



**Theme N° 2**  
**Resources for what demands**  
**Local savings**

**AMRU-Mozambique**

**MAIN workshop**  
**The levers for financial sustainability**  
**Case study**

Antananarivo, October 2000

## **1- The Rural Financial System**

In the past the Financial System in rural areas was functioning in a basis of confidence and, in general, it has as its main practitioners the rural community, local authorities, agricultural companies, rural shop keepers and canteens. This system granted the circulation of goods and services for the implementation of economic and social activities in rural zones.

The canteens constituted the main basis of the financial system in rural zones because they were those, which granted the link between isolated producers and the bank. This situation has changed with the destruction of the commercial network in rural zones and the spreading of population.

During the war recently ended, the majority of people in rural zones was left without their possessions and reduced to a situation of absolute poverty. This situation was aggravated by the destruction of economic and social infrastructures, provoking an empty which, for the restarting of activities in the countryside, requires a reconstruction.

### **1.1 Present situation**

The financial System is characterised by an almost non existence or a weak rendering of services.

The present banking sector is not motivated to help poor groups due to relation costs/benefits because they are considered groups of high risk in terms of their credit reimbursing capacity.

Studies held in Mozambique and in other countries illustrated that the small producers are good payers ( with rates of reimbursement even higher than those of the commercial sector)

As a result, the family sector is not getting access to financial services. It only benefits from some support from the informal sector such as: agro-industrial companies (mainly those producing commercial crops), Development Projects with a credit component, NGO's and some Agrarian Houses.

Presently, the way the credit is conducted in rural area is characterised by a lack of a clear and coherent policy like a saving policy which is fundamental for the development.

**This ill-favoured factors are:**

1. High rate of inflation;
2. Weak development of rural infrastructures with more emphasis to those related to agricultural commercialisation (markets, canteens, warehouses, transport,...)
3. Weak development of supporting services to agricultural activity and livestock;
4. Weak development of a formal banking sector in rural zones;
5. Non existence of financial intermediates at grass roots level such as: Saving and Solidarity Credit Associations, Saving and Mutual Credit Associations and Rural Banks.

## **1.2 Rural Financial System**

Despite of contributing with more than 80% in the agrarian, the present Financial System, apart from being very weak, is not of use of the family sector in rural zones.

Although in the conditions of the country the agrarian activity is of a high risk, it employs more than 90% of the people in rural areas because it is the most accessible sector.

The installation of a Rural Financial System is a process and, because of its complexity, it should be seen as solutions of short, medium and long terms for:

- Structuring services directed to rural and urban women involved in micro, small and medium enterprises, with particular attention to young women, women with low incomes, women belonging to minority ethnic and racial groups and indigenous women without access to capitals neither good, extending women access to financial markets, identifying and encouraging regulatory and supervisory financial reforms which support the direct and indirect efforts of financial institutions in order to give a better reply to credit needs and other needs in women micro, small and medium enterprises.
- Developing strategies for consolidating and strengthening support to the enterprise sector at micro, small and medium scale for a women full and equal participation, increasing the women opportunities of working together in the co-ordination and improvement of the sector effectiveness, benefiting from expertise and financial resources within their organisations as well as from bilateral agencies, Government and NGO's.
- Adopting policies that support business organisation, grass roots and Non Governmental Organisations, rotating loan funds, credit unions, women groups for mutual aid, among others, in order to provide services to women enterprises in urban and rural areas.

The searching of solutions for the problems faced by the family sector in rural zones, with regard to financial aspects, depends on the use of initiatives carried out by different practitioners such as: agro-industrialists, Development Projects with a credit component, NGO's, Agrarian Houses and Revolving Funds.

The rehabilitation of the commercial network in rural areas is subject to a special attention in the Government Programme and combining the accumulated experience of the rural commercial network and the role it played during years within the rural areas, this constitutes a short term alternative solution for problems derived from the absence of financial services.

However, the programme of rehabilitating the commercial network in rural areas cannot be seen as a definitive solution because the settlement of people in new areas demands a parallel implementation of a Development Programme of a Commercial Network.

The canteen, the main tool for the functioning of the commercial network in rural zones, plays an important role in the economic life of the family sector because apart from its purely commercial activities, it can secure, in parallel, a supply of agricultural inputs as well as commercialisation of the production surplus. However, it is important to establish again the climate of a mutual confidence between practitioners (shop keepers - population) so that the canteens can full play its role of commercialisation as well as that of supplying the agricultural inputs. This depends on a definitive resettlement of people, emergence of professional tradesmen. Preferably, these tradesmen must be located where they carry out their activities.

The NGO's can play a positive role in the Rural Financial System to be established in a long terms, when orientated in the sense of involving them in non financial supporting activities, with a particular emphasis on Population Awareness, divulgence of the System, Information, Training, Assistance in Training and Legislation of the Local Cash which could be used as a basis of the System.

### **1.3 Attracting Saving Units**

The Attracting Saving Units, formerly called Postal Economic Cash, in rural areas, used to function linked to Services of the Post Offices and their role was to attract the saving within the population.

Available information on Post Office Network in rural zones indicates that there was a considerable coverage of these services at national level.

These services were particularly destroyed during the armed conflict recently ended or due to a lack of maintenance, similarly to what happened to various structures in rural areas.

Due to a long experience accumulated by the Postal Economic Cash (Post Offices), they should restart the rendering of these services and they should be integrating parts of the Rural Financial System, as a whole, and their experience must be extended to other institutions or organisations which will be involved in the process of installing the system.

#### **1.4 Agrarian Houses**

The Agrarian Houses emerge in the post-Independence time as Rendering Service Centre and Sale of Production Factors for the family sector in the rural areas and urban outskirts. Although varying along the country, these services consisted mainly in training peasants in production techniques, storing up of goods, selling of production inputs and tools and, in some cases, providing possibility of hiring agricultural machinery and equipment, generally at subsidized prices.

Depending on the financial capacity and materials of the peasants, the Agrarian Houses could provide credits in species at the beginning of each agricultural campaign under the condition that they would reimburse them in cash or in products at the end of the harvest or commercialisation.

The Agrarian Houses normally provided credit to peasants and charged an interest tax which in general was under that one practised by commercial banks and was even charging symbolic values in relation to services rendered. In this way they couldn't be granted their sustaining.

Like other operators in the rural financial market, the Agrarian Houses constituted an alternative for rural communities to access financial services such as: autonomous management, rentabilisation of operations, specialisation in activities, adequate administration and accountancy, apart from the need of redefining their role and acting framework.

The Rural Financial System must be reformulated in order to provide more support to socio-economic activities and to the family sector in the rural areas.

## **2 - Savings and credit**

Mozambique comes across to a new situation in which the challenges are more important than those faced in its recent past. The reduction of poverty requires a planned strategy at national level and in various fronts.

The privation of accessing to credit for groups of low incomes constitutes a permanent barrier for the use of opportunities emerging in the market and for increasing their choices.

Various NGO's in Mozambique are implementing and integrating the credit in their programmes and projects as a form of giving the process of development a good impression within ill-favoured classes at grass roots. But the great challenge placed is how to set up an efficient and self sustaining credit.

The Credit Co-operative for Rural Development (CCRD) has as its basis the delineating principles of savings and credit. Therefore the assembly of its members is the highest organ and with more power. The members of this group are mainly peasant women.

The defined mission of the CCRD, according to its statutes, is to improve the standard living of its members.

To attain this goal, the CCRD collects savings from its members and puts these funds at disposal of members for their productive and non productive purposes. The CCRD is also concerned with civics and literacy campaign for its members. Thus, the CCRD organises sporadic courses sponsored and implemented by people from abroad. These activities do not observe a regular criterion.

The members are women who practise agriculture of subsistence and who are involved in commercial activities (fish, bread, maize, charcoal, firewood). These women live in communal villages, in a diameter of 50km around the city of Maputo.

### ***2.1 The need of saving services is very high.***

Although there's a need of credit, the members are careful when dealing with concession of loan to their members due to a bad reimbursement performance of some of them during the first operating year.

### ***2.2 Services***

The Credit Co-operative only provides savings and credit services to its members. In 1998 it started to furnish courses in business management to its members. To become a member and benefit from a credit a deposit of 750000MZM or USD45 is required.

The interest rates demanded is 150% of the value of loan The sacking of money is only permitted to members who are willing to withdraw from the groups.

The savings are deposited at Bank (BIM) which does not pay any interest to CCRD.

To apply for a credit the member must be registered and he must own a minimum saving of USD10 (100000MZM). The credit is granted to individuals or to a group comprising a maximum number of five people.

The Credit Co-operative requires a grant which covers 100% of the value of loan.

### **2.3 Coverage**

The cash hasn't got a very wide coverage. Since its creation it owns 509 members and so far it has granted a total of 150 loans.