizations indicate that what has been done so far to benefit this sector, and particularly the small-scale farmers, is not yet enough.

The most representative farmers' organization (UNAC) lists as major small-scale problems, and as part of their proposal for PARPA review, the following:

- Lack of general and specific infrastructure to reinforce agrarian production, namely access (roads), communication networks, warehouses, and irrigation-schemes, particularly for dry areas with low rainfall.
- Lack of efficient services to facilitate improvements in agrarian production, namely the inopportune and irregular distribution of inputs and tools, as well as the relevant prices which are relatively high considering the weak economic situation of small scale-farmers.
- Inefficiency in legislation application, particularly the land, forestry and wildlife laws, and processes of community consultancy, which often turn out be deficient

and rather hollow; even resulting in some cases in barriers to small-scale farmers' access to and use of the land. As movement, UNAC terms this process of "privatization" of land and other natural resources a major problem.

- Lack of agrarian credit and rural financial institutions (banks) oriented toward rural development; these are relevant considering the current development scenario.
- Continued exclusion of small-scale farmers from the process of policy formulation and monitoring strategies for national legislation.
- Depreciated prices of agrarian produce do not compensate the effort of small-scale farmers. This constraint has been aggravated further by the high quantity of imported and subsidized products which form a market barrier for national produce.
- Taking into account these structural problems, small-scale farmers believe that assurance against absolute poverty is a very indispensable and urgent issue, considering that 70% of the total population lives in rural areas in precarious conditions of life. **Thus, they suggest both government and partners do the following:**
  - Create room for regular participation of small-scale farmers in policy decisions and relevant controls.
  - Establish policies and legislation that stop any effort to privatize land and other natural resources.
  - Increase investments for construction, maintenance and rehabilitation of transportation and communication infrastructure in rural areas.
  - Establish and implement permanent programs against the spread of HIV/AIDS, at all levels and without discrimination.
  - Urgently establish agrarian credit and other funding alternatives for small scale-farmers, including access modalities, interest, timelines, and production insurance.
  - Increase investments in the research and transfer of agrarian technology relevant to the reality of small-scale farmer.

Organizations such as Mozambican Christian Council give priority to food security as a way to increase production and satisfy family food needs. Environmental programs are

one of their priorities, to guarantee that communities use natural resources such as water, land and forests in a sustainable way. The organization receives funding from the EU, embassies and the government of Mozambique. The institution's perception is that the government, recently, is recognizing the importance of the base (district level) and has identified the problems at that level in order to contribute in improvement of agrarian activities. The major problem identified by this organization is the delay in the release of funds by partners. The other issue identified is the low level of education of target population (small-scale farmers). For the long term, the organization aims to increase the number of small-scale farmers benefiting from their food security projects and expand to other areas across country.

The approach of World Vision Mozambique includes: Agriculture and Livestock, Post-harvest and Processing, Nutrition, Marketing, and Natural Resources Management and Infrastructure. The organization prioritizes these areas because the World Vision agriculture department's strategy focuses on sustained community livelihoods and well-being through a holistic approach.

The short-term perspective is to improve systems of agriculture production, namely: crop diversification, improved agriculture practices including introduction of high yielding varieties, irrigation, post-harvest techniques, food utilization, livestock, marketing-oriented production and access to markets, water and sanitation infrastructure, literacy, natural resources management and community empowerment. Gender and HIV are cross cutting issues.

For the mid- and long-term, to further consolidate those issues outlined above, the regularization of Community-Based Organizations will also be a main target, in order to allow small-scale farmers to access credit and other important services, and to provide a larger entity for competitive market access.

The organization assumes that implementer or programs facilitator roles are variously applicable depending on the stage of community development in the target areas. For instance, the institution thinks that for those areas where gaps prevail in knowledge and skills such as agrarian activities, processing, nutrition, etc. the organization can continue contributing as an implementer, building capacity of small-scale farmers. Activities related to marketing, or vaccination campaigns against Newcastle, the Institution can play a role as a facilitator linking traders and producers and strengthening those relationships. However, this is a process by which the institutions aim in the mid- to long-term to see communities empowered and with abilities to manage their own resources in a sustained manner.

World Vision Mozambique's expenditure share for the FY 2006 in USD was: Agriculture: 4.7 million (31%), Health: 4.6 millions (30%), Roads: 2.2 millions (15%), Emergency: 1.5 millions (6.6%), HIV-AIDS: 667,443 (4%). According to this organization,

obtaining funds is very difficult since the competition among implementers is high. On the government side the bureaucratic process for the outsourcing funding is also a big constraint.

The main challenge within this organization's programs are: lack of market opportunities, market information and credit services for agriculture; deficient input network, infrastructures (roads, dams and bridges), communications; non-irrigated agriculture and the high level of illiteracy.

In relation to Government performance in targeting small-scale farmers, the opinion of the World Vision Mozambique is that the government, through PROAGRI, has been creating good opportunities to develop small-scale farmers where NGOs and private sector have space to implement projects from which rural communities can benefit. For instance the government has, through the Outsourcing approach, turned from an implementer to a monitoring position. This is based on the assumption that NGOs are in better position to deal directly with the community as they are well established at the grassroots level, for instance, in terms of the number of Extension agents. SETSAN - a multi-sector body for food security - enables the interaction of different government institutions and civil society in terms of strategies to improve food security especially in rural areas.

One of the main concerns of the private sector, according to the CTA and Hortofrutícolas, is the difficulty small-scale farmers face in accessing funds. When they produce they face competition with smuggled or subsidized products coming from other countries. From their point of view the process of market liberalization has to be done carefully without de-structuring the market. In general the main concerns are:

- Access to land remains poor and it may not be usable as collateral.
- Limited agricultural marketing is the main hindrance to rural development.
- Private sector participation in the process of policy formulation is weak.
- Financing for the farm sector is scarce and conditions of access are difficult.

#### **4. GOVERNMENT PRIORITIES FOR FOOD SECURITY AND POVERTY ALLEVIATION**

The government plan for poverty plan for poverty alleviation for 2006-2009 (PARPA II) seeks to reduce poverty incidence from 54% in 2003 to 45% in 2009. This document follows PARPA I (which was the first phase from 2001 until 2005), but maintains common priorities in the areas of development of human capital, education, health, good governance, basic infrastructure, and of agriculture for rural development, and financial and micro-economic improvement.

The current PARPA differs from the previous in that its priorities include a broad integration of the national economy and an increase in production through increased productivity. In particular, it focuses on development at the grassroots level (district level); creation of a favorable environment for national productive sector growth; improvement in financial systems; boosting small enterprises to fit into the formal sector; and the development of both revenue collection and budget allocation systems.

This plan establishes the link between specific priorities and the budget allocation for the period covered.

Despite the PARPA II forecast of a real increase in domestic incomes, the Government of Mozambique (GOM), foresees continued receipt of contributions from the partners (donors) to finance around 49% of the government budget in this period.

Given the extent of poverty in Mozambique, its reduction is a very big challenge not only for the government but for civil society with its all diverse elements and cooperation partners as well. Thus, there is an urgent need for a clear division of responsibilities for each stakeholder so that coordination and alignment become more efficient. However, the coordination of activities is the responsibility of the GOM.

The PARPA focuses on seeking solutions for the people living under the poverty line, which are the major target of the current five-year government plan.

For the long term, the consensual objective of Mozambican society is to improve the quality of life and well-being of citizens. In addition, other long-term objectives include the following:

- Economic and social development in an balanced way
- Poverty reduction
- Consolidation of peace, national unity and democracy
- Generalized application of justice
- Improvement in health and education systems
- Labour practices and incentives
- Guarantee of individual freedom and social harmony
- Imposition of law application against criminal actions
- Guarantee of sovereignty and international cooperation

The GOM took into consideration these objectives when designing its five-year plan for the period 2005-2009 and in the subsequent elaboration of PARPA.

As poverty is a multidimensional phenomenon, there is no a single indicator capable of capturing all its sides. Thus, to measure the evolution of poverty, it is necessary to use various indicators that capture the main views about poverty through multiple

approaches. The definition of priorities for poverty reduction varies according to age, gender, economic situation and the power position of informants. In descending order of importance, the priorities of the poor are: transport, roads, prices and commercialization, access to land and water, and installation of motor millers. These are, in fact, activities that make their agrarian production more profitable, that improve their terms of exchange and possibilities for accessing and participating in markets, and that reduce the need for labour, always the limiting factor.

#### **4.1 AGRARIAN POLICY AND IMPLEMENTATION STRATEGY**

The agrarian policy elaborated in 1995 covers agrarian activity within the major economic development objectives of the country, aiming to achieve:

- Food security
- Sustainable economic development
- A reduction in the unemployment rate
- A reduction in the poverty level

The agrarian policy fits in with government programming that has as its main objective the recovery of agrarian production, that contributes to self-sufficiency and food stocks and promotes an increased level of produce commercialization for export. Thus, the general objective for agrarian development is defined as the transformation from subsistence agriculture to more integrated agriculture in terms of functioning, production, distribution, and processing, towards the:

- development of a subsistence agricultural sector that supplies markets; and the
- development of an efficient and participatory entrepreneurial sector within agrarian development.

One of the operational tools of the agrarian policy is the National Program for Agrarian Development (PROAGRI) that defines as one of its intervention areas the development of small-scale farmers. From the horizontal intervention perspective, the specific objective is to help small-scale farmers through capacity building to enable them to develop their activities related to agriculture and natural resources management in a sustainable manner, just as to improve their livelihoods. To date six strategic actions exist, as already identified, namely:

- Financial services
- Roads
- Inputs and produce markets and agrarian services
- Access to technologies and agriculture coaching
- Farmer organizations
- Favorable environment for an increase in small farmers' agrarian business.

The first phase of PROAGRI (1999-2004) concentrated on institutional capacity building, and the second phase (2005-2009) will concentrate on small-scale farmer production assistance. Also, areas such productivity, storage, processing and commercialization will be financed.

PROAGRI, as the government's main program for intervention in the agricultural sector, has some mechanisms to target small-scale farmers, through offering services like rural extension (introduction of new and/or better agricultural technologies); support of agricultural research that produces new technologies for farmers; supply of vaccinations to chickens and livestock; support of agricultural market information systems for farmers via bulletin, radio and newspapers; support for the rehabilitation and building of small rural and agricultural infrastructure (dams, irrigation system, pumps); promotion and capacity building for small scale farmers; promotion and support for agro-processing in order to absorb and add value to local production; creation and review of legislation to promote agriculture and protect small-scale interests (land law, biotechnology, intensification, etc.). Currently, there are 86 Districts assisted by rural extension from a total of 128 in the country.

The Government of Mozambique created the Program in order to join efforts in agriculture and focus on a common strategy. Many projects have ended and now they are financed through the same account through which the GOM support the National Agricultural Program (PROAGRI). Only donors of PROAGRI can join the PROAGRI working group in order to influence Agricultural Government policies and interventions. There are regular meetings to review, monitor and evaluate the program. The group has just set up the annual indicators for each sector and province.

The first phase, PROAGRI I, concentrated on recruitment, capacity building and set-up mechanism for collaboration with the private sector and other stakeholders. The second phase, PROAGRI II, decentralized the finances to the provincial level (60% of total budget). This phase consider also some interventions in other vital areas like rural roads, small bridges and other infrastructure by outsourcing.

Further to making its policies operational, the Ministry of Agriculture (MINAG) elaborated in September 2006 the priorities for the next five years. This document aims to determine which will be the nuclear issues of the government policies and initiatives, without excluding the relevant factors of production.

In this regard the following criteria were used to prioritize activities and actions for agrarian development in Mozambique:

- I. Impact potential in poverty reduction (its contribution to food security and asset-creation)

2. Agro-ecological potential for a competitive increase of agrarian production (links with domestic, regional and international markets)
3. Potential to promote diversification of production base (reduction of food insecurity, agro-climatic, and market risks, and increased income sources for small-scale-farmers)
4. Potential for technology adoption (Based on opportunities created by investments in the country and region and considering the availability of resources)

However, the following criteria must be met in order to benefit from PROAGRI local development projects funds:

- Proposed by associations or community organizations
- Small and medium agrarian and Mozambican enterprises
- Individual producers
- Local development organizations
- Registered organization
- Good history of use of project funds
- Experience in implementation of agricultural development activities
- Appropriate financial management

Within this context, MINAG will concentrate simultaneously on the following two strategic lines of intervention:

- Intervention in the whole production and value chain (agriculture, cattle breeding, and forestry), for an increase in material results.
- Capacity building of its institutions to improve the performance in core and basic services toward corresponding target indicators.

Thus, the following products were defined as priorities:

1. Food security staples (maize, sorghum, rice, and cassava)
2. Cash crops (cashew, cotton, tobacco, sugar cane, soybean, sesame, sunflower and jatropha)
3. Livestock products for food security (chickens, goats, cattle) at familiar level
4. Cash livestock products (goats, cattle and commercial birds)
5. Forestry products for food security (firewood, charcoal, honey, fruits)
6. Cash forestry products (apicultural products, processed timber)

To reach the production goals in those defined areas based on the priorities, the document states that it will be necessary to strengthen diverse areas of production namely: agrarian services, animal sanitation, natural resources, human resources,

research, extension, promotion of commercial agriculture, cartography and financial services.

## **4.2 FOOD SECURITY AND NUTRITIONAL STRATEGY IN MOZAMBIQUE**

The food security and nutritional strategy (Portuguese acronym ESAN) was conceived in 1998, and is currently under review. A case study was conducted in 2005 to assess food security and nutritional and its contribution to national development. This study will provide elements for 1998 strategy review.

According to ESAN, the government of Mozambique defines as the central objective for social and economic development increasing satisfaction of basic needs of the country's population, in particular for vulnerable groups.

The government goal in relation to nutrition and food insecurity is to guarantee that all citizens have, at all times, physical and economic access to the food necessary to enable them to have an active and healthy life. According to ESAN, the following are necessary to reach that objective:

- a) Availability of adequate and diverse quality food
- b) People access food through own production, buying in markets, exchanges, sharing, etc)
- c) People should be able to utilize food in such a way that nutrient intake by each family member is appropriate to respond to needs.

The ESAN indicates that Mozambican population will increase by 35% from 1997 until 2010, resulting in the need for the food economy to grow rapidly just to match this increase of population and further to provide an balanced diet for all. The Mozambique challenge in guaranteeing adequate availability of food will be to maintain an increase in production and food availability to levels that can respond to the demand. In relation to food access there is a dual challenge: First, continuity of current growth and a rapid improvement in the efficiency of the food economy – particularly the marketing and distribution systems – should be guaranteed. Second, improvements are necessary in the management of public services for assistance to people suffering from transitory (acute) and structural (chronic) food insecurity. Improvements in food access through these measures will directly contribute to a decrease in malnourishment levels. This also involves a better preparation and response capability for natural disasters associated with an improved assistance to households that suffer from structural(chronic) food insecurity.

Improvements in food utilization constitute one of the main dimensions of the Mozambique challenge within the food security context. According to ESAN, the specific

areas to focus on include changes in habits and attitudes relating to food conservation, food processing and intra-household distribution, and women's responsibilities in terms of time allocation, among others. At the individual level, measures include primary health care to improve treatments of infections such as diarrhea, malaria, and other diseases that reduce the ability of people to consume available food, and the treatment of micronutrient (eg. iron, iodine, vitamin A) deficiency. At the community level the emphasis is on the quality of the environment, the availability, cost and quality of potable water, services, electricity, and basic sanitation.

The strategy requires the implementation of political measures to ensure increased and stable family resources through a combination of improvements in diversified production and livelihoods, the increase and diversification of income generation through agricultural and non-agricultural activities, improvements in knowledge of production and food conservation technologies and associated measures to make markets more efficient.

To promote an increase in food availability and diversification, the following actions are needed to encourage increased production and yields in the family farm sector, to create viability for the private sector, and to ensure an adequate external policy:

- i. Guarantee secure land tenure so that small-scale farmers and private farmers are confident to do necessary investments to improve and diversify production in a sustainable manner;
- ii. An effective and sustainable input network supply which can also absorb the production surpluses.
- iii. Ensure technology transfers to facilitate increasing production and productivity and reduce post-harvest losses; this involves:
  - a. An agrarian research system mainly oriented to address small-scale farmers' problems and medium-size private producers; specific programs for food security improvement giving priority to the promotion of drought- and pest-resistant crops, new sustainable technologies, particularly for soil fertility in zones where land quality is a limiting factor; in addition, low-cost production technologies should be investigated to reduce women's workload.
  - b. An agrarian extension system oriented to address the problems of small-scale producers and medium-size private enterprises, focusing on specific technologies for food security improvement. Particular attention should be given to an increase in women extension technicians for a good gender balance. This will improve the ambience of production in which women play an important role in being responsible for producing the majority of food.

- c. Rehabilitating infrastructure for livestock to improve the conditions for an increase in national animal production through effective recovery and productivity increase.
  - d. Developing small-scale fishing including marketing systems and management at the community level to improve on fish supply and food security across the country.
  - e. Improve the education level of communities to improve opportunities and enable the adoption of new technologies. Particular emphasis should be given to female participation, especially girls in all education levels, and also to introducing in the basic education curriculum useful and basic notions of production, conservation, and adequate food preparation.
- iv. A rural financial system that is capable of supporting production and marketing activities of small-scale and medium farmers, specifically taking into consideration the needs of rural woman.
  - v. Permit importing with acceptable prices of basic products that the country is not capable of producing in quantity to respond the internal demand.
  - vi. Facilitate the exportation of agriculture products in which the country has comparative advantage and which placing on the national market is inefficient.

Interventions to improve the access of families to food are:

- i. Expanding the program of road and bridges rehabilitation and construction in rural areas. It is assumed that trading is basic for economic growth, which means that without a good communication network this sector cannot develop. The consequence is that communities become isolated and as result of high transportation costs cannot participate in the trading of inputs and agricultural produce. Thus, they cannot also access basic industry commodities that are important to promote the economic growth.
- ii. Establishment of a functional market information system, to ensure markets work efficiently and to encourage producers and traders to sell inter-seasonal stock, which has not been done by traders due to the structure of capital markets.
- iii. A legal regime to encourage new traders' entry in marketing systems to create competition.

- iv. Promotion of an improved capital market allowing ease of access of small-scale and medium traders to capital, in order to increase the number of traders, thus increasing competition and reducing the margins in which trading operates.
- v. Increasing capacity and extending the judicial system resolve conflicts and enforce contracts.

In relation to food utilization the ESAN focuses on the following priorities:

- i. Evaluation and analysis of the nutritional situation
- ii. Prevention and control of infectious diseases
- iii. Protection of consumers through improvements in quality and hygiene of food and water, including updates of pertinent legislation.
- iv. Prevention and control of malnutrition and specific nutritional micronutrient deficiencies.
- v. Continued improvements and extension of the sanitation network to ensure preventive health care.
- vi. Development of nutritional education and improvement of infant and family healthy feeding habits.
- vii. Improved access to potable water and energy resources in rural areas.

#### **4.3 SHORT-TERM STRATEGIES TO IMPROVE FOOD SECURITY FOCUSED ON PRIORITY INTERVENTIONS TO ADDRESS TRANSITORY SITUATIONS**

According to ESAN, the government recognizes that there will always be people who will be unable to ensure their food security by their own means or through informal social care services. These include transitory situations, as result of epidemics, natural disasters, temporary unemployment or of chronic/structural nature originating from economic structural problems or from family, such as generalized unemployment, and prolonged diseases, etc.

Thus, the interventions to address short-term food insecure problems include:

- i. Capacity of social assistance services, including continued assessment of effectiveness in reaching the target population.
- ii. A functional system for natural disaster management including early-warning systems.
- iii. Funds available for importing maize and other basic commodities importing by private sector during an emergency, or when the prices of basic commodities suddenly exceed importing prices.

- iv. An appropriated food stock for distribution in case of occurrence of sudden and unforeseen natural disasters such as flooding, earthquake, cyclones, etc, needing a rapid response.
- v. Development and adoption of a package of regulations for all importers and food aid promoters, including government, donors, and NGO's, with the objective of maximizing the effective use of food aid as a tool to reduce levels of food insecurity, minimizing its impact in the domestic food markets. These regulations should privilege non-gratuitous food distribution methodologies.
- vi. Investigation and promotion of community mechanisms for self-management of natural disasters and social protection.

#### **4.4 MICROFINANCE DEVELOPMENT AND PARTICIPATION OF SMALL SCALE FARMERS**

One of the critical priorities for small-scale farmers, identified by them and civil society in general is the lack of micro-credit programs which could support small agricultural initiatives. The agricultural development bank is still under debate. A detailed analysis of this program is given in Annex A.

### **5. DONORS' PERSPECTIVES (USAID AND UE)**

To bring up the Donors point of view we will have a look at USAID and EU interventions targeting small-scale farmers and smallholder poverty.

#### **5.1 USAID**

The general goal of the organization in Mozambique, according to the Strategic Plan FY 2004-2010, is **rapid economic growth sustained through expanded capacities and opportunities**. The interventions must respond to the 5 strategic objectives that follow:

1. Rapid rural income growth sustained in target areas
2. Labour-intensive exports increased
3. Increased use of child survival and reproductive health services in target areas
4. Reduced HIV transmission and mitigation of the impact of the AIDS epidemic
5. Municipal governance increasingly democratic

Under the first strategic objective, which targets rural income growth, the organization looks at increased smallholders sales of agricultural products. The main concerns on this matter are the transition to market-oriented sustainable production facilities, provision of public and private sector support services and the management of environmental risks. The organization funds programs and projects that work to improve production and productivity, create facilities on inputs supply, research and

improved access to technology, applied research (e.g. horticulture) and disaster mitigation. The nutrition side is well covered by programs that improve the diet of children under 5 years and pregnant women. Other programs are related to economically viable technologies adapted at zonal research centers and adoption rates of new technologies by smallholders.

The first strategy objective has a second component related to rural enterprise expansion, which promotes the development of farmer associations, commercialization, processing and includes rural finance. This assesses how well associations and rural enterprises are utilizing finances. It is also part of this objective to strengthen the capacity of associations and business enterprises to respond to market conditions and assess how well farmers' associations respond to market conditions during the year.

The organization is not directly involved in the projects and programs, but works with partners including public sector, NGOs (6) and private sector. Recently, USAID has ended its financing to agriculture via PROAGRI.

According to the objectives, the organization designs projects that are subject to public competition by NGOs to be funded and executed under the supervision of the organization. Up to now there have not been problems with funded programs, but at times it becomes very difficult to supervise so many programs and projects, and to find indicators and results on the ground. However, if any funded organization does not comply with the previously established terms, then is not eligible to continue.

To select areas, the organization prioritizes development corridors and divides the areas by economic zones.

In relation to the relationship with the Government, the organization believes that many policies are changing to facilitate rural development. The new law which facilitates the registration of farmer associations is an example. The Government has also recently (September 2006) put in place priorities for the agriculture sector and indicators which will help stakeholders to focus their programs.

## **5.2 EU**

The EU is in the process of shifting all programs and projects related to assisting small-scale farmers to one account, which is PROAGRI. Programs with CARE and World Vision have been finalized in this way. This is a different approach from other donors, and it was contained in the initial objectives at the creation of PROAGRI. Following this strategy, the EU has been channeling funds to the Agricultural Provincial Directorates which have autonomy to address the main local farmers' concerns. The strategy will continue pending evaluation, and if it proves unsatisfactory, other alternatives would be

considered to finance agriculture. However, the organization is still financing large programs such as SETSAN and FAO's work on food security.

The institution also works on disaster mitigation and warning, credit for commercialization through Government institutions, and farmers' organization capacity building.

The main problems that arise from working with Government are the lack of reporting and unclear management caused by joining many programs together, which makes monitoring difficult. Another problem is that what is executed is not linked to the previous plan. For this reason monitoring and evaluation was conducted with PROAGRI to eliminate the problems.

## **6. CIDA-SUPPORTED AGRICULTURAL DEVELOPMENT ACTIVITIES**

The wider policy of CIDA's Mozambique program is the Paris Declaration on "aid effectiveness", with its emphasis on national development priorities and "ownership" (largely reflected in the PRSP process), donor harmonization, Sector Wide Approaches (SWAPS), and a move toward budgetary support.

CIDA's programs supports four of the PRSP priorities: education (50% of CIDA's budget), agriculture and rural development, governance, and HIV/AIDS.

Although Mozambique has been an important program in CIDA with a five-year bilateral planning figure of approximately \$55 million (often surpassed in recent years as a result of debt relief provided under the HIPIC program and additional funding provided under land mine action and the climate change fund), Canada has, during the past ten years, been a relatively small donor in the Mozambique context. The bilateral program has consisted of project assistance in a wide range of sectors (a formal *ex-post* evaluation of past programming was not undertaken because of the lack of strategic orientation and the dispersed nature of activities). More recently, CIDA has focused resources on education which has resulted in a strategic presence in this sector.

The sector of concentration proposed for CIDA bilateral programming over the next five years are: education, agriculture/rural development, HIV/AIDS and governance. These sectors were chosen based on CIDA policy and priorities, Mozambique priorities (the proposed sectors of focus represent the highest priorities outlined in the PARPA), the historical niche of CIDA in Mozambique and the activities of other donors. In July 2003 allocation for the program were approved as well as the specific allocations for the sectors of concentration as outlined below:

**Table 2. 2003/04 to 2006/07 budget (in million \$ CDN)**

<b>Sector</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
Education	20.0	22.6	22.6	22.6
<b>Agriculture/Rural Development</b>	<b>5.4</b>	<b>7.8</b>	<b>10.0</b>	<b>10.0</b>
HIV/AIDS	2.3	5.6	7.4	7.4
Governance (incl. Gender)	1.3	2.3	2.3	2.3
<b>Total</b>	<b>29.0</b>	<b>38.3</b>	<b>42.3</b>	<b>42.3</b>

## **6.1 AGRICULTURE AND RURAL DEVELOPMENT**

The objective of Canadian support to agriculture and rural development is consistent with the PARPA and with CIDA's policies: to help the Government and people of Mozambique to create a favorable environment for sustainable and equitable growth in agricultural productivity and investment while reducing the vulnerability of the rural poor, improving their access to basic infrastructure, and insuring their progressive empowerment and gender equality. Therefore, according to the policy, the main beneficiaries of Canadian support will be small-scale family farmers.

CIDA has two approaches to support agricultural development activities. The Agency supports the National Agricultural Program (PROAGRI) with about USD\$ 20 million, but there are also three NGO projects that are supported in agriculture: CIDA contributes financially and MINAG manage the funds. CIDA is also participating in the monitoring of the program within the groups and subgroups created by PROAGRI. There is also the steering committee within CIDA to debate annually the implementation, reports and field visits for monitoring.

The purpose of having two approaches is to evaluate which strategy is best to target small-scale farmers and implement that strategy in the future, including making suggestions for Government programs.

The three NGO projects are run by Aga Khan (Cabo Delgado), Oxfam Canada, and Care Canada (Inhambane). Their interventions include the coastal rural support project, input trade fairs, sustainable livelihoods and agriculture project, PROAGRI common fund and sustainable and effective economic development. The aims of these projects are to create local capacity to increase production and productivity, stimulate commercialization and economic activities. At the regional level, CIDA works with other organizations like UCN to create sustainability on agricultural activities in Zimbabwe and Zâmbia.

The Aga Khan program works with farmers delivering agricultural extension services, inputs, credit, and techniques to mitigate human-wildlife conflicts. The organization also promotes cash crops (sesame and soybeans), livestock and farmers associations. These programs are very important to increase the production and incomes of small scale farmers, but the sustainability is threatened. They still lack market-oriented input supply and there are not strong linkages between product markets, which could boost the production and productivity.

The FAO project on trade fairs has the objective of strengthening the food security status of vulnerable, agriculture-based households in drought affected areas, improving immediate food security by increasing smallholders' agricultural production capacity in the districts. As can be seen it is a short term project that could benefit farmers by providing training on input use. Moreover, while a 'fair' means a place and date where and when the stakeholders can meet to show, purchase and change their goods, but what happens in many fairs is a free distribution of inputs. So, perhaps either the name should be changed or the activity should involve more inputs trade among farmers even from neighboring villages.

The goal of the sustainable and effective economic development project is to increase access to and control over a diversified portfolio of farm and non-farm income-generating activities, with the following objectives: 1) to strengthen and increase female and male farmers' links with civil society, government, and private sector partners who will contribute to commercial agriculture and non-farm enterprise opportunities; 2) to build male and female farmers' capacity to identify, develop, and manage new or existing agricultural activities with the greatest potential for commercialization; and 3) to build male and female farmers' capacity to identify, develop, and manage new or existing non-farm economic opportunities with the greatest income-generating potential. The merit of this program is to associate small scale farmers' non-farm and farm activities to increase total household income as interrelated local activities. Most often the constraints for this kind of program are the high level of illiteracy in local communities, which requires training, the challenge of following up activities after the program, and the lack of economies of scale as the farmers are dispersed, which weakens the organization and negotiations of farmers.

Another organization funded by CIDA is CARE International. One of the target groups for CARE is small-scale farmers, particularly for the seed program, diversification and rural income generation. Currently they are working with about 100.000 farmers. They are working as an implementer but would like to work more as facilitator. The share of small-scale farmers programs funds in the total budget is around 60%.

In general CARE is satisfied with the financing scheme, although they underlined some difficulties within outsourcing programs because of bureaucracy. The organization found

that Government policies to facilitate small scale farmer programs were good in general but had some problems with the tax's collection.

According to CARE Mozambique, CIDA has been a great donor in agriculture. The main problem with CIDA is that their processes are too bureaucratic and CARE is still waiting for approvals. The approaches are good and CIDA provides great support on diversification of incomes. CIDA is willing to take risks, especially given the challenges of working in northern Inhambane.

CARE is not heavily involved in PROAGRI. The organization has, however, heard a lot of criticism that there is not enough action with PROAGRI from those who do not see how it benefits farmers.

The financial scheme, according to CARE, should not all be through PROAGRI but also through some local projects.

## **6.2 HIV/AIDS AND GENDER**

The high HIV/ AIDS-prevalence rate is one of the biggest concerns in the Mozambican economy. The last estimates indicate that 16% of the population between 15-49 years old are sero-positive, meaning that 1.5 million of Mozambican people live with HIV/AIDS. Estimates by gender for 2005 indicates that 21.9% of young women 20-24 years old are infected compared to the correspondent rate of 2.8% among young men. This situation shows that HIV/AIDS incidence and its consequence affect mainly women not only by the level of infection but also because of their social responsibilities to care for other familiar members. Further to human implications, HIV/AIDS will negatively affect the country economy as following:

- Reduction in population growth and human capital accumulation
- Reduction in physical capital accumulation
- Reduction in labor force productivity

Estimates indicate that HIV/AIDS will reduce the economic per capita growth rate by 0.3% to 1.0% per year. The reduction in poverty rates will not be as rapid as desirable due to the less accelerated economy growth, reduction in human capital accumulation and increasing family dependence rates.

On other side, gender imbalance is a hindrance to economic growth in the country. Generally, households where women are discriminated tends to be much poor. Improvements in women's education increase the efficiency of production decisions, consumption and households' savings.

Poverty incidence analysis basing on the gender of the household head were conducted, as well as estimates of labor force distribution per gender; the analysis indicates that female headed household have the high poverty rate of 62.5% compared to 51.9% of male headed household. The poverty indicators show that the high poverty levels in female head households are correlated to the low levels of education, widowhood, high family dependence rates and low levels of household income.

The linkage between gender and poverty is one of the major concerns in the context of absolute poverty reduction; however, it raises questions such what is the best approach to reduce poverty among women. On the other hand, it is clear that a high level of education is of prime importance and will facilitate women's entry into non-agricultural sectors that generally have good remuneration. Nevertheless, for the coming years, most of women will continue to be under-qualified and linked to the agricultural sector. Therefore, it is necessary to identify mechanisms that can simultaneously help them to increase incomes and improve their quality of life. In this context and according to the government there are two fundamental initiatives necessary, namely:

- Develop and disseminate improved agriculture technologies, particularly for food crops that involve greatest participation of women.
- Provisions of goods and services that can alleviate women's responsibilities such as reducing distances from potable water sources, health services and rural electrification. This will enable women to allocate their time to other activities including agriculture.

## **7. CONCLUSIONS**

All stakeholders agree that to reduce poverty rural areas and the small-scale farmers must be targeted by programs and projects that can increase their standards of living. There is also recognition that synergies between stakeholders are necessary to avoid overlapping and to rationalize resource use.

Some stakeholders think that the interventions in agriculture sector should be more aggressive and focused on the base. This means that they will continue funding projects and programs that work directly with small-scale farmers to have visible and measurable results, instead of joining efforts of many stakeholders in same account and constitute a one body like PROAGRI, which is the vision of the Government. Some organizations follow both approaches.

Demand-driven and market-oriented approaches are highlighted by some programs, but on other side there are projects that are more concerned with short-term results and in which sustainability is not a concern.

There is a concern among the GOM and Donors that indicators and targets are needed for poverty reduction and rural development, but monitoring and evaluation poses the problem of the extent to which these reflect the real welfare of small-scale farmers.

USAID financed the first phase of PROAGRI and at the end they found that there was not much evidence that the economic increases and agricultural sector improvements were directly and only linked to PROAGRI; therefore they changed the strategy. USAID in PROAGRI I realized that was very difficult to measure the direct output of its funding through the shared account. So they preferred to support local programs and projects in which the direct impact on rural households and small-scale farmers could easily be seen and measured.

The EU is also concerned about these issues, but they preferred to work with PROAGRI in the implementation stage and evaluate at the end. The EU is aware that if the program does not bring satisfactory outcomes the organization will have to change the strategy again. Now the EU is working with the GOM in PROAGRI Working Group to improve the interventions and evaluation of the program.

## **7.1 SMALL-SCALE FARMERS' DEVELOPMENT PRIORITIES**

A list of small scale farmers' development priorities could be summarized as follows:

- General and specific infrastructure to strengthen agrarian production.
- Input distribution system which could deliver inputs on time and at competitive prices.
- Efficient application of laws (land, forestry, etc.).
- Development of commodity markets, mitigation of commodity price fluctuation, smuggling and unfair competition from subsidized products.
- Agrarian credit and rural finance institutions or other alternatives of funding for small-scale farmers.
- Establishment and implementation of permanent programs to scale-up the prevention of HIV/AIDS, which is reducing dramatically the rural labor force.
- Increase investments in the research and transfer of agrarian technology relevant to the reality of the small scale farmers.
- Agro-processing and sustainable exploitation of forestry resources.
- Storage is very important as it is known that there are post-harvest losses of about 30% in the country.
- Water management, which includes small scale irrigations systems and dams to retain water which is alternately affected by floods and droughts.

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## ANNEX I: MICROFINANCE ANALYSIS

### ***Client Growth (Outreach)***

The 2006 microfinance operator survey shows that over a period of eight years the microfinance sector has undergone considerable transformation. The most notable change has been in terms of microfinance beneficiaries. In 1998 it was estimated that there were approximately 9,000 loan beneficiaries of which about half received services from only two providers (World Relief's FCC program and the UGC's poultry input credit program). By 2000 the ICC study presents a total of 16,649 clients but this figure is considered to be underestimated. By adjusting for the correct number of clients for the listed operators, it is probably more realistic to say that there were about 23,000 active microfinance clients in 2000. (including PCR group members and savers with the CMN).

By 2005, the picture changed considerably, largely because of the rapid evolution in the importance of the number of savers in the total number of microfinance clients in microfinance equation. The introduction of savings products since 2001 and the success of the ASCA/PCR methodology led to a very rapid growth in savers (depositors), to the extent that the number of savers almost matched the number of borrowers.

High client turnover registered among the larger operators suggests that, in addition to the current clients, it is estimated that there have been at least an additional 100,000 clients who have had access to microfinance *loans* over the past decade. From this perspective one can argue that more than 200,000 Mozambicans have had access to microfinance services over the past decade.

The agricultural sector, specifically the small-scale farmers, continues not to benefit much from these loans. Data obtained from microfinance operator survey shows that, by September 2000, CRER had 3,237 clients, of which 1,913 belonged to savings stamp groups, 694 to PCR groups, 270 to solidarity groups and only 360 to farmers associations. It is estimated also that there were about 2,000 General Cooperatives Union (UGC) inputs credits clients in 2000.

Although no calculations were made of average loan sizes in previous studies, according to the same survey, an examination of average loan values and lending conditions, suggests that a much broader range of clients are now being catered for. In the earlier years loans provided by the larger operators and most of the small "component" programmes would rarely exceed \$200 with an average that probably hovered between \$100 - \$150. In 2005 the modal cohort of loans provided by *lending institutions* (i.e. all operators excluding those promoting PCRs), was \$200 - \$500, but the overall average probably exceeds \$400. Due to the deposit constraints (prevailing poverty), loans obtained from PCR groups average considerably less than \$50. Of the larger operators, the CCCP-CCOM project, with an average loan size of (\$108) is the only one that can

be said to reach a lower income group of beneficiaries (especially in Cabo Delgado where average loans are about \$60 - \$70).

### ***Number of Service Providers***

It is interesting to observe that the number of microfinance operators has hardly changed over the years. The 1997/98 surveys covered 42 institutions but seven of these were not considered to be microfinance providers (BPD/BAD, DED, CRS, GAPI, FARE, FFPI, GTZ ORF). In 2000, 29 institutions were surveyed and in 2005, 32 operators were located. Although the numbers remained virtually the same, a comparison of the operators covered by the surveys shows that there has been a rapid turnover. Of the 35 operators considered to be microfinance operators in 1997/1998, only 15 were still operational two years later in 2000 and only eight were operational in 2005. Of the 29 microfinance operators studied in 2000, just over half (15) still existed during the 2005 survey.

### ***Institutional Transition***

As indicated above, there has been a turnover rate of microfinance operators. Most of these have been small programmes launched by international NGOs, often components of an integrated programme and never were intended to have a prolonged life or pretense of sustainability. A fair number of national initiatives have gone a similar route.

Not only has there been a large turnover in operators but there has been a significant evolution of the types of operators providing microfinance. In 1997, only three years after the inception of the World Relief's village banking programme, about two-thirds of the operators were international NGOs or projects of international NGOs or donor agencies. Less than a quarter of the operators were national NGOs or associations. Over the next eight years international NGOs initiatives in microfinance decreased significantly, accounting for less than a quarter of the operators while national NGOs/associations (i.e. registered and only operating in Mozambique) increased their presence to 42%. Three other important developments also significantly altered the structure of the microfinance sector. With the growing commercialization of the sector, one can expect to see more financial institutions and banks as well as small private operators.

### ***Institutional Performance***

According to the study, one of the most encouraging indicators has been a substantial improvement in operator portfolio quality. The 1997 MEDA survey obtained information on loan recovery rates from 25 operators. Only 4 (16%) had recovery rates that approached levels considered acceptable from a best practice perspective (exceeding 90%). Almost half (12) had rates below 70% and 20% below 50%. Of the 21 operators providing information in 2005, more than half (57%) had portfolios at risk (PARs) of less than 5% (>30 days). There are, however, still a large number of operators (one-third) that have PARs in excess of 20%. Given the number of non-responses to this

questionnaire (34.4%), it can be assumed that many of those are also likely to have poor portfolio performances.

### ***Financial Products and Methodologies***

A minority of operators provides *only* loan products to individuals. In 1997 just under a quarter did so but by 2005 just over a third. The 2005 survey shows that there has been a significant decline in the proportionate number of operators lending to groups or to *both* individuals and groups. Although there appears to be a decline in operators working with solidarity groups or village banks, there has been a rapid growth of the number of PCR programmes with strong prospects for much greater expansion of this methodology. The largest operators (by portfolio) (NovoBanco, SOCREMO) are only providing individual loans. Tchuma has decided to target poorer clients allowing smaller amounts and has revived its solidarity group portfolio. The CCOM project offers mainly loans to solidarity groups via registered associations but is increasing the number of individual loans as the credit needs of their older clients continue to grow. BOM is using a mixture of individual, solidarity group and village banking methodology.

Although the number of operators offering credit *only* to individuals is still comparatively small, the value of loans provided to individuals by *all* operators overwhelmingly dominates credit provision in the country, with more than 90% of the active loan portfolio being channeled to individuals. The provision of individual loans allows for more rapid portfolio growth and usually a faster path to sustainability. Solidarity or group loans limit the individual growth capacity of beneficiaries, as they depend on the pay back capacity of the other members in the group. The group methodology is mainly used by MFIs for limiting operating costs (following up different loans at the same time) and therefore allows an MFI to provide smaller loan amounts in a sustainable manner. Solidarity group lending through associations has been successfully undertaken by CCCP-CCOM in both peri-urban and rural areas and mainly in irrigation schemes by GAPI (providing wholesale loans to associations). As demonstrated by the impact study, with the increasing saturation of the individual loan market in the Maputo-Matola urban axis, some operators such as Tchuma are targeting poorer clients organized in solidarity groups as they do not have sufficient asset guarantees needed for individual loans. The CCCP-CCOM experience has shown that the solidarity group methodology more effectively targets poorer households.

There has been a notable shift from a primary focus on micro enterprise loans to a combination of micro enterprise and agriculture loans. In 1997, only 18% of the operators provided both micro enterprise and agricultural loans while, in 2005, 44% did. **However, in the majority of cases, agricultural loans only accounted for a small fraction of the total loan portfolio.** Only CCCP-CCOM and the association Hluvuku-Male Yeru can be said to have provided agricultural loans in relatively large volumes. In 1997, more than two thirds of the operators (68%) gave loans to mainly micro enterprises. By 2005, this was reduced to less than half, partly explained by the

fact that microfinance loans proved inappropriate (or at least difficult to administer) for *productive* micro enterprise loans<sup>1</sup> and five operators, focusing exclusively on productive enterprises, ceased functioning. Another notable trend has been a shift away from in-kind credit. Only the UGC continues to provide this facility but the future of this form of credit is uncertain as plans are made to pass these clients to the UGC's more conventional microfinance operations under its new programme the CPC (not to be confused with the CPC associated with the BoM).

**Table 3. Types of Products Offered**

<b>Target Activity/Financial Product</b>	<b>1997 (number of operators offering product)</b>	<b>2005</b>
Mainly/exclusively microenterprises	18 (53%)	15 (47%)
Productive microenterprise only	5 (15%)	-
Mainly/exclusively agricultural production	5 (15%)	3 (9%)
<b>Both microenterprise and agriculture</b>	<b>6 (18%)</b>	<b>14 (44%)</b>
In-kind credit (seed/livestock)	5 (15%)	1 (3.1%)
Fishing Activities	-	4 (12.5%)
Small/medium enterprises	1 (3%)	3 (9%)
Housing	2 (5.9%)	2 (6%)
Salaried Workers- (employer guarantees)		2 (6%)
Credit Life Insurance <sup>2</sup>	-	1 (3.1%)
Deposit facilities (bank type)	1 (3%)	5 (16%)
Community based savings		5 (16%)

Source: 2005 microfinance survey (2006).

### ***Gender Issues in Microfinance Development***

The survey found an almost even distribution between women (52.6%) and men (47.4%) in terms of microfinance beneficiaries across the country. It is likely, however, that without a conscientious effort on the part of donors to promote female participation, the present situation could have been considerably different. The survey shows that

<sup>1</sup> Productive such as carpentry, welding and milling require some durable capital investment which take much longer than merchandise stock to realize a return. Also, the amounts needed are usually considerably higher than the small stocks needed by market vendors.

<sup>2</sup> This product is to be introduced by BOM in February 2006. It covers the full outstanding amount of the loan on the death of a client (0.024% of loan per month)

there are four programmes (CMN, Kukula, Project Hope and The Hunger Project) that exclusively target women, collectively accounting for 9,035 clients. Other programmes such as Ophavela (PCRs) operating in Nampula Province, were initially heavily dominated by male members but, following considerable promotion, there is now almost equal gender participation.

Despite such successes, gender disparities remain and are clearly evidenced in programmes serving the South and North. The disparity was clearly demonstrated when the FCC programme was extended to the North. In the South female clients outnumbered men by a factor of two to one. In the North, using the same methodology, the FCC struggled to attain 15% female participation. Larger credit programmes in the North such as the First Microfinance Programme and CCCP-CCOM (Cabo Delgado) continue to show that, despite concerted efforts to promote greater female participation, the former has managed a 28% female participation while the latter, operating in rural areas, only achieved 12.6%. In contrast, CCOM (Maputo) operating in suburbs of Maputo-Matola has almost three quarters (73.5%) female participation. Regional differences have usually been attributed to socio-economic, cultural and religious differences.

Given that savings deposits have only been recently introduced by microfinance operators, it is too early to comment on gender patterns although there are early indications that men are much more likely to open up savings accounts than women. In December, 2005 NovoBanco had 41,689 deposit accounts (the vast majority being current) of which only about a third (36.4%) belong to women.

### ***Rural-Urban Disparity***

Of the 32 operators there are, apart from the five PCR promoters (Ophavela, Kukula, CARE-VSL Zambezia, ADEM and AKSM), only three lending programmes (CMMEA, FOS-Chitima and Assoc. Progresso) that can be stated as operating *exclusively* in rural areas<sup>3</sup> and four (CCCP-CCOM, Assoc. Hluvuku-Male Yeru, AJAM and the First Microfinance Programme), that operate in *mainly* rural areas.

The five ASCA providers reach 24,547 savers in six provinces (the IDPPE established a PCR pilot scheme along the Cabo Delgado coast in early 2005). Due to the very limited capacity of PCR groups to generate lending capital, the combined active portfolio of the five operations adds up to less than \$200,000 or barely 1.0% of the total active portfolio in mid-2005.

Of the seven lending programmes operating in *either* exclusively or mainly rural areas, a total of 7,532 clients were reached or only 11.8% of all borrowers in mid-2005. Because of the relatively small loans, these clients received only 5.0% of the total active portfolio.

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<sup>3</sup> Rural areas are defined here as any area not considered "urban" by INE for census purposes.

Looking at the table below, it is seen that the disparities between the urban areas and rural continues. Cities like Maputo and Matola absorb the major number of borrowers and active savers, so, many small-scale farmers still out of the system.

**Table 4. Geographic Distribution of Active Clients (Borrowers and Depositors) and Value of Loans Outstanding (Active Portfolio)<sup>4</sup>**

<b>Area (specific urban areas/ provinces)</b>	<b>Active Borrowers 30.06.05</b>		<b>Active Savers 30.06.05</b>		<b>Active Portfolio (\$) 30.06.05</b>	
Maputo/Matola	34,164	(50.8%)	24,927	(39.1%)	9,555,700	(58%)
Maputo Province	3,478	(5.2%)	-		859,303	(5.2%)
Gaza	2,624	(3.9%)			266,519	(1.6%)
Inhambane	6,050	(9%)	6,000	(9.4%)	616,977	(3.7%)
Beira	3,554	(5.3%)	6,172	(9.7%)	1,750,000	(10.6%)
Sofala Province	129	(0.2%)	645	(1%)	5,160	(0.03%)
Chimoio	3,207	(4.8%)	1,873	(2.9%)	748,000	(4.5%)
Manica Province	924	(1.4%)	2,730	(4.3%)	53,760	(0.3%)
Tete	1,631	(2.4%)	-		238,000	(1.4%)
Zambezia	1,888	(2.8%)	6,050	(9.5%)	240,370	(1.5%)
Nampula City	1,433	(2.1%)	6,274	(9.8%)	548,000	(3.3%)
Nampula Province	2,684	(4%)	9,122	(14.3%)	441,720	(2.7%)
Cabo Delgado	5,246	(7.8%)	-		887,000	(5.4%)
Niassa	300	(0.4%)	-		200,000	(1.2%)
<b>TOTALS</b>	<b>67,312</b>		<b>63,793</b>		<b>\$16,410,509</b>	

<sup>4</sup> Breakdowns by operators are provided in Annex 3